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## **Minutes**

The Audit and Compliance Committee of the Board of Trustees met on May 31, 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

***Other Members of the Board of Trustees:***

O'Kelly E. McWilliams, III  
Joseph W. Montgomery

***VRS Staff:***

Patricia S. Bishop, Jennifer B. Schreck, Rory J. Badura, L. Farley Beaton, Jeanne L. Chenault, Michael P. Cooper, Barry C. Faison, Joshua G. Fox, Krystal M. Groff, Robert L. Irving, Ryan J. LaRochelle, Curtis M. Mattson, Andrea E. Peeks, Matthew B. Priestas, Capri Stanley-Smith, and Cynthia D. Wilkinson

Denise M. Rasmussen arrived at 2:13 p.m.

***Auditor of Public Accounts:*** Zach Borgerding, Kristy M. Scott and Justin Ferrell

Mr. Leighty called the meeting to order at approximately 2:00 p.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 March 13, 2018.

***UPDATE ON THE  
2017 EMPLOYER  
ASSURANCES  
REVIEW***

Mr. Borgerding updated the Committee on the status of the Auditor of Public Accounts' (APA) separate examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own annual financial statements in accordance with Governmental Accounting Standards Statements No. 68 and 75.

Mr. Borgerding noted this was the first year that the Other Post- Employment Benefit (OPEB) plans were brought into the project, creating an increase in audit scrutiny and effort. He noted these examinations are progressing as planned and the APA should conclude their work and issue the related opinions for the Pension plans by the end of June and for the OPEB plans by the end of July.

***ENTRANCE  
CONFERENCE***

The Committee proceeded to the scheduled entrance conference with the APA. The primary purpose of the entrance meeting was to review the approach and scope of the APA's annual examination of VRS' Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2018. Mr. Borgerding noted the APA's primary responsibilities under Generally Accepted Auditing Standards are to provide reasonable assurance as to whether the financial statements are free of material misstatements. Mr. Borgerding also noted APA's responsibility to determine that VRS' financial information is accurately incorporated into the statewide CAFR.

Mr. Borgerding further addressed the APA's use of materiality, responsibility for identifying fraud, as well as reporting on non-compliance items that could have a material direct or indirect effect on financial statements.

Finally, Mr. Borgerding shared a report on internal controls and compliance will be provided and any significant findings over internal controls would be included in the Statewide Single Audit (SSA) Report. After questions from the Committee, Mr. Borgerding provided further information about the SSA and its related report.

***AUDIT REPORTS***

The Committee received two audit reports from staff.

***Audit Report 415***

Mr. Fox presented audit report 415 – Long-Term Care Programs. The main purpose of the review was to evaluate the overall administration of the various components of the Long-Term Care (LTC) Programs. While no financially significant matters were identified, the report acknowledged certain aspects of the administration of the LTC Program warrant management's attention. As a result, there were four recommendations included in the report. Mr. Fox noted management's response to the report recommendations was provided in the Committee materials immediately following the report.

Ms. Cantor inquired whether new enrollees were able to participate in the optional LTC programs given Genworth no longer offers this product. Ms. Bishop discussed VRS' efforts to address Genworth's departure from the market, noting legislation passed during the most recent General Assembly session provides VRS with the flexibility to pursue a similar LTC product for new enrollees.

Mr. Leighty inquired about the time needed to resolve the audit recommendations; Ms. Bishop stated she felt they could be resolved by the fall.

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**Audit Report 416** Ms. Bolt presented audit report 416 – Operating Expenses. The review determined controls supporting the operating expense payment process and the Small Purchase Charge Card and Travel Charge Card programs are appropriately designed and operating effectively. There were no written recommendations resulting from the review.

Mr. Leighty inquired as to whether samples were selected for each category in the audit. Ms. Bolt explained the processes used in order to test the three areas under review.

Jeanne L. Chenault left the meeting at 3:10 p.m.

**ACCEPTANCE OF  
AUDIT REPORTS** Upon motion of Mr. Nason, seconded by Ms. Cantor, the Committee accepted audit reports 415 and 416 as presented.

**MODERNIZATION  
QUARTERLY REPORT  
- MANAGEMENT** Mr. Beaton presented Management's report on the Modernization Program - Phase Four through May 24, 2018. The status of Releases 8 through 10 was discussed, along with the expenditures and staff costs as of March 31, 2018. Mr. Beaton noted Release 8 is behind schedule on planned deliverables and is now considered to be in a “red” status, acknowledging it will not go-live in October 2018 as planned. Mr. Beaton further stated the revised release date will remain in a “TBD” status until development can be completed, tentatively in September 2018. VRS continues to perform risk mitigation initiatives, including the initiation of Mock Production activities earlier than originally planned.

Mr. Beaton discussed the impact of the delay and re-scoping of the Cardinal Payroll project to include human resource management functionality. A conversation ensued regarding how this change in scope may be beneficial to VRS.

Mr. Beaton also addressed the VITA Mainframe Migration and its potential impact on VRS and the Modernization program.

**MODERNIZATION  
QUARTERLY REPORT  
- INTERNAL AUDIT** Mr. Priestas presented Internal Audit's Quarterly Review of Modernization - Phase Four as of May 16, 2018, highlighting a scope reduction in addition to delays in the phase schedule related to Release 8.

Mr. Priestas shared Internal Audit met and discussed in detail with management the outstanding activities within Release 8 and management’s response to the progress delays. Mr. Priestas emphasized Internal Audit believes management is being risk-averse and pragmatic with its response and noted that it is not unreasonable that schedule and financial impacts are not estimated at this time. Mr. Priestas acknowledged Internal Audit expects

there to be impacts to the overall schedule and budget and will review the proposed impacts once assessed and presented by management.

In conclusion, Mr. Priestas noted agreement with management's representation of Phase Four's overall schedule, individual workstream progress and illustrated statuses.

***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 February 1, 2018 through April 30, 2018. Ms. Bolt noted there was one case reported through OSIG during the period that alleged inappropriate classification of employees as Law Enforcement Officers at an employer. The allegation could not be substantiated and was therefore closed.

A discussion ensued regarding the nature of the allegation and the process for its substantiation.

***MANAGEMENT'S  
QUARTERLY TRAVEL  
EXPENSE AND PER  
DIEM REPORT***

Mr. Fox shared with the Committee the quarterly travel expense and per diem report for their review. He reported all out-of-state Board and Committee travel was within the currently approved limits.

***MISCELLANEOUS  
UPDATES***

Ms. Schreck shared the Department was in the planning stages for its Governance Review over the administrative aspects of VRS operations included in the 2018 annual work plan. Ms. Schreck discussed the scope of the two previous Governance audits, reminding the Committee that the most recent Governance review focused on Investment Operations, including the Board, and investment related Committees.

Ms. Schreck noted the current audit will include the Board and remaining Committees not included in the previous audit, including the Audit and Compliance Committee. Ms. Schreck acknowledged the conflict of interest in reviewing this particular area and noted Internal Audit is scheduled for its external quality assurance review in the fall of 2019, which will address the Governance over Internal Audit from an independent perspective.

Ms. Schreck continued with a brief overview of the areas under consideration for inclusion in the review and noted the Committee will be provided the opportunity to provide input regarding the scope and objectives of the project as the planning activities progress. Further, Board members will be interviewed or surveyed over the course of the examination.

The next meeting of the Committee is scheduled for September 6, 2018 at 2:00 p.m.



**MEETING  
ADJOURNMENT**

There being no further business, the meeting adjourned at approximately  
3:40 p.m.

Handwritten signature of William H. Linn in cursive.

**Committee Chair**

Handwritten signature of Jennifer P. Bell Schreck in cursive.

**Secretary**