

VIRGINIA RETIREMENT SYSTEM

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Retirement System for the year ended June 30, 2010, found:

- the financial statements are presented fairly, in all material respects;
- one matter involving an internal control finding requiring management's attention; however, we do not consider it to be a material weakness; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards

We have audited the basic financial statements of the Virginia Retirement System as of and for the year ended June 30, 2010, and issued our report thereon, dated December 1, 2010. Our report is included in the Virginia Retirement System's Comprehensive Annual Financial Report that it anticipates releasing on or around December 16, 2010.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Complete Written Policies and Procedures and Review Process for Financial Reporting

The Virginia Retirement System (Retirement System) has made significant progress in documenting its policies and procedures for the preparation of financial statements and related notes. However, the Retirement System has not thoroughly documented all of its processes for the preparation of its Comprehensive Annual Financial Report (CAFR). In addition, the Retirement System does not have an adequate review process for the entire preparation of its CAFR. Much of the work is done by one individual, and other staff do not have a sufficient understanding of some of the processes to fully participate in the preparation of the CAFR.

During fiscal year 2010, the Retirement System updated fiscal year 2009 policies and procedures for the preparation of its financial statements and related notes. In addition, the Retirement System drafted policies and procedures for preparation of the DOA Attachments. The updated policies and procedures are very detailed; however, they do not address the role responsibilities and the review process. The documented policies and procedures also do not include processes for preparing the CAFR's Investment, Actuarial, and Statistical sections. The lack of detailed written policies and procedures increases the risk of error in financial statement preparation and makes the transitioning of responsibilities more difficult when there is turnover in the positions responsible for preparing the financial statements.

We recommend the Retirement System complete the documentation of its policies and procedures for the preparation of the financial statements, notes, DOA attachments, and Retirement System's CAFR as a whole. We recommend the Retirement System improve and implement the Comprehensive Annual Financial Report Procedures Manual to include detailed items such as specific reports and table names used, analyses performed, defined role responsibilities, levels of reviews, timing of events, and items and processes required for the creation of their annual financial report. The Comprehensive Annual Financial Report Procedures Manual should include procedures that address the preparation of the CAFR's Investment, Actuarial, and Statistical sections.

In addition, VRS should develop and implement a thorough review process for the financial statements, notes, and attachments sent to the Department of Accounts. Staff should receive cross-training in the preparation of the various sections of the CAFR so that multiple individuals have both knowledge and experience in the preparation and review of the report.



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

December 1, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Board of Trustees
Virginia Retirement System

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

We have audited the basic financial statements of the **Virginia Retirement System** as of and for the year ended June 30, 2010, and have issued our report thereon dated December 1, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Virginia Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Virginia Retirement System's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over

financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting entitled “Complete Written Policies and Procedures and Review Process for Financial Reporting,” which is described in the section titled “Internal Control Finding and Recommendation,” that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Virginia Retirement System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

The Virginia Retirement System’s response to the finding identified in our audit is included in the section titled “Agency Response.” We did not audit the Virginia Retirement System’s response and, accordingly, we express no opinion on it.

Status of Prior Findings

The Virginia Retirement System has begun corrective action with respect to the previously reported finding “Improve Written Policies and Procedures over Financial Reporting” but the corrective action is not complete. Accordingly, we included the finding “Complete Written Policies and Procedures and Review Process for Financial Reporting” in the section entitled “Internal Control Finding and Recommendation.” The Virginia Retirement System has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” 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.

We discussed this report with management at an exit conference held on December 1, 2010.

AUDITOR OF PUBLIC ACCOUNTS

MSM/clj



Virginia
Retirement
System

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Robert P. Schultze
Director

MEMORANDUM

TO: Walter J. Kucharski
Auditor of Public Accounts

FROM: Robert P. Schultze
Director 

DATE: December 7, 2010

SUBJECT: Response to APA's - VRS Report on Audit for the Year Ended June 30, 2010

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Complete Written Policies and Procedures and Review Process for Financial Reporting

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During fiscal year 2010, the Retirement System updated fiscal year 2009 policies and procedures for the preparation of its financial statements and related notes. In addition, the Retirement System drafted policies and procedures for preparation of the DOA attachments. The updated policies and procedures are very detailed; however, they do not address the role responsibilities and the review process. The documented policies and procedures also do not include processes for preparing the CAFR's Investment, Actuarial, and Statistical sections. The lack of detailed written policies and procedures increases the risk of error in financial statement preparation and makes the transitioning of responsibilities more difficult when there is turnover in the positions responsible for preparing the financial statements.

We recommend the Retirement System complete the documentation of its policies and procedures for the preparation of the financial statements, notes, DOA attachments, and Retirement System's CAFR as a whole. We recommend the Retirement System improve and implement the Comprehensive Annual Financial Report Procedures Manual to include detailed items such as specific reports and table names used, analyses performed, defined role

responsibilities, levels of reviews, timing of events, and items and processes required for the creation of their annual financial report. The Comprehensive Annual Financial Report Procedures Manual should include procedures that address the preparation of the CAFR's Investment, Actuarial, and Statistical sections.

In addition, VRS should develop and implement a thorough review process for the financial statements, notes, and attachments sent to the Department of Accounts. Staff should receive cross-training in the preparation of the various sections of the CAFR so that multiple individuals have both knowledge and experience in the preparation and review of the report.

VRS Response:

As noted in the second paragraph of the recommendation above, VRS did develop a very detailed set of procedures for the preparation of the 2010 Financial Section, including the financial statements and related notes. In addition, we prepared a detailed set of procedures for the preparation of the information that is required to be reported to the Department of Accounts for their year-end processes and for use in the Commonwealth's CAFR. VRS also developed procedures for the preparation of the Actuarial Section and the Investment Section. The procedures for these sections were less detailed because the bulk of the content is derived from information provided by others. In all cases, the procedures as written are intended for senior VRS staff with an extensive knowledge of VRS financial operations and the interrelationships between the various VRS funds. In addition, these procedures are intended to be used in conjunction with the information documented in the prior year's workpapers.

VRS acknowledges that documentation and procedures can always be enhanced and improved. VRS staff will enhance the documentation above to incorporate additional data suggested and expand the documentation to include all aspects of the VRS CAFR preparation including data collection for the Introductory Section and schedules for its preparation and printing.

We appreciate the thoroughness and competence of the review of our CAFR information. We are confident that your suggestions will assist us in continuing to maintain a financial reporting process that complies with Commonwealth policies and standards and reflects industry best practices.

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

cc: VRS Board of Trustees

VIRGINIA RETIREMENT SYSTEM

BOARD MEMBERS
As of June 30, 2010

Diana F. Cantor
Chairman

John M. Albertine
Vice Chairman

A. Marshall Acuff, Jr	Edwin T. Burton III
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Robert P. Schultze
Director