



# VIRGINIA RETIREMENT SYSTEM

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts  
Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

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## AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Retirement System (System) as of and for the year ended June 30, 2022, and issued our report thereon, dated December 7, 2022. Our report, included in the System's Annual Report, is available at the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at the System's website at [www.varetire.org](http://www.varetire.org). Our audit found:

- the financial statements are presented fairly, in all material respects;
- an internal control finding requiring management's attention; however, we do not consider it to be a material weakness; and
- an instance of noncompliance or other matter required to be reported under Government Auditing Standards.

## RETIREMENT SYSTEM EMPLOYER SCHEDULES

The Commonwealth and its localities were required to implement Governmental Accounting Standards Board Statements No. 68 and 75 beginning in fiscal years 2015 and 2018, respectively. 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 previously required to audit information prepared by the System for all of the participating employers. In July 2022, 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 2022 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. All of this information is available on the [Pension and OPEB Standards](#) section of our website.

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## INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

### **Improve Service Provider Oversight**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

The Virginia Retirement System (System) does not maintain full oversight over information technology (IT) service providers and gain assurance over outsourced operations, as required by the System's Hosted Environment Review Procedure (Procedure), which aligns with the Commonwealth's Hosted Environment Security Standard, SEC 525 (Security Standard).

We communicated control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia, due to it containing descriptions of security mechanisms. The Security Standard requires that organizations define and employ processes to monitor security control compliance by external service providers on an ongoing basis (*Security Standard Section: SA-9 External Information System Services*). By not implementing a comprehensive process to gain assurance over external service providers' internal controls, the System cannot validate that the provider has effective IT controls to protect the System's sensitive data.

The System experienced staffing limitations during fiscal year 2022, which resulted in the System choosing to focus on certain aspects of the service provider oversight process. The System has since made progress improving its oversight over IT service providers by hiring multiple staff to work on service provider oversight and is in the process of addressing the control weaknesses.

The System should continue to dedicate the necessary resources to fully address the control weaknesses in its oversight over IT service providers. Doing so, will help to ensure the confidentiality, integrity, and availability of the System's sensitive data that external service providers host and process.



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 7, 2022

The Honorable Glenn Youngkin  
Governor of Virginia

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, 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, 2022, 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 7, 2022.

### **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 Service Provider Oversight,” which is described in the section titled “Internal Control and Compliance Finding and Recommendation,” 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 matter that is required to be reported under Government Auditing Standards and which is described in the section titled “Internal Control and Compliance Finding and Recommendation” in the finding and recommendation titled “Improve Service Provider Oversight.”

### **The System’s Response to Findings**

We discussed this report with management at an exit conference held on January 10, 2022. 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.

### **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



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Patricia S. Bishop  
*Director*

**To:** Staci A. Henshaw, Auditor of Public Accounts  
**From:** Patricia S. Bishop, Director   
**Date:** January 30, 2023  
**Re:** Service Provider Oversight

We reviewed the above captioned Auditor of Public Accounts (APA) Management Point on “Service Provider Oversight.” We appreciate the APA’s examination of the subject area, and the professionalism and cooperation exhibited by APA staff throughout the audit process.

Virginia Retirement System (VRS) understands and appreciates APA’s focus on the importance of oversight of service providers. As APA is aware, VRS experienced a multi-year recruitment challenge to hire experienced and qualified IT Security staff. Even under these challenging circumstances, VRS has diligently worked through reviews and system assessments.

To elaborate, VRS has taken proactive steps to address the backlog of service provider reviews and has already completed its review of nineteen out of twenty-one sensitive systems. Further and to maximize efficiency, VRS was also able to concurrently complete an additional twenty-two provider reviews that were not associated with sensitive data while waiting for vendor responses on sensitive systems.

Like many organizations, VRS continues to experience a recruitment challenge, specifically in the information technology security space. Nevertheless, VRS focused its limited resources on service provider reviews related to sensitive data and engaged in other proactive activities to minimize agency risk. Through the combination of additional focus on recruitment and staff augmentation, VRS was able to increase its IT security staff count from one to five, including security analysts and a dedicated project manager, with an estimated total human capital expenditure of approximately \$500,000 to assist with reviews. As a result of these actions, and a prudent allocation of increased bandwidth, VRS was able to make significant progress as depicted in the table in the Appendix. In addition, the IT security team continues to perform all prioritized technology acquisition security reviews, all of which minimize risk to VRS and its sensitive systems.

VRS also hired a consultant to review the VRS security program, the scope of which includes a holistic review of service provider oversight and technology acquisition security processes, with the objective of improving review process efficiency and enhancing the agency’s overall IT security posture.

*An Independent Agency of the Commonwealth of Virginia*



VRS firmly believes these focused actions result in minimizing risks related to sensitive systems and VRS. As the sensitive system reviews near completion, VRS continues to conduct oversight reviews for non-sensitive and newly added systems.

Thank you again for your thoughtful review and feedback of VRS' service provider oversight.

## **Appendix - Progress Report for 2022**

### Technology Acquisitions Security Reviews

**185** – Complete. Each technology acquisition security review entails research, review, and approval to ensure the technology or service being acquired is safe and aligns with VRS technology stack and architecture.

### Service Provider Oversight Reviews

The table below outlines the sensitive system reviews between the end of calendar year 2021 and the beginning of calendar year 2023. Each service provider oversight review entails interaction with the vendor to obtain and review relevant artifacts such as SOC reports, security conformance agreements, mutual non-disclosure agreements and security control response documents.

Despite an extremely challenging environment for recruiting and retaining skilled IT security personnel, VRS has made tremendous progress in this important area. Data in the table below show that due to VRS' focus on creating increased additional bandwidth, sensitive system review completions increased from 3 to 19 and the backlog was reduced from 10 to 2.

| Sensitive Systems Status | As of 12/3/2021 | As of 01/12/2023 |
|--------------------------|-----------------|------------------|
| Complete                 | 3               | 19               |
| To be completed          | 10              | 2                |
| <b>Total</b>             | <b>13</b>       | <b>21</b>        |



## **VIRGINIA RETIREMENT SYSTEM**

As of June 30, 2022

### **BOARD MEMBERS**

A. Scott Andrews  
Chairman

Joseph W. Montgomery  
Vice Chairman

|                       |                    |
|-----------------------|--------------------|
| J. Brandon Bell, II   | William A. Garrett |
| John M. Bennett       | Susan T. Gooden    |
| Michael P. Disharoon  | W. Brett Hayes     |
| Troilen Gainey Seward |                    |

Patricia S. Bishop  
Director