



VIRGINIA RETIREMENT SYSTEM

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Virginia Retirement System (Retirement System) for the year ended June 30, 2014, found:

- the financial statements are presented fairly, in all material respects;
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- deficiencies in internal control that merit management's attention.

We have audited the basic financial statements of the Retirement System as of and for the year ended June 30, 2014, and issued our report thereon, dated December 11, 2014. Our report, included in the Retirement System's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the Retirement System's website at www.varetire.org.

Comment to Management

In fall 2012, the Retirement System launched *myVRS* Navigator, a web-based benefits management system that allows agencies to immediately access and update member and agency related retirement data. The implementation of *myVRS* Navigator significantly changed the retirement contribution reporting process. Many of the responsibilities for managing member data shifted from the Retirement System to each employer. For state agencies, these changes have highlighted the interdependency of key Commonwealth information systems and the risks created when they are out of sync, while giving the agencies more tools to ensure their accuracy. Our report includes a comment to management discussing the importance of all Commonwealth agencies working to ensure the accurate management of member data.

Member data supports retirement contribution calculations and payments throughout the year and provides the foundation for the actuarially based calculations currently reported in the footnotes of the Retirement System, the Commonwealth, and other non-state participating employers' Comprehensive Annual Financial Reports. Beginning in fiscal year 2015, due to the implementation of Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, the pension liability will be reported within all employers' basic financial statements, including the Commonwealth's, as well as in the financial statements of any individual state agencies who issue them.

The comment to management focuses specifically on state agencies who use the Commonwealth's Personnel Management Information System (PMIS) and the Commonwealth Integrated Payroll and Personnel System (CIPPS). However, given the ramifications of GASB Statement No. 68, all employers participating in the plans administered by the Retirement System should remain cognizant of their responsibility for ensuring the accuracy of member data and retirement contributions submitted to the Retirement System.

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COMMENT TO MANAGEMENT

Shared Responsibilities for Management of Member Data

The Virginia Retirement System (the Retirement System) manages multiple pension plans and other post-employment benefits on behalf of its more than 800 participating employers. Member data supplied by the participating employers drives the calculation of retirement contributions as well as financial reporting for the Retirement System and the employers. Various information systems supporting human resource and payroll activity at the employer level and operations at the Retirement System store member data.

In fall 2012, the Retirement System launched *myVRS Navigator*, a web-based benefits management system that allows employers to immediately access and update member and agency related retirement data. The implementation of *myVRS Navigator* significantly changed the member data collection and retirement contribution reporting processes. With its implementation, many of the responsibilities for managing member data shifted from the Retirement System to each employer.

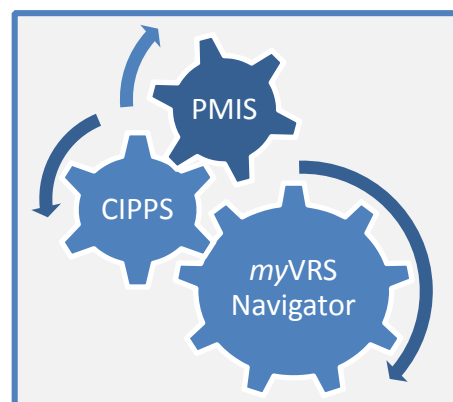
For state agencies, these changes have highlighted the interdependency of key Commonwealth information systems supporting human resource and payroll activities and the risks created when they are out of sync, while giving the agencies more tools to ensure their accuracy. The majority of state agencies use these systems, which are maintained by three central agencies: the Retirement System, the Department of Accounts (Accounts), and the Department of Human Resource Management (Human Resource Management).

This comment to management focuses on the responsibilities of these central agencies and those state agencies using these systems to manage member data. However, many of the issues surrounding the management of member data discussed below are relevant to other participating employers within the context of their operational environments. Therefore, all employers participating in plans administered by the Retirement System should consider the information presented here.

Commonwealth Systems are Now Interfaced to myVRS Navigator to Share Member Data

Under the new process, three Commonwealth information systems directly support member data and retirement contribution reporting:

- the Retirement System's *myVRS Navigator*,
- Human Resource Management's Personnel Management Information System (PMIS); and
- Account's Commonwealth Integrated Payroll and Personnel System (CIPPS).



All three systems now electronically share certain data elements with one another, which were previously independently keyed into Retirement System's legacy system. These data elements support the calculation and payment of retirement contributions monthly; and serve as the foundation for the actuarially determined pension liabilities for the retirement plans managed by the Retirement System.

Specifically, PMIS interfaces daily with *myVRS* Navigator and CIPPS, passing on member data elements relevant to each system, such as position, hire date, salary, and birthdate. *myVRS* Navigator uses the data to apply service credit to member accounts and calculate the expected monthly retirement contributions for the individual member and the agency as a whole. *myVRS* Navigator generates a monthly billing file containing the calculated monthly retirement contribution data. CIPPS in turn generates a set of reconciliation reports for each agency based on the *myVRS* Navigator file and payroll calculations driven by the data interfaced from PMIS. Based on the resolution of these reconciliations, Accounts will make adjustment payments for instances where under or over payments have occurred.

Because of the direct linkage of critical fields between the three systems, each agency must ensure they enter all required fields in PMIS, so that the data pushed to the other systems is accurate. The importance of accurately capturing member data within PMIS has elevated the significance of PMIS in the day-to-day management of member data housed in *myVRS* Navigator as well as payroll related data housed in CIPPS. It has also expanded the need for agencies' human resource staff to participate in the reconciliation process between the three systems.

Responsibility for the Accuracy of Employee/Member Data has Shifted

In the past, agencies submitted forms to the Retirement System who would in turn update the member data within the Retirement System's legacy system. With the interfacing of PMIS, *myVRS* Navigator, and CIPPS, the Retirement System no longer holds the source documentation for changes to agency and member data; it resides with the agency. Therefore, to ensure the accuracy of member data and their retirement contributions, the agency must ensure the three systems remain in-sync, by promptly updating information, especially in PMIS, and thoroughly reconciling data between all three systems.

Commonwealth policies require each agency to confirm Retirement System contributions monthly through a "snapshot" of the agency's expected contribution in total and by member, based on the data in *myVRS* Navigator at the time of the "snapshot." This confirmation becomes the official basis for the billing of retirement contributions and the payable due from the agency.

As the three systems share the data elements that are the basis for the retirement contribution calculation, confirming the contribution "snapshot" without researching any existing variances can cause errors in members' retirement related data. It can also lead to an agency under or overpaying retirement contributions to the Retirement System creating complications when a member retires.

Importance of the Member Data to Individual Agencies is Changing

Further, in the past the actuarially determined liability resulting from an agency's participation in the retirement plans administered by the Retirement System, were reported in the footnotes of the Retirement System and Commonwealth's Comprehensive Annual Financial Reports. Beginning in fiscal year 2015, due to the implementation of Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, that liability will be reported in the Commonwealth's basic financial statements, as well as in the financial statements of any individual agencies who issue them.

Beginning in fiscal year 2015, pension liabilities will be reported in the Commonwealth's basic financial statements as well as in the financial statements of any individual agencies who issue them.

Our work at the agency level for fiscal year 2014 did not indicate any materially significant discrepancies that would affect the accuracy of the actuarially determined liability. We did not audit every agency; however, for the agencies we audited, we did observe some issues with:

- the timeliness and thoroughness of investigation by the agencies of errors identified by the reconciliations between the three systems,
- the timeliness of the "snapshot" confirmation,
- the accuracy of member data between the three systems, and
- in a few minor instances, the accuracy of the member data itself.

These observations could place the Retirement System, the Commonwealth, and its agencies at risk from a financial reporting perspective, if observed with a more significant frequency. It is imperative that each agency understand the importance of reconciling and confirming retirement contributions and promptly addressing exceptions between the member data stored in PMIS, myVRS Navigator, and CIPPS.

Guidance, Training and Tools Exist, but are Being Enhanced

Since 2012, the Retirement System and Accounts together have published guidance in their respective regular employer communications, offered training, and conducted outreach to state agencies to guide them in the data entry, reconciliation, and contribution confirmation processes. Depending on the activity, agencies have different resources available to them as reflected below and on the following page.

Agency Specific Processing Questions	•VRS Employer Support Team http://www.varetire.org/employers/support/employer-support-team.asp •DOA Payroll Operations http://www.doa.virginia.gov/Payroll/Payroll_Main.cfm
Navigation and Data Entry for myVRS Navigator	•VRS Employer Manual http://www.varetire.org/employers/manual/index.asp •myVRS Publications http://www.varetire.org/publications/index.asp?ftype=myvrs •Frequently Asked Questions about myVRS Navigator http://www.varetire.org/pdf/publications/vnav-faqs.pdf •TRAINING: VRS University Online Courses http://www.varetire.org/employers/training/vrs-university.asp
Benefits Processing and Reconciliation	•VRS Employer Updates http://www.varetire.org/employers/update/index.asp •DOA Payroll Bulletins http://www.doa.virginia.gov/Payroll/Payroll_Bulletins/Payroll_Bulletins_Main.cfm •TRAINING: DOA Payroll Operations http://www.doa.virginia.gov/Payroll/Training/CIPPS_Intro_Training/CIPPS_Training_Manual.cfm •TRAINING: VRS University Online Courses http://www.varetire.org/employers/training/vrs-university.asp
Daily and Monthly Reconciliation Tools	•Benefits Processing Reports Appendix http://www.doa.virginia.gov/Payroll/Training/CIPPS_Intro_Training/CIPPS_Training_Manual.cfm •Calculation Spreadsheets: VRS Automated Recon Spreadsheet http://www.doa.virginia.gov/Payroll/Forms/Payroll_Forms_Main.cfm •PMIS to CIPPS Update Crosswalk http://www.doa.virginia.gov/Payroll/Forms/Payroll_Forms_Main.cfm

Accounts' periodic "Payroll Bulletin" and the Retirement System's monthly "Employer Update" currently provide the best guidance for ensuring the member data remains in-sync between the three systems; and that the reconciliations and confirmations are performed properly. While the guidance exists, because it is separated into different publications it is more challenging for employers to locate and follow.

The Retirement System is in the process of publishing additional sections to its employer manual that will consolidate the guidance provided in their Employer Updates into one document. They expect to finalize their updates by the end of January 2015. Likewise, Accounts is working towards consolidating their guidance in to the Commonwealth Accounting Policies and Procedures (CAPP) Manual, which they anticipate completing by the end of March 2015. The Retirement System and Accounts should give priority to this activity to ensure the guidance provided remains current, consistent and easily accessible. Accounts should also ensure they clarify the responsibilities of agencies using the Payroll Service Bureau or other payroll services within Accounts, as there are different expectations for these entities.

In the interim, several educational avenues exist. Through the VRS University Online Course system, the Retirement System provides web based training courses supporting *myVRS Navigator* and the contribution confirmation process, most specifically the course on “Contribution Confirmation and Payment Scheduling.” This course addresses the following relevant topics: Create Snapshot, Review Snapshot, Reconcile Snapshot, and Confirm Snapshot, and is available for all participating employers. Additionally, Accounts offered a joint in-person training session with the Retirement System for agency human resource and payroll staff. Accounts is uncertain when they will offer this in person training again; however, the slides are available on Accounts’ website, as referenced above. While not currently scheduled, Accounts and the Retirement System should offer similar sessions in the future for new human resource and payroll staff at the user agencies.

Finally, Accounts, Human Resource Management and the Retirement System have recently initiated monthly status meetings with each other. These meetings are designed to ensure Accounts, Human Resource Management, and the Retirement System remain aware of existing and emerging agency concerns regarding these processes. Through the meetings Accounts, Human Resource Management and the Retirement System plan to expand and enhance the guidance and tools cited above to better support the efficient and effective execution of these processes. We encourage the continued use of this meeting venue to ensure communications with agencies remain consistent and cohesive regarding the processes and tools available. In addition, Human Resource Management should consider how their communications with human resource staff at the individual agencies and training can be expanded to highlight the importance of their role in these processes.

Prioritization Should be Given to Accurately Manage Member Data by all Agencies

While the new data interfaces and reconciliations developed by Accounts, Human Resource Management, and the Retirement System provide tools to more efficiently manage member data, they have also highlighted the interdependency of the member data maintained in CIPPS, PMIS, and *myVRS Navigator* and the risks created when they are out of sync. Most notably, the relevance of PMIS in relation to the processing of payroll and retirement contributions has grown tremendously, changing the focus of timing for data entry into this system.

The new processes require ongoing coordination and communication between each agency’s human resource department and the corresponding payroll department. Each agency must ensure their respective departments sufficiently prioritize maintaining the accuracy and integrity of member data. By doing so in the long term, agencies should realize many efficiencies in the management of member data. However, the path to realize those efficiencies may take time until the new processes are fully adopted within each agency and the reconciliation exceptions, which have developed over time, are fully addressed.

For example, prior to the implementation of *myVRS Navigator*, the Retirement System directly keyed data into their legacy system. Only a few key fields had to be entered in PMIS timely to support payroll processing, the remaining fields could wait. With the implementation of *myVRS Navigator*, PMIS now serves as the initial system of record for numerous critical data elements

electronically transferred to CIPPS and *myVRS* Navigator. As a result, each human resource department must ensure they promptly enter all of the required data elements into PMIS to support accurate and timely retirement contribution and payroll processing.

To help agencies ensure the integrity and accuracy of member data, Human Resource Management should develop reports, or better highlight the availability of existing reports, which identify key data fields missing in PMIS. By ensuring the initial system of record for the member data is accurate, and updated promptly with changes, many of the reconciliation exceptions currently being identified between the three systems could be eliminated.

Each agency must ensure they have adequate policies and procedures developed to support the investigation of interfacing errors between the three systems and the confirmation of the monthly “snapshot.”

Further, each agency must ensure they have adequate policies and procedures developed to support the investigation of interfacing errors between the three systems as well as the confirmation of the monthly “snapshot.” While Accounts and the Retirement System have developed specific reconciliation reports and tools to support these processes, the unique nature of each agency in size and structure prohibits them from developing a singular approach for executing them.

Each agency needs to consider the expectations laid out in the guidance provided by Accounts and the Retirement System and ensure they have sufficient policies and procedures in place to meet these expectations. Most importantly, agencies must ensure they promptly address the reconciliation of exceptions between *myVRS* Navigator and PMIS, *myVRS* Navigator and CIPPS, and PMIS and CIPPS. Doing so will help to ensure the contribution calculations, payroll withholdings, and contribution payments are accurate.

Monthly Reporting Deadlines Should be Enforced

To emphasize the importance of all of these processes, the Retirement System should begin enforcing the monthly deadline for the retirement contribution “snapshot” certification. The Retirement System will only send the monthly billing file to Accounts after all of the CIPPS user agencies certify their monthly “snapshot.” Enforcing the deadline will allow Accounts to complete the necessary steps to ensure timely and accurate adjustments to payments of retirement contributions previously submitted on behalf of the CIPPS user agencies. By completing the pre-certification reconciliations with the PMIS systems, and timely certification of the “snapshot”, individual agencies will reduce the number of reconciliation exceptions to be resolved, decreasing their administrative efforts and improving data accuracy. Likewise, the Retirement System will realize even greater accuracy and integrity of the data supporting contribution reporting and actuarial calculations.

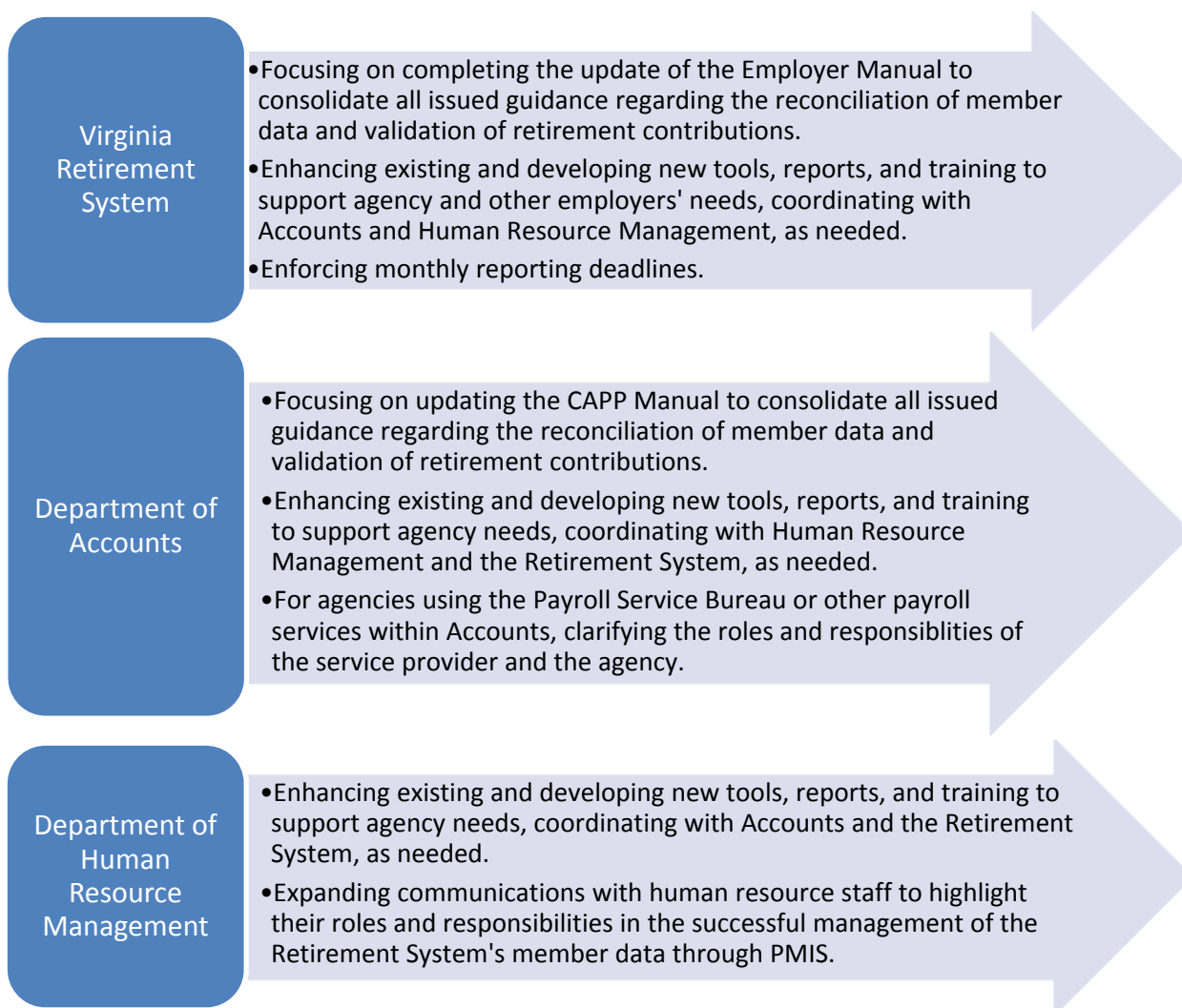
All Participating Employers Should Remain Diligent in Managing Member Data

This comment to management focuses on specifically on state agencies who use PMIS and CIPPS to manage their human resource and payroll functions. However, given the ramifications of

GASB Statement No. 68, all employers participating in the plans administered by the Retirement System should remain cognizant of their role in ensuring the accuracy of member data and retirement contributions submitted to the Retirement System. The Retirement System, likewise, should ensure they continue to provide sufficient guidance and enforce reporting expectations for these employers.

As reflected above, for the Commonwealth, the efficient and effective management of member data requires the coordinated effort of all three central agencies as well as each individual agency on an ongoing basis. This comment to management highlights the importance of these efforts and the impact they have on each organization. To ensure each organization appreciates the risk and focuses the appropriate resources on the management of member data, we summarize below and on the following page their respective responsibilities moving forward.

Key Actions for Maintaining and Reporting Member Data Moving Forward



Key Actions for Maintaining and Reporting Member Data Moving Forward

Individual Agencies

- Developing internal policies and procedures to promptly execute the data entry, reconciliation and certification processes in accordance with central agency guidance within the constraints of their organization.
- For agencies using a payroll service provider, clarifying the roles and responsibilities of the agency and the service provider.
- Ensuring all critical fields are promptly updated in PMIS.
- Ensuring human resource and payroll departments are fully engaged in supporting these processes and adequately communicate with each other.

FINDINGS AND RECOMMENDATIONS

Strengthen Management and Oversight of Supplemental Benefits Processing

The Virginia Retirement System (Retirement System) does not have sufficient policies and procedures in place to address the coordination and communication necessary for the processing of certain supplemental benefits, specifically the Retiree Health Insurance Credit (RHIC) and disability retirement. As a result, the Retirement System underpaid three retirees who were entitled to these benefits during the fiscal year.

The Code of Virginia defines the benefits to which members participating in the Retirement System are entitled. All of the retirees with exceptions initially retired through a service retirement and later switched to a disability retirement, changing the benefits for which they were eligible. Procedural and automated system nuances to this transition, the experience level of the staff performing this work, and the limited amount of oversight for these transactions led to these exceptions.

While the Retirement System retroactively restored the member's benefits upon notification of the errors, management should evaluate and update its policies and procedures to ensure sufficient communication and coordination between the service retirement department, the disability retirement department, and the health insurance credit department. Further, management should evaluate and update the policies and procedures surrounding the processing of benefits between two internal information systems, *myVRS Navigator* and Retirement Information Management System (RIMS), in order to prevent closing applications in the first system before processing occurs in the second system. To ensure retirees receive all benefits to which they are entitled, management should consider modifying the disability retirement application to acknowledge the need for the retiree to submit other forms for benefits that they may be eligible to receive because of their disability retirement.

Consolidate Desktop Procedures for PPS Processing and Actively Monitor System Override Activity

The Retirement System has not formally documented their policies and procedures for the purchase of prior period service (PPS). Instead, the established guidelines have developed over time and are documented through various memos and emails. Best practice strongly encourages and the Commonwealth's Agency Risk Management and Internal Control Standards require the formal documentation and maintenance of policies and procedures over key financial processes.

PPS is a complex and intricate program, which requires well-trained resources to provide customer support during the application process. However, because a small and very uniquely defined percentage of the active membership is actually eligible to purchase prior service, a limited number of Retirement System resources are dedicated to this process. By clearly incorporating the guidelines mentioned above into desktop policies and procedures to support the purchase of prior period service activities, the Retirement System can better address risks to processing that may arise should someone within the department be unavailable to perform their assigned job duties. The

consolidation of these individual guidelines would also provide for succession planning should there be turnover in the department.

Additionally, within these guidelines the Retirement System allows the PPS Supervisor to override system controls in certain limited circumstances to ensure eligible purchases of PPS are properly processed. As a compensating control for this practice, the Retirement System created an on-demand report of such override activity to be monitored by the Manager of the PPS Supervisor. The Manager of the PPS Supervisor could not produce evidence that she was monitoring system control overrides made by the PPS Supervisor. Without ongoing monitoring, the Retirement System risks allowing improper override of controls and potentially inappropriate purchases of PPS.

The informal guidelines for the processing of PPS transactions currently documented in separate memos and emails, should be consolidated into formal desktop procedures for the PPS department to address the risks mentioned above. Additionally, within these procedures, the Manager of the PPS Supervisor should establish a formal audit trail, including a monitoring schedule that provides evidence system overrides are actively monitored.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 11, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
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, 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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Virginia Retirement System's basic financial statements, and have issued our report thereon dated December 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Virginia Retirement System's internal control over financial reporting to determine the 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 Virginia Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Virginia Retirement System's internal control over financial reporting.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did identify other deficiencies in internal control that are of sufficient importance to merit management's attention, entitled "Strengthen Management and Oversight of Supplemental Benefits Processing" and "Consolidate Desktop Procedures for PPS Processing and Actively Monitor System Override Activity." These are described in the section titled "Findings and Recommendations."

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.

The Virginia Retirement System's Response to Findings

We discussed this report with management as we completed our work. The Virginia Retirement System's response to the findings identified in our audit is described in the accompanying section titled "Agency Response." The Virginia Retirement System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Status of Prior Findings

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

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 Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AUDITOR OF PUBLIC ACCOUNTS

JBS/clj



Robert P. Schultze
Director

MEMORANDUM

TO: Martha S. Mavredes
Auditor of Public Accounts

FROM: Robert P. Schultze
Director

DATE: January 28, 2015

SUBJECT: Response to APA's - VRS Report on Audit for the Year Ended June 30, 2014

INTERNAL CONTROL FINDING AND RECOMMENDATION

Strengthen Management and Oversight of Supplemental Benefits Processing

The Virginia Retirement System (Retirement System) does not have sufficient policies and procedures in place to address the coordination and communication necessary for the processing of certain supplemental benefits, specifically the Retiree Health Insurance Credit (RHIC) and disability retirement. As a result, the Retirement System underpaid three retirees who were entitled to these benefits during the fiscal year.

The Code of Virginia defines the benefits to which members participating in the Retirement System are entitled. All of the retirees with exceptions initially retired through a service retirement and later switched to a disability retirement, changing the benefits for which they were eligible. Procedural and automated system nuances to this transition, the experience level of the staff performing this work, and the limited amount of oversight for these transactions led to these exceptions.

While the Retirement System retroactively restored the member's benefits upon notification of the errors, management should evaluate and update its policies and procedures to ensure sufficient communication and coordination between the service retirement department, the disability retirement department, and the health insurance credit department. Further, management should evaluate and update the policies and procedures surrounding the processing of benefits between two internal information systems, *myVRS* Navigator and Retirement Information Management System (RIMS), in order to prevent closing applications in the first system before processing occurs in the second system. To ensure retirees receive all benefits to which they are entitled, management should consider modifying the disability retirement

application to acknowledge the need for the retiree to submit other forms for benefits that they may be eligible to receive because of their disability retirement.

VRS Response:

The Virginia Retirement System (VRS) acknowledges the three processing exceptions noted by the Auditor of Public Accounts. Two of the exceptions related to Health Insurance Credit processing and the third was related to the monthly benefit amount. The current RIMS system does not have an automated method to address either of these expectations. Instead, RIMS requires exception processing and manual work-arounds. In our requirements for Phase 4 of the Modernization Program, we have documented the need for automation of these and other exception processes. In the interim, we have enhanced our internal coordination and communication efforts as well as addressed communication with members. In addition, we will continue to reinforce procedures with staff for addressing the gaps specifically related to the lack of an automated solution and expand supervisor oversight.

Consolidate Desktop Procedures for PPS Processing and Actively Monitor System Override Activity

The Retirement System has not formally documented their policies and procedures for the purchase of prior period service (PPS). Instead, the established guidelines have developed over time and are documented through various memos and emails. Best Practice strongly encourages and the Commonwealth's Agency Risk Management and Internal Control Standards require the formal documentation and maintenance of policies and procedures over key financial processes.

PPS is a complex and intricate program, which requires well-trained resources to provide customer support during the application process. However, because a small and very uniquely defined percentage of the active membership is actually eligible to purchase prior service, a limited number of Retirement System resources are dedicated to this process. By clearly incorporating the guidelines mentioned above into desktop policies and procedures to support the purchase of prior period service activities, the Retirement System can better address risks to processing that may arise should someone within the department be unavailable to perform their assigned job duties. The consolidation of these individual guidelines would also provide for succession planning should there be turnover in the department.

Additionally, within these guidelines the Retirement System allows the PPS Supervisor to override system controls in certain limited circumstances to ensure eligible purchases of PPS are properly processed. As a compensating control for this practice, the Retirement System created an on-demand report of such override activity to be monitored by the Manager of the PPS Supervisor. The Manager of the PPS Supervisor could not produce evidence that she was monitoring system control overrides made by the PPS Supervisor. Without ongoing monitoring, the Retirement System risks allowing improper override of controls and potentially inappropriate purchases of PPS.

The informal guidelines for the processing of PPS transactions currently documented in separate memos and emails, should be consolidated into formal desktop procedures for the PPS department to address the risks mentioned above. Additionally, within these procedures, the Manager of the PPS Supervisor should establish a formal audit trail, including a monitoring schedule that provides evidence system overrides are actively monitored.

VRS Response:

The Virginia Retirement System (VRS) acknowledges the need for formal policies and procedures for Purchase of Prior Service (PPS) processing as noted by the Auditor of Public Accounts. While the underlying policies and rules governing PPS did not change with the implementation of myVRS Navigator, the process of creating the eligibility in the system did.

The most significant impact of the myVRS Navigator system on PPS was that the rules and deadlines governing PPS were programmed into the system without a corresponding mechanism for an override adjustment, when justified. The system controls over the process are very tight to minimize the risk of improper purchases of prior service; however, they can create situations where eligible service purchases are denied due to circumstances beyond the control of the member. In order to ensure that members are allowed to purchase service for which they are eligible, the PPS supervisor was given specific override abilities and an on-demand report with information on what was changed, who made the change, when the change was made and any comments entered in the notes field in the system, was developed. The report was to be monitored by the Manager of the PPS Supervisor and was intended to be a compensating control in the override process. Although guidelines for use of the override capability were established, they were documented through various memos and emails as the process was refined throughout fiscal year 2014. VRS is currently in the process of creating desktop procedures to formally document these guidelines.

We believe that there are complexities associated with the purchase of service that requires staff with a significant level of skill. Improving the existing documentation, combined with the information being incorporated in the enhanced desktop procedures noted above will provide sufficient information for a skilled employee to properly administer the PPS function.

Summary:

We appreciate the thoroughness and competence of the review of our financial operations. We are confident that your suggestions will assist us in continuing to maintain a financial reporting process that complies with Commonwealth policies and standards and reflects best practices.

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

c: VRS Board of Trustees

AGENCY OFFICIALS

Virginia Retirement System

BOARD MEMBERS

As of June 30, 2014

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Director