
Minutes

The Audit and Compliance Committee of the Board of Trustees met on September 6, 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:

J. Brandon Bell, II (arrived at 2:05 p.m.)
O'Kelly E. McWilliams, III
Troilen G. Seward

VRS Staff:

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

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

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 May 31, 2018.

***EXIT ON THE 2017
EMPLOYER
ASSURANCES
REVIEW***

Mr. Borgerding reported the APA is in the final stages of their Employer Assurances audit work. This audit covers the data VRS prepares and supplies to employers and their auditors to support required financial reporting over pension plans and other post-employment benefits (OPEBs) under Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 75.

The APA reported they have issued or expect to issue by September 14th an unmodified audit opinion on all the Schedules of Employer Allocations and related information as prepared by VRS for GASB 68 and 75 purposes with the exception of the Line of Duty Act (LODA) related opinion. The APA's opinion on the LODA data is pending receipt of the final actuarial report and should be released the week of September 17th.

Mr. Borgerding noted one emphasis of matter relating to VRS not having access to certain census data elements for retirees from an Optional Retirement Plan who are eligible for the Health Insurance Credit or Group Life Insurance programs and have not claimed a benefit. He further stated that the actuary has applied a reasonable assumption in lieu of access to this information; as a result the APA's opinion was not modified in respect to this matter.

**UPDATE ON VRS
2018 CAFR
EXAMINATION**

Mr. Borgerding informed the Committee the APA's audit work over the 2018 VRS Comprehensive Annual Financial Report (CAFR) was ongoing. Mr. Borgerding indicated the APA has no findings at this point in the review and will present its conclusions at the December Committee Meeting.

AUDIT REPORTS

The Committee received two audit reports from staff.

Audit Report 417

Mr. Priestas presented audit report 417 – Application Controls: AQM, Private I and MUNIS Systems. The main purpose of the review was to assess the completeness, accuracy and validity of controls over AQM and Private i systems' inputs, processing and outputs, to review MUNIS' logical access account management processes and to perform a post-implementation review surrounding the recent version upgrade of the system. The report included one opportunity for improvement surrounding compliance with the Commonwealth's Hosted Environment Standards. Mr. Priestas noted management's response to the report recommendation was provided in the Committee materials immediately following the report.

Audit Report 418

Ms. Groff presented audit report 418 – Employer Records and Accounts. The review determined that VRS is appropriately managing the employer records and accounts to ensure the validity, accuracy and completeness of the transactions posted to the accounts. There were no written recommendations resulting from the review.

**ACCEPTANCE OF
AUDIT REPORTS**

Upon motion of Ms. Cantor, seconded by Mr. Nason, the Committee accepted audit reports 417 and 418 as presented.

**MODERNIZATION
QUARTERLY REPORT
- MANAGEMENT**

Mr. Beaton presented Management's report on the Modernization Program - Phase Four through September 6, 2018. Mr. Beaton updated the Committee on several miscellaneous items including the mainframe transition, a scope reduction to replace the IVR self-service functionality and the move to a fixed price statement of work for two components of remaining Phase 4 work. Mr. Beaton then discussed the re-baselining of the remaining Phase 4 releases, acknowledging the movement of the completion date for retirements and

disbursements functionality to Spring 2019 and the ability to submit online retirements to Fall 2019. Mr. Beaton then discussed the associated anticipated budget increases as a result of these adjustments.

**MODERNIZATION
QUARTERLY REPORT
- INTERNAL AUDIT**

Mr. Priestas presented Internal Audit's Quarterly Review of Modernization - Phase Four as of August 27, 2018. Mr. Priestas acknowledged management's efforts to adjust the schedule to complete the design and development of the remaining releases and to ensure quality implementation, noting the extension of the overall project schedule through the fall of 2019 and the need for additional funds to complete the work. He stressed that with the planned revised schedule, development activities for retirements and disbursements workstreams will continue into January 2019 which will allow VRS to perform only one month of full system mock production testing prior to go-live.

Andrea E. Peeks and Denise M. Rasmussen left the meeting at 3:33 p.m.

**ANNUAL REPORT ON
THE AUDIT
RECOMMENDATION
FOLLOW-UP SYSTEM**

Ms. Schreck presented the Annual Report on the Audit Recommendation Follow-Up System (ARFUS) as of June 30, 2018. Ms. Schreck noted ARFUS contained ten internal recommendations for the fiscal year, five of which were tested and released (one with comment). In addition, one recommendation issued by the Auditor of Public Accounts during their FY 2016 CAFR audit was noted as cleared during the FY 2017 audit and removed from ARFUS. As of June 30, 2018, there were five outstanding recommendations in ARFUS.

**INTERNAL AUDIT
ANNUAL REPORT**

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. She recognized the contributions of the internal audit team, noting that the department is currently down one staff member and that recruiting efforts are ongoing.

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 possess the appropriate qualifications to meet the needs of the approved audit plans.

**ANNUAL REPORT ON
INTERNAL AUDIT'S
QUALITY ASSURANCE
IMPROVEMENT
PROGRAM**

Ms. Schreck presented the results of the annual Internal Quality Assurance and Improvement Program Review as of June 30, 2018, noting the Principal Auditor for Quality Assurance had completed the review and concluded there was reasonable assurance that the Internal Audit Department was performing in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Ms. Schreck stated that the Department will undergo an external assessment next year and that the Committee will receive the results of that examination at their December 2019 meeting.

ANNUAL AND LONG-RANGE AUDIT PLAN PROGRESS AND PROPOSED FY 2019 AUDIT WORKPLAN

Ms. Schreck then presented the annual audit plan results for the fiscal year ended June 30, 2018, 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 second fiscal year of the long-range plan, modifications have been made to the remaining plan to accommodate the changing risk environment, adjustments to the Modernization Program – Phase Four schedule, and unplanned resource constraints. Specifically, changes have been made to the timing and/or duration of certain examinations, including the addition of two new projects, deferral of some projects to a period outside of the currently approved long-range plan and the consolidation of other projects within the existing long-range plan.

Ms. Schreck then presented the proposed audit plan for fiscal year 2019, which is a component of the long-range plan. Ms. Schreck discussed adjustments to the annual plan as pulled from the long-range plan to better align available resources with the organizational risks. The Director noted there were four FY 2018 carry over projects and two new IT related projects focused on key risks within the Modernization Program – Phase Four, amongst other modifications.

Upon motion of Ms. Cantor, seconded by Mr. Nason, the Committee approved the proposed Internal Audit Annual Plan for fiscal year 2019 and recommended that the Board approve the plan as well.

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, 2018 through July 31, 2018. Ms. Bolt noted there were two cases reported through the Office of the State Inspector General during the period that alleged abuse of the short-term disability program. The allegation for one case was unfounded and was therefore closed. Investigation of the second case was ongoing as of the date of this report.

MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT

Mr. Fox shared with the Committee management's 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**Review of APOs 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, 2018, 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.

Review of VRS Investment Incentive Compensation

Ms. Schreck disclosed the results of Internal Audit's review of the Investment Department's 2018 Incentive Compensation and noted they will be provided to the Administration and Personnel Committee at their September 2018 meeting to support the Board's actions regarding Investment Professionals' compensation.

Discussion of Potential Committee Meeting Dates for Calendar Year 2019

Ms. Schreck discussed the proposed meeting dates for 2019 included in the meeting book. After a brief discussion, the Committee confirmed their availability and indicated their approval of the proposed meeting dates.

Finally, Ms. Schreck noted the next meeting of the Committee is scheduled for December 13, 2018 at 10:00 a.m.

J. Brandon Bell, II left the meeting at approximately 4:00 p.m.

**CLOSED SESSION
MOTION**

Mr. Nason moved and Mr. Leighty 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, McWilliams – Aye, Seward – Aye

All attendees, except Mr. Leighty, Ms. Cantor, Mr. Nason, Ms. Seward, Ms. Schreck, Ms. Wilkinson and Mr. Cooper 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, McWilliams – Aye, Seward – Aye

Upon exiting from the closed session, the Committee agreed to recommend to the full Board an additional seven percent bonus for the VRS Internal Audit Director.

**MEETING
ADJOURNMENT**

There being no further business, the meeting adjourned at approximately 4:29 p.m.



Committee Chair



Secretary