

**VIRGINIA RETIREMENT SYSTEM  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 1999**

***AUDITOR OF  
PUBLIC  
ACCOUNTS***



***COMMONWEALTH OF VIRGINIA***

## **AUDIT SUMMARY**

Our audit of the **Virginia Retirement System** for the year ended June 30, 1999, 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;
- two internal control matters that we consider reportable conditions; however we do not consider any of these to be material weaknesses; and
- adequate implementation of corrective action on prior audit findings, except as noted in the finding entitled “Complete a Comprehensive System of Information Security.”

Our audit findings are included in the section entitled, Internal Control Findings and Recommendations.

September 29, 1999

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Richard J. Holland  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

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

We have audited the general-purpose financial statements of the Virginia Retirement System as of and for the year ended June 30, 1999, and have issued our report thereon dated September 29, 1999. Our report on the general-purpose financial statements is contained in the Comprehensive Annual Financial Report issued by the Virginia Retirement System.

In planning and performing our audit of the general-purpose financial statements of the Retirement System as of and for the year ended June 30, 1999, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, and grants in accordance with generally accepted auditing standards 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 Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts; 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 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Retirement System's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions, entitled "Complete a Comprehensive System of Information Security" and "Monitor Plan Administrator Performance for the Sickness and Disability Program," are 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 none of the reportable conditions described above is a material weakness.

#### Status of Prior Year Findings

The Retirement System has not taken adequate corrective action with respect to the previously reported findings "Complete a Comprehensive System of Information Security" and "Improve Information Security Controls." Accordingly, we included these issues in the finding entitled "Complete a Comprehensive System of Information Security" in the section entitled "Internal Control Findings and Recommendations." The Retirement System has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

This report is intended solely for the information and use of the Governor and General Assembly, the Retirement System's Board of Trustees, audit committee, 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 16, 1999.

AUDITOR OF PUBLIC ACCOUNTS

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Complete a Comprehensive System of Information Security

Management has taken several significant steps in developing a comprehensive information security plan by conducting and issuing a business impact and risk analysis, a contingency management plan, and a disaster recovery plan. The Retirement System now needs to implement the security safeguards to meet the risks identified through this process.

During fiscal year 1999, based on previous recommendations, management created and attempted to fill a Data Security Officer position to develop a comprehensive security program. However, they advertised for nine months and could not fill that position. On September 20, 1999, a consultant began working on a comprehensive information security system. Additionally, after the unsuccessful attempts to recruit a full time data security officer, the Retirement System elected to establish a position of Assistant Director for Systems and Technology, reporting to the Director and successfully filled the position on September 26, 1999.

As the Assistant Director for Systems and Technology begins working on the Retirement System's information security standards and safeguards, the following individual items will also require his attention.

- There are no formal documented standards or procedures for granting, monitoring, and deleting user access.
- Four employees have access to FICA and COLA VIPERS tables. Six employees have access to the Insurance Carrier Rate VIPER Tables. Since these tables include information that affects the calculation of payroll data, management should consider limiting update access to one primary person and a backup.
- Nine unprotected modems connect to employees' personal computers, which could potentially allow unauthorized access to the VRS network.

Additionally, current policies and procedures do not ensure the prompt removal of terminated employees or inactive access ids.

- We tested 14 terminated employees' access and found four terminated employees were removed from the Retirement Information Management System (RIMS) between 8 days and 1 month after termination.
- We could not find documentation requesting the removal of five terminated employees tested.
- Several terminated employees access was not deleted from the Commonwealth Accounting and Reporting System or the Commonwealth Integrated Personal Payroll System up to four months after their termination.
- Several employees have RIMS access but have not used the system between three months and three years. Unused active access ids increase the risk of improper security.

Management should consider taking the following steps to improve its security safeguards as they develop their comprehensive system of information security.

- Develop and document formal information security policies and procedures, providing training to all users and managers so they understand how controls should operate.
- Limit access to critical tables to one primary person and a backup.
- Monitor or remove modems on employees' personal computers.
- Implement the necessary procedures to ensure and document the prompt removal of all individuals who no longer need system access.

#### Monitor Plan Administrator Performance for the Sickness and Disability Program

The Retirement System contracted with a third party to administer the Sickness and Disability Program beginning December 31, 1998. The administrator's responsibilities include providing case management services; managing, controlling, and adjudicating the non-work related disability claims; issuing long term benefit payments; assisting with litigation management; and providing appeals handling resolution. While the contract specifically outlines performance requirements related to these responsibilities, the Retirement System does not monitor these performance requirements.

During the first year, the administrator must make a financial and procedural commitment to do whatever is necessary to correct any areas needing improvement. However, without a completed performance measure analysis, it is difficult to identify many of the issues, which may require the attention of the third party administrator. With the first year of administration coming to a close, the time available to identify areas needing improvement is limited.

Fieldwork performed by our office has revealed that some agency human resource officers are not receiving documentation from the administrator timely, resulting in short term disability overpayments.

The Retirement System should immediately begin monitoring the identified performance requirements. Monitoring current performance requirement results and enforcing agreed-upon minimum standards will enhance future service delivery and minimize the Commonwealth's risk for overpayments.

## **Virginia Retirement System**

William H. Leighty  
Director

Nancy C. Everett  
Chief Investment Officer

Franklin O. Berry  
Internal Audit Director

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