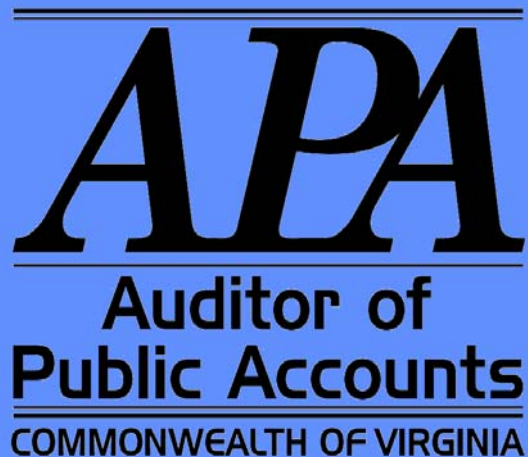


VIRGINIA RETIREMENT SYSTEM

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**



AUDIT SUMMARY

Our audit of the Virginia Retirement System (Retirement System) for the year ended June 30, 2011, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards

The Retirement System is replacing their existing mainframe-based software systems with a web-based platform, changing the way employers and members interact with the Retirement System. We are monitoring this project and this report includes an update on the status of the project.

We have audited the basic financial statements of the Virginia Retirement System as of and for the year ended June 30, 2011, and issued our report thereon, dated November 30, 2011. Our report is included in the Virginia Retirement System's Annual Report that it anticipates releasing on or around December 9, 2011.

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UPDATE ON MODERNIZATION PROGRAM

Background

The Virginia Retirement System (Retirement System) is replacing their existing mainframe-based software systems with a web-based platform, changing the way employers and members interact with the Retirement System. The Retirement System has divided this project into four phases. Phases I and II have been completed and focused on detailed planning, business process re-engineering, and developing key project management documents, and plans to support the project. Phase III focuses primarily on replacing those aspects of the existing software that support employer interactions with the Retirement System. Phase IV will address member related business processes as well as any outstanding employer business processes. The current Modernization Program plan anticipates closing out the project in 2014.

Early in 2010, the Retirement System, recognizing schedule slippage and vendor project management issues, worked with their vendor, SAGITEC, to develop more rigorous project monitoring tools and replaced the SAGITEC project manager. The Retirement System and SAGITEC began assessing the health of the project and introduced further rigor into the project management activities.

The Retirement System management's assessment of the project determined that the planned go-live date for Phase III would not occur due to slippage in meeting the milestone schedule and this delay would impact the implementation dates in Phase IV. In February 2011, the Retirement System and SAGITEC reassessed the project, moving the Phase III go-live from November 2011 to March 2012 and the Phase IV go-live from March 2013 to August 2014. The Retirement System also renegotiated some of the terms of the contract concerning certain licensing agreements.

Current Issues

Tasks on the critical path for phase III have begun to slip and the planned March 2012 implementation is no longer attainable. In addition, some tasks within the project plan continue to remain at a summary level and some tasks continue not to have assigned resources. Each of these factors has affected the critical path, therefore will further delay the go-live dates. The Retirement System continues to provide the Modernization Program with a high level of executive support. The Retirement System management is working with the vendor to determine how to complete the Modernization Program.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 30, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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 the basic financial statements of the **Virginia Retirement System** as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. 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.

Internal Control Over Financial Reporting

Management of the Virginia Retirement System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Virginia Retirement System's internal control over financial reporting as a basis for designing our auditing procedures 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

Status of Prior Findings

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

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" 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.

We discussed this report with management at an exit conference held on November 30, 2011.

AUDITOR OF PUBLIC ACCOUNTS

MSM/alh



Virginia
Retirement
System

1200 East Main Street, P.O. Box 2500, Richmond, Virginia 23218-2500
Telephone: (804) 344-3120 Fax: (804) 786-1541

Robert P. Schultze
Director

MEMORANDUM

TO: Walter J. Kucharski
Auditor of Public Accounts

FROM: Robert P. Schultze
Director

DATE: December 1, 2011

SUBJECT: Response to APA's - VRS Report on Audit for the Year Ended June 30, 2011

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VRS Response:

We concur with the observations of APA and the current status of the Modernization Program. Because of the importance of a successful implementation, VRS management will continue to work with the vendor to determine the most effective way for VRS to achieve the Program's objectives. As we have all along, we will continue to keep APA informed of developments in the Program.

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

c: VRS Board of Trustees

VIRGINIA RETIREMENT SYSTEM

BOARD MEMBERS

As of June 30, 2011

Diana F. Cantor
Chairman

John M. Albertine
Vice Chairman

A. Marshall Acuff, Jr	Edwin T. Burton III
Robert L. Greene	Mitchell L. Nason
Colette Sheehy	Paul W. Timmreck
Raymond B. Wallace, Jr.	

Robert P. Schultze
Director