Minutes

The Audit and Compliance Committee of the Board of Trustees met on September 7, 2017 at the Virginia Retirement System located in Richmond, Virginia. The following individuals were present.

Audit and Compliance Committee Members:
William H. Leighty, Committee Chair
Diana F. Cantor, Committee and Board Vice-Chair

Other Members of the Board of Trustees:
Mitchell L. Nason, Board Chair
J. Brandon Bell, II

VRS Staff:
Patricia S. Bishop, Jennifer B. Schreck, Rory J. Badura, L. Farley Beaton, Judy S. Bolt, Jeanne L. Chenault, Michael P. Cooper, Barry C. Faison, Joshua G. Fox, Krystal M. Groff, Curtis M. Mattson, Andrea E. Peeks, Matthew B. Priestas, Jillian L. Sherman, Capri M. Stanley-Smith, Cynthia D. Wilkinson, and Aaron D. Yarborough

Auditor of Public Accounts: Zach Borgerding and Kristy M. Scott

Joint Legislative Audit and Review Commission: Joseph M. McMahon

Mr. Leighty called the meeting to order at approximately 2:08 p.m.

MINUTES
Upon motion of Mr. Nason, seconded by Ms. Cantor, the Committee approved the minutes of the August 15, 2017 meeting.

EXIT ON THE 2016 EMPLOYER ASSURANCES REVIEW
Mr. Borgerding noted that the APA has issued its audit opinions on the Schedules of Employer Allocations and related information provided by VRS and used by VRS’s participating employers to reflect their pension obligations and expenses as required by Governmental Accounting Standards Board (GASB) Statement No. 68. APA issued audit opinions on all such data supplied to the participating employers along with an unqualified opinion on the assertions made by management with respect to the underlying census data used in arriving at such allocations.

The APA also discussed the audit and resource implications of implementing GASB 74 this year for the plan, and GASB 75 next year for employers, which address the reporting requirements for other post-employment benefit plans administered by VRS.

AUDIT REPORTS
The Committee received four audit reports from staff.
Ms. Groff presented the “Actuarial Data and Services” report, noting that effective processes existed to generate valid, accurate, and complete data used for annual actuarial valuations. Additionally, the examination noted that appropriate contractual agreements existed with the actuarial services firm and that the fees paid under that agreement were accurate. Ms. Groff indicated there were no written recommendations resulting from the review; however, observed control enhancement opportunities were discussed with management.

The Committee then discussed management’s process for implementing background checks for certain vendors and specifically for the contractor providing actuarial services. The Committee requested that the VRS Director provide an update to the Committee when VRS completes its background checks for the actuary’s employees.

Mr. Yarborough presented the “Refunds” report noting that refunds processing controls are appropriately designed and operating effectively. Mr. Yarborough indicated there were no written recommendations resulting from the review; however, observed control enhancement opportunities were discussed with management.

Mr. Fox presented the results of the “On-site Review of the Bank of New York Mellon”, which found an appropriate operating environment and general controls to support the safeguarding of assets and recordkeeping processes at the master custodian. Further, the review ensured that VRS and the master custodian had complied with its contractual agreement and related amendments. Mr. Fox indicated there were no written recommendations resulting from the review; however, observed control enhancement opportunities were discussed with management.

Mr. Fox presented the results of the “Investment Balances and Performance Reporting” examination, which noted that investment balances and performance reporting were accurate and agreed to the information recorded by the master custodian. Additionally, the review verified that performance information presented in the June 30, 2016 - Popular Annual Financial Report (PAFR) was complete and accurate.

Upon motion of Ms. Cantor, seconded by Mr. Bell, the Committee accepted audit reports 407, 408, 409, and 410 as presented.

Ms. Schreck provided the Committee with an overview of proposed revisions to the Audit and Compliance Committee Charter to align it with the changes
Ms. Schreck noted that similar recommended changes for consistency with the governance documents are being presented to the other governance committees and motions taken by those respective committees to accept the changes prior to presenting them to the Administration and Personnel Committee and the Board of Trustees in one group.

The Committee had a robust discussion regarding its responsibility for information and cyber security risks.

Upon motion of Mr. Nason, seconded by Ms. Cantor, the Audit and Compliance Committee approved the changes to its Charter as submitted, with such ministerial changes as may be necessary, and recommended that the Board approve such changes.

Ms. Schreck then presented revisions to the Internal Audit Charter governing the Internal Audit Department. As with the Committee Charter changes, the revisions were to align the charter with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors as well as other changes resulting from VRS's review of its governance documents.

Upon motion of Mr. Nason, seconded by Ms. Cantor, the Audit and Compliance Committee approved the changes to the Internal Audit Charter as submitted, with such ministerial changes as may be necessary.

Mr. Yarborough presented the Annual Report on the Audit Recommendation Follow-Up System (ARFUS) as of June 30, 2017. Mr. Yarborough noted ARFUS contained five recommendations at the beginning of year, nine were added during the year, and ten were tested and released (two of which with comment). As of June 30, 2017, there were four outstanding recommendations in ARFUS.

Ms. Schreck provided the Committee with a summary of the Department's accomplishments over the past year as well as an overview of the Department's initiatives and challenges for the coming year. Ms. Schreck noted she believes the Department is well positioned for the future.
Ms. Schreck explicitly confirmed to the Audit and Compliance Committee that the VRS Internal Audit Department and its staff are organizationally independent of the activities they examine, and that the department is adequately staffed.

ANNUAL AND LONG-RANGE AUDIT PLAN PROGRESS AND PROPOSED FY 2018 AUDIT WORKPLAN

Ms. Schreck then presented the annual audit plan results for the fiscal year ended June 30, 2017, along with the status of the long-range audit plan for the four years ending June 30, 2020. Ms. Schreck noted that as of the conclusion of the first fiscal year of the long-range plan, the Department was on schedule to complete all of the work originally approved in the overall plan. The only changes are to the timing and/or duration of certain examinations to align resources with audit requirements.

Ms. Schreck then presented the proposed audit plan for fiscal year 2018, which is a component of the long-range plan. Ms. Schreck noted that some adjustments to the plan have been made to reflect the movement of examinations for the reasons previously noted.

Upon motion of Ms. Cantor, seconded by Mr. Nason, the Committee approved the proposed Internal Audit Annual Plan for fiscal year 2018, and recommended that the Board approve such changes.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

Ms. Bolt presented a list of Fraud, Waste and Abuse cases investigated by Internal Audit for the period of May 1, 2017 through July 31, 2017. Ms. Bolt noted there were two cases reported through OSIG during the period. One allegation concerning non-compliant employment of retirees was partially substantiated and appropriate actions are being taken by management. The second allegation, which surrounded disability retirement, was under review as of the date of the report, but subsequently was determined to be unsubstantiated.

MANAGEMENT’S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT

The Committee reviewed the quarterly travel expense and per diem report. Mr. Fox reminded the Committee the report is a management prepared report; however, Internal Audit reviews it for reasonableness. He reported all out-of-state Board and Committee travel was within the currently approved limits.

MISCELLANEOUS BRIEFINGS AND UPDATES

Review of APO’s and Operating Standards

Ms. Schreck reported on Internal Audit’s review of the Agency Performance Outcomes and Agency Operating Standards for the fiscal year ended June 30, 2017, noting that Internal Audit has no reason to believe that the Agency Performance Outcomes and Agency Operating Standards were not appropriately satisfied for the fiscal year.
closed session
mOtion

Mr. Nason moved and Ms. Cantor seconded that the Audit and Compliance Committee of the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act to discuss and consider the performance of the VRS Internal Audit Director.

Pursuant to the personnel exemption at Virginia Code § 2.2-3711(A)(1).

Votes were noted as follows: Leighty - aye, Cantor - aye, Nason - aye, Bell - aye

All attendees, except Mr. Leighty, Ms. Cantor, Mr. Nason, Mr. Bell, Ms. Schreck, Ms. Wilkinson and Ms. Stanley-Smith exited the meeting at this time.

certification

Mr. Nason moved and Ms. Cantor seconded the following resolution:

WHEREAS, the Audit and Compliance Committee of the Virginia Retirement System Board of Trustees convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, § 2.2-3712 of the Code of Virginia requires a certification by this Committee that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Committee certifies that, to the best of each member’s knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Committee.

Votes were noted as follows: Leighty - aye, Cantor - aye, Nason - aye, Bell- aye

Upon exiting from the closed session, the Committee agreed to recommend to the full Board an additional five percent bonus for Ms. Schreck.

polling for the
2018 meeting
schedule and next
meeting

Ms. Schreck discussed the proposed meeting dates for 2018 included in the meeting book. Ms. Schreck indicated she would poll the Committee via email regarding their availability and present the results at the Committee’s next scheduled meeting, December 14, 2017 at 10 a.m.
MEETING ADJOURNED

There being no further business, the meeting adjourned at approximately 4:02 p.m.

Committee Chair

Secretary