
Minutes

In accordance with Item 4-0.01 of Chapter 1283 of the 2020 Acts of Assembly of the *Code of Virginia* as it relates to conducting business during the COVID-19 pandemic, the Audit and Compliance Committee of the Board of Trustees convened electronically on June 4, 2020.

The following individuals participated electronically.

Audit and Compliance Committee Members:

William H. Leighty, Committee Chair
Diana F. Cantor, Committee and Board Vice-Chair

Other Members of the Board of Trustees:

O’Kelly E. McWilliams, III, Board Chair
William A. Garrett

VRS Staff:

Patricia Bishop, Jennifer Schreck, Farley Beaton, Judy Bolt, Jeanne Chenault, Michael Cooper, Joshua Fox, Krystal Groff, Matthew Priestas, Denise Rasmussen, Cynthia Wilkinson, Caitlin Pelletier, Kristy Scott, Curt Mattson, Rick Brooks, Jillian Sherman, Robert Irving, and Valerie Disanto

Auditor of Public Accounts: Zach Borgerding, Justin Ferrell, and Brian Deveney

Virginia Senate Finance and Appropriations Committee: James Rosatelli

Mr. Leighty called the meeting to order at approximately 2:00 p.m. and noted that given the current circumstances related to COVID-19, the Audit and Compliance Committee (Committee) was unable to meet in person. However, utilizing electronic means, the Committee could hold this meeting in accordance with Item 4-0.01 of Chapter 1283 of the 2020 Acts of the Assembly of the *Code of Virginia* as it relates to conducting business during a pandemic.

Mr. Leighty then completed a roll call for attendance purposes:

Ms. Cantor – present
Chief Garrett – present
Mr. McWilliams – present
Mr. Leighty – present

PUBLIC COMMENT

Mr. Leighty noted that no individuals registered to provide public comment to the Committee.

MINUTES

Upon motion of Ms. Cantor, seconded by Mr. McWilliams, the Committee approved the minutes of the Audit and Compliance Committee meeting held on December 12, 2019 upon the following roll call vote:

Ms. Cantor – Aye
Chief Garrett – Aye
Mr. McWilliams – Aye
Mr. Leighty – Aye

**UPDATE ON THE
2019 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 third year 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, 2020. 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. Mr. Borgerding provided further information about the SSA and its related report and addressed the Committee's questions.

AUDIT REPORTS

The Committee received two audit reports from staff.

Audit Report 428 Ms. Scott presented audit report 428 – Investment Manager and Master Custodian Compensation. The review determined compensation paid to external investment managers and the master custodian is in accordance with contractual requirements, accurate, and properly recorded. There were no written recommendations resulting from the review.

Audit Report 429 Mr. Priestas presented audit report 429 – Conformance with VITA’s Security Program. The review determined VRS’ Security Policies and Standards are compliant with VITA’s IT Security Program. There was one written recommendation resulting from this review to ensure VRS’ continued conformance.

***ACCEPTANCE OF
AUDIT REPORTS*** Upon motion of Ms. Cantor, seconded by Mr. McWilliams, the Committee accepted audit reports 428 and 429 as presented, upon the following roll call vote:

Ms. Cantor – Aye
Chief Garrett – Aye
Mr. McWilliams – Aye
Mr. Leighty – Aye

***ANNUAL REPORT ON
CODE OF ETHICS*** Mr. Cooper provided a brief overview of VRS’ Code of Ethics and the training provided to personnel. Mr. Cooper confirmed all VRS staff had completed the annual code of ethics training by December 31, 2019. The Committee discussed with management how its contractors were incorporated into VRS’ efforts to reinforce a culture of ethics within the organization.

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.

***MODERNIZATION
QUARTERLY REPORT
- MANAGEMENT*** Mr. Beaton presented Management's report on the Modernization Program - Phase 4. Mr. Beaton updated the Committee on the decommissioning of RIMS and the Phase 4 progress. Mr. Beaton shared the project plan for Phase 4 is shifting due to the impacts of new legislation, noting the development of the remaining member portal functionality will be completed in October 2020 and the related testing and roll-out activities will continue through the winter, possibly longer. Lastly, budget and cost updates as of March 31, 2020 were provided.

**MODERNIZATION
QUARTERLY REPORT
– INTERNAL AUDIT**

Mr. Priestas presented Internal Audit's Review of Modernization - Phase 4 indicating agreement with management's representations regarding the overall schedule, budget and scope of Phase 4. Mr. Priestas acknowledged management's continued thoughtful and deliberate efforts to bring this phase to a close while ensuring the continued protection of member data. Mr. Priestas also highlighted an Internal Audit facilitated discussion between VRS staff and the only other retirement system currently identified who has implemented similar functionality, noting key collaboration opportunities realized from that meeting.

**AUDIT PLAN
PROGRESS AS OF
DECEMBER 31, 2019**

Ms. Schreck reported on the progress of the annual Audit Plan as of December 31, 2019, the mid-point of the fiscal year. She noted there were some necessary changes to the planned timing of certain engagements due to operational needs and the global pandemic. The Committee discussed the Internal Audit department's remaining planned projects and resources.

**LONG-RANGE AUDIT
PLAN DEVELOPMENT
UPDATE (FOR THE
FOUR YEARS ENDING
JUNE 30, 2024)**

Ms. Schreck provided a status update on the development of the long-range audit plan, noting it will be presented at the September Committee meeting.

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

Ms. Schreck shared for the periods November 1, 2019 through January 31, 2020 and February 1, 2020 through April 30, 2020, there were no cases of potential Fraud, Waste and Abuse reported for investigation. Further, she noted all previously reported cases remained closed.

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

Ms. Schreck noted management's quarterly travel expense and per diem reports were provided for the Committee's review.

**MISCELLANEOUS
UPDATES**

Ms. Schreck informed the Committee Internal Audit has reviewed the amounts referred to as "Cost of Living Adjustments (COLA)" as calculated by VRS' actuary, Cavanaugh Macdonald Consulting, LLC, to be effective July 1, 2020. Ms. Schreck noted Internal Audit independently recalculated the "Cost of Living Adjustments" 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 2020 to support their review and approval process for these adjustments.

Finally, Ms. Schreck indicated the next meeting of the Committee is scheduled for September 17, 2020 at 2:00 p.m.

**MEETING
ADJOURNMENT**

There being no further business, Ms. Cantor motioned to adjourn the meeting which was seconded by Mr. McWilliams. Mr. Leighty then adjourned the meeting at approximately 3:25 p.m. upon completion of the following roll call vote:

Ms. Cantor – Aye
Chief Garrett – Aye
Mr. McWilliams – Aye
Mr. Leighty – Aye



Board Chair



Secretary