

**VIRGINIA RETIREMENT SYSTEM  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2003**



## **AUDIT SUMMARY**

Our audit of the Virginia Retirement System for the year ended June 30, 2003, 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 prior audit findings.

Our audit finding includes the following recommendation:

- Maintain proper documentation of emergency program changes

We discuss this issue in the section entitled, "Internal Control Finding and Recommendation."

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October 28, 2003

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

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

We have audited the basic financial statements of the **Virginia Retirement System** as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated October 28, 2003. Our report on the basic financial statements is contained 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.

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 "Maintain Proper Documentation of Emergency Program Changes" is described in the section titled Internal Control Finding and Recommendation.

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 a not a material weakness.

#### Status of Prior Findings

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

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, the 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 4, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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## INTERNAL CONTROL FINDING AND RECOMMENDATION

### Maintain Proper Documentation of Emergency Program Changes

The Virginia Retirement System (VRS) does not consistently maintain proper documentation for emergency program changes. As a result, two emergency program changes were not documented or reviewed after movement into production. For emergency changes, documentation and review should occur after the change goes into production. This is necessary for information technology personnel to analyze the change and determine if a more permanent fix is necessary and assist with fixing future emergency problems. Management should ensure that program change procedures are followed and that information technology personnel have the data to evaluate the reason for emergency changes.

VIRGINIA RETIREMENT SYSTEM  
Richmond, Virginia

BOARD MEMBERS

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