
Minutes

The Audit and Compliance Committee of the Board of Trustees met on June 12, 2019 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 (arrived at 3:12 p.m.)

Other Members of the Board of Trustees:

O'Kelly E. McWilliams, III
Troilen G. Seward

VRS Staff:

Patricia Bishop, Jennifer Schreck, Farley Beaton, Judy Bolt, Jeanne Chenault, Michael Cooper, Barry Faison, Joshua Fox, Krystal Groff, Robert Irving, Laurie Nelson, Matthew Priestas, Denise Rasmussen, Kristy Scott, Cynthia Wilkinson, and Curt Mattson

Auditor of Public Accounts: Justin Ferrell and Brian Deveney

Joint Legislative Audit and Review Commission: Lauren Axelle

Mr. Leighty called the meeting to order at approximately 2:00 p.m.

MINUTES

Upon motion of Ms. Cantor, seconded by Mr. Leighty, the Committee approved the minutes of the Audit and Compliance Committee meeting held on March 20, 2019.

***UPDATE ON THE
2018 EMPLOYER
ASSURANCES
REVIEW***

Mr. Ferrell 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. Ferrell noted this was the second year that the Other Post-Employment Benefit (OPEB) plans were included in the project and efficiencies are being realized. He noted these examinations are progressing as planned and the APA should conclude their work and issue the related opinions for the pension and OPEB plans by the end of July.

***ENTRANCE
CONFERENCE***

The Committee proceeded to the scheduled entrance 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, 2019. Mr. Ferrell 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. Ferrell also noted APA's responsibility to determine that VRS' financial information is accurately incorporated into the statewide CAFR.

Mr. Ferrell 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. Ferrell 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. Mr. Ferrell provided further information about the SSA and its related report and addressed the Committee's questions.

AUDIT REPORTS

The Committee received three audit reports from staff.

Audit Report 422

Ms. Scott presented audit report 422 – Governance. The review determined VRS' governance structure, processes, and policies guide the organization and its culture. There were no written recommendations resulting from the review.

The Committee commended the audit staff for their work on the project and in particular their consideration of culture relative to governance.

Audit Report 423

Ms. Groff presented audit report 423 – Modernization Phase 4 Data Conversion. The review evaluated VRS' plan to migrate the remaining key data from the legacy mainframe system to VNAV and found that the plan was thorough and comprehensive. There were no written recommendations resulting from the review. Ms. Bishop provided additional comments regarding the success of the conversion process.

Audit Report 424

Mr. Fox presented audit report 424 – Real Assets Program. The review determined due diligence and monitoring activities are adequate and align with the applicable Investment Policy Statement. There were no written recommendations resulting from the review.

The Committee discussed the presence of co-investments within the investment portfolio overall and requested additional education and information on this topic, which Mr. Mattson agreed to schedule.

**ACCEPTANCE OF
AUDIT REPORTS**

Upon motion of Ms. Cantor, seconded by Mr. Leighty, the Committee accepted audit reports 422, 423, and 424 as presented.

**MODERNIZATION
QUARTERLY REPORT
- MANAGEMENT**

Mr. Beaton presented Management's report on the Modernization Program - Phase 4. Mr. Beaton updated the Committee that the VNAV retirement processing is now in production, with ramp-up still in progress. He discussed system availability, recent focus points for ramp-up, VNAV disbursements summary after go-live, and plans to decommission RIMS. Additionally, he provided an overview of the next steps after go-live. Finally he discussed the budget and cost updates as of March 31, 2019.

**MODERNIZATION
QUARTERLY REPORT
- INTERNAL AUDIT**

Mr. Priestas presented Internal Audit's Quarterly Review of Modernization - Phase 4. Mr. Priestas indicated agreement with management's representations regarding the overall schedule, budget, and scope of Phase 4. Mr. Priestas acknowledged management's efforts and continued work. The Committee discussed with management the status of and future plans for the production data quality team.

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

Ms. Bolt presented the Fraud, Waste and Abuse cases investigated by Internal Audit for the period February 1, 2019 through April 30, 2019. Ms. Bolt noted there was one case reported through OSIG during the period that alleged abuse of short-term disability. The allegation was determined to be unfounded; therefore, the case was closed.

**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 noted all out-of-state Board and Committee travel are within the currently approved limits.

**2020 ANNUAL AUDIT
PLAN ASSESSMENT
AND VALIDATION**

Ms. Schreck noted that the risk assessment and validation of the 2020 Annual Audit Plan was under way. Ms. Schreck reminded the Committee that the annual audit plan is derived from the long range plan. While it is the express goal to focus on those projects included in the long range plan, the risks currently impacting the organization are considered when finalizing an individual fiscal year's annual audit plan. To support this goal, management interviews have been scheduled for the month of June and in the coming


weeks the Committee would be surveyed for their input. The proposed annual plan based on this feedback and considering the implications to the long-range audit plan will be presented to the Committee for its review and approval at the September meeting. The Committee discussed with Ms. Schreck reporting alternatives for the Fraud, Waste, and Abuse Hotline cases and the travel and expense per diem reports.

**MISCELLANEOUS
UPDATES**

Ms. Schreck indicated the next meeting of the Committee is scheduled for September 12, 2019 at 2:00 pm.

**MEETING
ADJOURNMENT**

There being no further business, upon motion of Ms. Cantor, seconded by Mr. Nason, Mr. Leighty adjourned the meeting at approximately 3:32 p.m.



Committee Chair



Secretary