
Minutes

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

Other Members of the Board of Trustees:

Wallace G. Harris, Ph.D.
O'Kelly E. McWilliams, III
Troilen G. Seward

VRS Staff:

Patricia Bishop, Jennifer Schreck, Farley Beaton, Judy Bolt, Jeanne Chenault, Michael Cooper, Joshua Fox, Krystal Groff, Robert Irving, Matthew Priestas, Denise Rasmussen, Brian Goodman, Andrea Peeks, Leslie Weldon, Kristy Scott, and Curt Mattson

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

Senate Finance Committee: Adam Rosatelli

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

MINUTES

Upon motion of Ms. Cantor, seconded by Mr. McWilliams, the Committee approved the minutes of the Audit and Compliance Committee meeting held on June 12, 2019.

***EXIT ON THE 2018
EMPLOYER
ASSURANCES
REVIEW***

Mr. Borgerding reported the APA has completed 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. All resources for employers will be available within the next week on the VRS website.

Mr. Borgerding highlighted the review's successes including: improved issuance timeliness for the audit opinions and employer resources, implementation of new data approaches for performing test work, and low number of employer questions and concerns.

AUDIT REPORTS

The Committee received two audit reports from staff.

Audit Report 425

Mr. Priestas presented audit report 425 – Review of the General Controls within the IT Client-Server Environment. The review evaluated the overall effectiveness and security of the IT client-server architecture within VRS. There were two written recommendations resulting from the review.

Audit Report 426

Ms. Bolt presented audit report 426 – Group Life Insurance and Death Processing. The review assessed whether Group Life Insurance and Death Processing are handled timely, accurately and in accordance with established guidelines and procedures. There were no written recommendations resulting from the review.

**ACCEPTANCE OF
AUDIT REPORTS**

Upon motion of Ms. Cantor, seconded by Mr. McWilliams, the Committee accepted audit reports 425 and 426 as presented.

**MODERNIZATION
QUARTERLY REPORT
- MANAGEMENT**

Mr. Beaton presented Management's report on the Modernization Program - Phase 4. Mr. Beaton updated the Committee on VNAV system performance and availability, ramp-up completion, disbursements processing and RIMS inquiry only status, with unneeded environments being deleted. Mr. Beaton observed quality monitoring and operational support activities continue and online retirements should be finalized by the end of the fiscal year. Lastly, budget and cost updates as of June 30, 2019 were provided.

**MODERNIZATION
QUARTERLY REPORT
- INTERNAL AUDIT**

Mr. Priestas presented Internal Audit's Quarterly 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 efforts surrounding ramp-up and continued work on the remaining Phase 4 functionality.

**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, 2019. Ms. Schreck noted ARFUS contained seven internal recommendations for the fiscal year, three of which were tested and released (one with comment). As of June 30, 2019, there were four 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.

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 AND LONG-RANGE AUDIT PLAN PROGRESS AND PROPOSED FY 2020 AUDIT WORKPLAN

Ms. Schreck then presented the annual audit plan results for the fiscal year ended June 30, 2019, 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 third 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 4 schedule and unplanned resource constraints. Specifically, changes have been made to the timing and/or duration of certain examinations, including the addition of 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 2020, 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.

Upon motion of Ms. Cantor, seconded by Mr. McWilliams, the Committee approved the proposed Internal Audit Annual Plan for fiscal year 2020 and recommended that the Board approve the plan as well.

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 May 1, 2019 through July 31, 2019. Ms. Bolt noted there were two cases reported through the Office of the State Inspector General during the period one alleging retirement benefit fraud and one alleging abuse of long-term disability. The allegations were determined to be unfounded; therefore, the cases were closed.

MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT

Ms. Schreck indicated management's quarterly travel expense and per diem report is available for the Audit and Compliance Committee's review.

MISCELLANEOUS UPDATES

Review of Agency Performance Outcomes and Operational Measures

Ms. Schreck reported on Internal Audit's review of the Agency Performance Outcomes and Operational Measures for the fiscal year ended June 30, 2019, noting that Internal Audit has no reason to believe that the Agency Performance Outcomes and Agency Operational Measures were not appropriately represented as 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 2019 Incentive Compensation and noted they were provided to the Administration and Personnel Committee at their September 2019 meeting to support the Board's actions regarding Investment Professionals' compensation.

Quality Assurance Review

Ms. Schreck noted Internal Audit is currently undergoing a quality review by an outside party relative to the department's conformance with the *International Standards for the Professional Practice of Internal Auditing*. The review's results will be available later in the year and shared with the Committee.

Polling for Committee Meeting Dates for Calendar Year 2020

Ms. Schreck discussed the proposed meeting dates for 2020 included in the meeting book and will be reaching out soon to finalize them.

Finally, Ms. Schreck noted the next meeting of the Committee is scheduled for December 12, 2019 at 10:00 a.m.

**CLOSED SESSION
MOTION**

Ms. Cantor 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: Ms. Seward – Aye, Mr. Harris – Aye, Mr. McWilliams – Aye, Ms. Cantor – Aye, and Mr. Leighty – Aye.

All attendees, except Mr. Leighty, Ms. Cantor, Ms. Seward, Mr. Harris, Mr. McWilliams, Ms. Schreck, Mr. Goodman, and Mr. Cooper exited the meeting at this time.

CERTIFICATION

Ms. Cantor moved and Mr. McWilliams 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: Ms. Seward – Aye, Mr. Harris – Aye, Mr. McWilliams – Aye, Ms. Cantor – Aye, and Mr. Leighty – Aye.

Upon exiting from the closed session, the Committee agreed to recommend to the full Board on October 10, 2019 an additional seven percent bonus for the VRS Internal Audit Director.

**MEETING
ADJOURNMENT**

There being no further business, upon motion of Ms. Cantor, seconded by Mr. McWilliams, Mr. Leighty adjourned the meeting at approximately 3:36 p.m.



Committee Chair



Secretary