
Minutes

The Audit and Compliance Committee of the Board of Trustees met on December 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

Other Members of the Board of Trustees:

Wallace G. Harris
O’Kelly E. McWilliams, III
Troilen G. Seward

VRS Staff:

Patricia S. Bishop, Jennifer B. Schreck, Richard W. Brooks, Judy S. Bolt, Jeanne L. Chenault, 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, Kristy M. Scott, and Cynthia D. Wilkinson

Auditor of Public Accounts: Zach Borgerding and Justin Ferrell

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

MINUTES

Upon motion of Mr. Nason, seconded by Ms. Seward, the Committee approved the minutes of the Audit and Compliance Committee meeting held on September 6, 2018.

***EXIT ON THE 2018
COMPREHENSIVE
ANNUAL FINANCIAL
AUDIT***

Mr. Borgerding informed the Committee that the APA’s audit work over VRS’ fiscal year 2018 Comprehensive Annual Financial Report was in its final stages. Mr. Borgerding indicated the APA anticipates issuing an unmodified opinion dated December 14, 2018. Also, as a part of the audit, the APA would issue a “Report on Internal Controls and Compliance” which would not include any formal recommendations.

The Committee had a robust discussion around fair value estimates and VRS’ established long-term rate of return in correlation to the General Assembly’s funding of annual contributions for all pension and other post-employment benefit plans.

Upon conclusion of the discussion, Mr. Borgerding acknowledged clarification within the APA’s slide presentation was appropriate and indicated adjustments would be made to specify that the APA’s monitoring of the VRS long-term rate of return is done from a financial reporting perspective.

Mr. Borgerding also briefed the Committee on the pending implementation of *Governmental Accounting Standards Board (GASB) Statement No. 84 – Fiduciary Activities* effective for fiscal year 2020. Discussion ensued surrounding the implementation of this pronouncement by VRS and how other states anticipate handling similar reporting circumstances.

**ENTRANCE WITH
APA REGARDING
EMPLOYER
ASSURANCES**

The APA then provided the Committee with an overview of its upcoming examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own annual financial statements in accordance with:

- *GASB Statement No. 68*, which focuses on employer reporting over pension plans, and
- *GASB Statement No. 75*, which deals with employer reporting over other post-employment benefit plans.

Mr. Borgerding noted the examinations will cover the period July 1, 2017 through June 30, 2018 and that the APA anticipates issuing its opinions on these matters on or about June 30, 2019.

After a brief discussion, the Committee requested the costs associated with third party providers of professional services, like the APA and the Attorney General, be presented during an upcoming Administration and Personnel Committee meeting.

AUDIT REPORTS

The Committee received one audit report from staff.

Audit Report 419

Mr. Priestas presented audit report 419 – Modernization Phase 4 – Mock Production, noting the audit’s main purpose was to assess whether VRS is adequately validating the VNAV disbursement engine and the results achieved are accurate, valid and meet VRS’ business needs.

The examination found the new disbursement engine is functioning properly and supports VRS’ organizational readiness efforts. However, the report included a risk alert, given the revised timeline. Mr. Priestas communicated VRS will have at most two months to perform all planned disbursement-related mock production activities with a stable code base to ensure these amounts are being disbursed accurately and the code is functioning as designed prior to go-live. The successful completion of the remaining development and testing efforts will play a critical role in VRS’ ability to realize its planned implementation schedule.

Ms. Bishop responded to the report with agreement and reiterated the work management is presently performing to ensure that Phase 4 disbursement functions are ready for the Spring 2019 release.

**ACCEPTANCE OF
AUDIT REPORT**

Upon motion of Ms. Cantor, seconded by Mr. Nason, the Committee accepted audit report 419 as presented.

**ANNUAL REPORT ON
CODE OF ETHICS**

Mr. Cooper provided a brief overview of VRS' Code of Ethics and the training provided to Benefits and Operations personnel. Mr. Cooper confirmed all VRS staff had completed the annual code of ethics training by November 15, 2018.

Mr. Cooper further noted management plans to update the VRS Code of Ethics training during 2019 and management welcomes committee feedback and suggestions.

Ms. Schreck complimented Ms. Bishop and Human Resources on the quality of the training materials, noting the Internal Audit staff also completed this training.

Mr. Mattson discussed the Investment Department's Code of Ethics and Conduct program, including the Investment Department's Trading Policy, which limits trades primarily to multi-investment funds and generally prohibits trading in single entity securities. Mr. Mattson then noted personal trading certifications have been received from all investment associates and were reviewed and found to be in compliance with the Department's policies.

The Committee discussed VRS' policy on and use of restrictive trading lists within the Investment Department. The Committee encouraged the Investment Department to examine its policy around restrictive trading lists in correlation to individual conflict of interest statements.

**MODERNIZATION
QUARTERLY REPORT
- MANAGEMENT**

Ms. Rasmussen presented Management's report on the Modernization Program - Phase 4 through November 30, 2018. Ms. Rasmussen updated the Committee on the remaining Phase 4 releases, noting Go-live for the retirements and disbursements functionality remains focused on Spring 2019 and the ability to submit online retirement applications in Fall 2019. Ms. Rasmussen confirmed management continues to intensively monitor the phase's progress and has put risk mitigation initiatives in place. Ms. Rasmussen discussed the continued Mock Production progress and emphasized priorities that must be completed prior to go-live.

The Committee discussed the October 2018 Mock Production results in detail as well as when management would determine if the release is a "go or no-go" for the Phase 4 retirement and disbursement release in the Spring 2019.

**MODERNIZATION
QUARTERLY REPORT
- INTERNAL AUDIT**

Mr. Priestas presented Internal Audit's Quarterly Review of Modernization - Phase 4 as of November 30, 2018. Mr. Priestas indicated agreement with management's representations regarding the overall schedule, budget and scope of Phase 4. Mr. Priestas acknowledged management's efforts to ensure the disbursement engine generates correct amounts through its Mock Production exercises, noting Internal Audit's recent review in this area. Mr. Priestas shared management is taking proper and proactive actions to ensure the newly developed environment is secure through system penetration tests scheduled for December 2018 and January 2019.

Mr. Priestas also communicated work is underway to update VRS' Continuity of Operations and Disaster Recovery Plans to incorporate the new VNAV services. These plans will be tested and related personnel will be trained prior to the Spring 2019 go-live.

The Committee inquired about who is performing the penetration testing, and Mr. Priestas confirmed the testing is being completed by contractors.

**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 August 1, 2018 through October 31, 2018. Ms. Bolt noted there were two cases reported through OSIG during the period that alleged abuse of short-term disability. One case could not be substantiated and the second allegation was unfounded; therefore both were closed.

The Committee discussed procedures in these cases and if alleged abusers are notified of the inquiry.

**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**

Introduction of New Team Member

Ms. Schreck introduced Kristy Scott, Senior Auditor – Benefits and Investments, who joined VRS on October 25, 2018.

The Committee welcomed Ms. Scott to the VRS Internal Audit Team.

Ms. Schreck indicated the next meeting of the Committee was scheduled for March 20, 2019 at 2:00 p.m.

**MEETING
ADJOURNMENT**

There being no further business, upon motion of Mr. Nason, seconded by Ms. Cantor, Mr. Leighty adjourned the meeting at approximately 11:47 a.m.



Committee Chair



Secretary