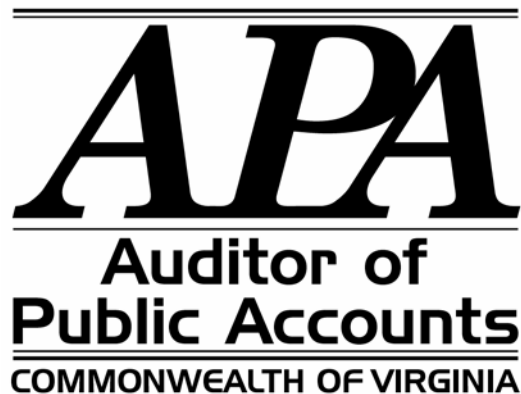


VIRGINIA RETIREMENT SYSTEM

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Virginia Retirement System for the year ended June 30, 2005, 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 a material weakness in internal controls; and
- adequate implementation of corrective action on prior audit findings.

Our audit finding includes a recommendation to update their business impact analysis and risk assessment. We discuss this recommendation 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 November 2005.

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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295

Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 28, 2005

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 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 years ended June 30, 2005 and 2004, and have issued our report thereon dated October 28, 2005. Our report on the financial statements is included 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.

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 an opinion 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 "Update Business Impact Analysis and Risk Assessment" is described in the section titled "Internal Control Finding and Recommendation."

A material weakness is a reportable 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 caused by error or fraud 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.

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.

Status of Prior Findings

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

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 8, 2005.

AUDITOR OF PUBLIC ACCOUNTS

KKH:sks
sks:46

INTERNAL CONTROL FINDING AND RECOMMENDATION

Update Business Impact Analysis and Risk Assessment

The Virginia Retirement System (System) last updated their business impact analysis and risk assessment in December 2000. The System's policy requires that they update the assessment every three to five years, or as necessary. Since their last update, the System has added a new computer center, which is not included or analyzed in the documents.

Without a current risk assessment, the System does not have a documented record of their present risks and the measures taken to minimize those risks. Although the System informally assesses risk regularly, the formal risk assessment process creates a record for succession planning. The addition of new systems, changes in location or ownership of systems, and other factors change the risks and also the priority of systems during disaster recovery.

The System should update their business impact analysis, risk assessment, and business continuity plan timely as required by their policy.



Virginia
Retirement
System

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Web site: www.varetire.org
E-mail: vrs@varetire.org

MEMORANDUM

TO: Walter J. Kucharski
Auditor of Public Accounts

FROM: Robert P. Schultze 
Director

DATE: November 8, 2005

SUBJECT: Response to APA's - VRS Report on Audit for the Year Ended June 30, 2005

Finding - Update Business Impact Analysis and Risk Assessment

The Virginia Retirement System (System) last updated their business impact analysis and risk assessment in December 2000. The System's policy requires that they update the assessment every three to five years, or as necessary. Since their last update, the System has added a new computer center, which is not included or analyzed in the documents.

Without a current risk assessment, the System does not have a documented record of their present risks and the measures taken to minimize those risks. Although the System informally assesses risk regularly, the formal risk assessment process creates a record for succession planning. The addition of new systems, changes in location or ownership of systems, and other factors change the risks and also the priority of systems during disaster recovery.

The System should update their business impact analysis, risk assessment, and business continuity plan timely as required by their policy.

VRS Response:

VRS acknowledges that the Risk Assessment work was completed in December 2000 and that although the new computer center was addressed in the final document, there was no documentation of a formal risk assessment of that facility. As noted below, VRS has continued to regularly update the Business Continuity Plan (BCP), however there has been no formal risk assessment documented since December 2000.

VRS last contracted with Metro Business Systems (later Keane, Inc.) to conduct a formal review and create a formal Business Continuity Plan (BCP) in December 2000 and the

11/8/2005

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completed BCP plan was delivered to VRS in April 2002. The Final BCP contained the Risk Assessment and Business Impact Analysis compiled from interviews and a review of business processes that had been conducted during 2000 and 2001. The interviews were conducted among VRS operations staff, members from the Technology staff, and representatives from Investments. The Computer Room for Investments was constructed and brought online in October 2001 while the final document was being compiled. As a result, data about that facility was included in the final document.

VRS has included an initiative for the FY 2007 budget that will fund a comprehensive review and update of the current Business Continuity Plan. This review will also include a comprehensive risk and cost benefit analysis for any recommendations presented. The process of reviewing and updating the BCP will begin once the funds become available on July 1, 2006.

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

c: VRS Board of Trustees

VIRGINIA RETIREMENT SYSTEM

BOARD MEMBERS As of June 30, 2005

Paul W. Timmreck, Chairman

Alfonso I. Samper, Vice Chairman

John M. Albertine	Edwin T. Burton, III
J. Douglas Conway, Jr.	Judith Ewell
Palmer P. Garson	Vernard W. Henley

Raymond B. Wallace, Jr.

DIRECTOR

Robert P. Schultze

