
Minutes

The Audit and Compliance Committee of the Board of Trustees met on March 13, 2018 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
Mitchell L. Nason, Board Chair

VRS Staff:

Patricia S. Bishop, Jennifer B. Schreck, L. Farley Beaton, Jeanne L. Chenault, Michael P. Cooper, Barry C. Faison, Joshua G. Fox, Krystal M. Groff, Robert L. Irving, Bernadette LeMasters, Curtis M. Mattson, Andrea E. Peeks, Matthew B. Priestas, Denise M. Rasmussen, and Cynthia D. Wilkinson

Auditor of Public Accounts: Kristy M. Scott

Department of Planning and Budget: Jason X. Saunders

Joint Legislative Audit and Review Commission: Joseph M. McMahon

Mr. Leighty called the meeting to order at approximately 10:34 a.m.

MINUTES

Upon motion of Mr. Nason, seconded by Ms. Cantor, the Committee approved the minutes of the Audit and Compliance Committee meeting held on December 14, 2017.

AUDIT REPORTS

The Committee received two audit reports.

Audit Report 413

Ms. Schreck acknowledged the separation of Aaron Yarborough from the Internal Audit Department.

Ms. Schreck then presented the "Cash Receipts" report, noting that the overall control environment for Cash Receipts processing was adequate. There were no written recommendations resulting from the review.

It was noted by the Chairman that no actual cash is receipted by VRS, as all receipts are collected through electronic means or via a manual paper check.

Audit Report 414

Mr. Priestas presented audit report 414 – Conformance with VITA's Security Program. The review determined VRS' Security Policies and Standards are compliant with VITA's IT Security Program. There were no written recommendations resulting from the review.

The Committee had a robust discussion related to security standards best practices.

***ACCEPTANCE OF
AUDIT REPORTS***

Upon motion of Ms. Cantor, seconded by Mr. Nason, the Committee accepted audit reports 413 and 414 as presented.

***MODERNIZATION
QUARTERLY REPORT
- MANAGEMENT***

Mr. Beaton presented Management's report on the Modernization Program - Phase 4 through February 19, 2018. The status of Releases 8 through 10 was discussed, along with the expenditures and staff costs as of December 31, 2017. Overall, Phase 4 is progressing, however the software build cadence has peaked. Additionally, while progress has occurred since the previous audit committee update, the overall program status continues to be "yellow." Risk mitigation initiatives are ongoing, including the initiation of Mock Production activities earlier than originally planned.

Ms. Bishop also commented on the status of the Modernization Program – Phase 4, and stated she is proud of the efforts of the team so far and acknowledged management is closely monitoring the overall status.

***MODERNIZATION
QUARTERLY REPORT
- INTERNAL AUDIT***

Mr. Priestas presented Internal Audit's Quarterly Review of Modernization - Phase 4 as of February 1, 2018. Mr. Priestas concluded Internal Audit is in agreement with management's representation of Phase Four's overall re-baselined schedule, individual workstream progress and illustrated statuses.

Internal Audit emphasized key risk mitigation actions undertaken by management to keep the Retirements and Disbursements workstream activities proceeding to completion. Additionally, Internal Audit noted Management's early initiation of Mock Production testing activities should help to alleviate pressure on the Mock Production activities planned for the summer and allow VRS to provide further assurance of the quality of outputs produced from VNAV.

***AUDIT PLAN
PROGRESS AS OF
DECEMBER 31, 2017***

Ms. Schreck reported on the progress of the annual Audit Plan as of December 31, 2017, the mid-point of the fiscal year. She noted there were some necessary changes to the planned timing of certain examinations due to the recent departure from the Internal Audit team. However, Ms. Schreck noted the remaining projects in the original audit plan will be completed, with the exception of the "Investment Research" project that will be deferred to a later work plan year.

Ms. Schreck also noted the department is working with Human Resources to initiate the recruitment process and barring any unforeseen circumstances

plans to fill the open position of Principal Auditor - Data Analysis and Operations before the close of the fiscal year.

**QUARTERLY REPORT
ON FRAUD, WASTE
AND ABUSE HOTLINE
CASES**

Ms. Schreck presented a list of Fraud, Waste and Abuse cases investigated by Internal Audit for the period of November 1, 2017 through January 31, 2018. Ms. Schreck noted there was one case reported through OSIG during the period that alleged abuse of short-term disability. The case was unsubstantiated and therefore closed.

**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**

Ms. Schreck informed the Committee that Internal Audit has reviewed the amounts referred to as "Cost of Living Adjustments (COLA)" as calculated by VRS's actuary, Cavanaugh Macdonald Consulting, LLC, to be effective July 1, 2018. Ms. Schreck noted Internal Audit independently recalculated the "Cost of Living Adjustments", while substantiating the underlying data associated with such calculations and found them to be valid and accurate. The results of this review were provided to the Benefits and Actuarial Committee and Board of Trustees in February 2018 to support the review and approval process for these adjustments.

The next meeting of the Committee is scheduled for May 31, 2018 at 2 p.m.

**MEETING
ADJOURNMENT**

There being no further business, the meeting adjourned at approximately 11:26 a.m.



Committee Chair



Secretary