

**VIRGINIA RETIREMENT SYSTEM  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2002**



## **AUDIT SUMMARY**

Our audit of the Virginia Retirement System for the year ended June 30, 2002, 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 one of two prior audit findings.

Our audit findings include the following recommendation:

- Improve contract procurement and administration policies and procedures.

We discuss this issue in the section entitled, "Internal Control Findings and Recommendations."

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October 18, 2002

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Trustees  
Virginia Retirement System

We have audited the basic financial statements of the **Virginia Retirement System** as of and for the year ended June 30, 2002, and have issued our report thereon dated October 18, 2002. Our report on the basic financial statements is contained in the Comprehensive Annual Financial Report issued by the Virginia Retirement System. We submit herewith our report on compliance and internal control over financial reporting.

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

In planning and performing our audit of the financial statements of the Virginia Retirement System as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

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 "Contract Procurement and Administration Policy and Procedures" is described in the section entitled "Internal Control Findings and Recommendations."

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 not taken adequate corrective action with respect to the previously reported finding "Improve Contract Modification Procedures," therefore, we expanded this finding in our current year finding "Contract Procurement and Administration Policy and Procedures." Accordingly, we did not include the prior year finding in the section entitled "Internal Control Findings and Recommendations." 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.

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 7, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Update Contract Procurement and Administration Policies and Procedures

The Virginia Retirement System (VRS) does not have uniform procedures for procuring and administering contracts. As a result, the agency's contract files lacked proper authorization, documented pricing for goods and services, and approved modifications. In one instance, contract extensions included services that were out of the scope of the original contract.

VRS risks legal ramifications and overpayment for goods and services if they do not properly prepare and administer contracts and contract modifications. Management should update contract procurement and administration policies and procedures to ensure contracts are properly authorized, prepared and administered.

VIRGINIA RETIREMENT SYSTEM  
Richmond, Virginia

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