VIRGINIA RETIREMENT SYSTEM

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2024

Auditor of Public Accounts
Staci A. Henshaw, CPA
www.apa.virginia.gov
(804) 225-3350

AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Retirement System (System) as of and for the year ended June 30, 2024, and issued our report thereon, dated December 11, 2024. Our report, included in the System's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the System's website at www.varetire.org. Our audit found:

- the financial statements are presented fairly, in all material respects; and
- one matter involving internal control and its operation necessary to bring to management's attention that also represents an instance of noncompliance with applicable laws and regulations or other matter required to be reported under Government Auditing Standards; however, we do not consider it to be a material weakness; and,
- adequate corrective action with respect to prior audit findings and recommendations identified as complete in the Findings Summary included in the Appendix.

In the section titled "Internal Control and Compliance Findings and Recommendations," we have included our assessment of the conditions and causes resulting in the internal control and compliance finding identified through our audit as well as recommendations for addressing the finding. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the finding and develop and appropriately implement adequate corrective actions to resolve the finding. Those corrective actions may include additional items beyond our recommendations.

RETIREMENT SYSTEM EMPLOYER SCHEDULES

The Commonwealth and its localities have previously implemented Governmental Accounting Standards Board Statements No. 68 and 75. These standards address accounting and reporting of pension and other post-employment benefit activity by employers. Therefore, in addition to our audit of the System's financial statements, we were separately required to audit information prepared by the System for all of the participating employers. In August 2024, the System provided actuarial valuation reports, schedules of the applicable pension and other post-employment benefit amounts, footnote disclosure information, and other financial reporting guidance to the participating state and local government employers for their fiscal year 2024 financial statements. Likewise, our office published the reports that included our audit opinions over the plan schedules and applicable pension and other post-employment benefit amounts for pension and other post-employment benefit plans administered by the System. This information is available at the Auditor of Public Accounts' at www.apa.virginia.gov and at the System's website at www.varetire.org.

-TABLE OF CONTENTS-

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve IT Change Control and Configuration Management Process
Type: Internal Control and Compliance
Severity: Significant Deficiency
First Reported: Fiscal Year 2023

The Virginia Retirement System (System) has made progress to manage its information technology (IT) change control and configuration management process in accordance with the Commonwealth's Information Security Standard, SEC530 (Security Standard), and the System's Information Security Program Policy (Security Policy). Since the prior audit, the System remediated one of the two identified weaknesses by reviewing and updating its Change Management Standard Operating Procedure (Operating Procedure) according to Security Standard and Security Policy requirements. However, the System continues to not perform and document an explicit evaluation of each change request from a security perspective for all changes.

The System's Operating Procedure, section 5.4 "Determine Risk Profile," requires that an assessment of risk be performed for each change, with an assignment of risk probability and impact. The Security Standard, section CM-4 Security Impact Analysis, requires that the System analyze changes to information systems to determine potential security impacts prior to change implementation. Section CM-3 Configuration Change Control requires that the System review proposed configuration-controlled changes to an information system and approve or disapprove such changes with explicit consideration for security impact analyses.

Management has communicated that it introduced a risk rating mechanism to enhance its existing change management process as of December 2024. Based on the timing of corrective action occurring subsequent to the audit period, we have not verified the adequacy of the corrective action. The System also plans to implement a new IT Service Management system with a target implementation date of April 2025. Delays in completing corrective action resulted from the System balancing priorities between the implementation of the new system and updating the old system to include a risk rating mechanism.

The System should perform and document an evaluation of each change control request from a security perspective, including potential security impacts, in compliance with its Operating Procedure and the Security Standard. Evaluating the security impacts of change control requests will help to ensure the confidentiality, integrity, and availability of the System's sensitive data.

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 11, 2024

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Trustees
Virginia Retirement System

Patricia S. Bishop
Director, Virginia Retirement System

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

We have audited, in accordance with the 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, the financial statements of the **Virginia Retirement System** (System) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 11, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control titled "Improve IT Change Control and Configuration Management Process," which is described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the section titled "Internal Control and Compliance Findings and Recommendations" in the finding and recommendation titled "Improve IT Change Control and Configuration Management Process."

The System's Response to Findings

We discussed this report with management at an exit conference held on January 21, 2024. Government Auditing Standards require the auditor to perform limited procedures on the System's response to the findings identified in our audit, which is included in the accompanying section titled "Agency Response." The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Status of Prior Findings

The System has not completed corrective action with respect to the prior reported finding identified as ongoing in the Findings Summary included in the Appendix. The System has taken adequate corrective action with respect to the prior audit findings identified as complete in the Findings Summary.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

ZLB/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Improve Database Security	Complete	2023
Improve Retirement Benefit Calculations	Complete	2023
Improve IT Change Control and Configuration Management Process	Ongoing	2023

* A status of **Complete** indicates adequate corrective action taken by the System during the fiscal year. **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.

Virginia Retirement System

P.O. Box 2500, Richmond, VA 23218-2500
Toll-free: 888-827-3847
Website: varetire.org
Email: vrs@varetire.org

Patricia S. Bishop
Director

To: Staci Henshaw, CPA, Auditor of Public Accounts

From: Patricia S. Bishop, Director

Date: January 31, 2025

Re: Improve IT Change Control and Configuration Management Process

We have reviewed the above captioned Auditor of Public Accounts (APA) internal Control Report. We appreciate the APA's examination of the subject area, and the professionalism and cooperation exhibited by APA staff throughout the audit process. In response to IT Change Control and Configuration Management Process finding, we would like to share the following updates.

Regarding the improvement to our IT Change Control and Configuration Management Process, as noted in your report, we have updated and published the Change Management procedures conforming to the Commonwealth's Information Security Standard, SEC530 (Security Standard), and the System's Information Security Program Policy (Security Policy). Additionally, we implemented the Security Approval step in the existing system on November 8, 2024. Going forward, this Security Approval step will be processed in every Change Request, except for those classified as Standard Changes (Pre-Approved).

Furthermore, VRS is planning to implement a new change management COTS solution that replaces the current system in FY25. While we work to continuously improve in this area, we understand that VRS's corrective actions that fully addressed this finding took place after the date by which APA could verify or validate the completion. Based on our discussion and acknowledging this timing issue, we understand that APA's verification of our remediation will take place during the FY25 financial statement audit.

Thank you again to you and your staff for your thoughtful review and for the opportunity to provide feedback.