
Minutes

The Audit and Compliance Committee of the Board of Trustees met on September 18, 2024, at the Virginia Retirement System located in Richmond, Virginia. The following individuals were present.

Audit and Compliance Committee Members:

Sen. J. Brandon Bell, II, Committee Chair
John M. Bennett, Committee Vice Chair
A. Scott Andrews, Board Chair

Other Members of the Board of Trustees:

Jessica L. Hood
Lindsey K. Pantele

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Judy Bolt, Jessica Budd, Jeanne Chenault, Michael Cooper, Juanita Cribbs, Joshua Fox, Krystal Groff, Sandy Jack, Curt Mattson, David Porter, Matthew Priestas, Paula Reid, Mark Rein, Kristy Scott, Scott Weaver and Leslie Weldon

Guests:

Jamie Bitz, Joint Legislative Audit and Review Commission and Zach Borgerding, Justin Ferrell and Erin Shell, Auditor of Public Accounts

The meeting convened at approximately 10:30 a.m.

Opening Remarks

Sen. Bell called the meeting to order and welcomed everyone to the September 18, 2024, meeting of the Audit and Compliance Committee and noted no changes or additions to the meeting agenda.

Approval of Minutes

Upon motion of Mr. Bennett, seconded by Mr. Andrews, the committee approved the minutes of the Audit and Compliance Committee meeting held on June 11, 2024.

Exit on the 2023 Employer Assurances Review

Mr. Borgerding reported the Auditor of Public Accounts (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.

Update on the 2024 Annual Comprehensive Financial Report (ACFR) Audit

Mr. Borgerding reported the APA is progressing as planned with the annual audit of VRS' ACFR. The goal is for the audit to be finished in advance of the December 2024 Audit and Compliance committee meeting. He noted currently there are no formal findings and provided an update on the audit's staffing.

Audit Report

The committee received the following audit report:

Audit Report 459 – Investment Balances, Performance Reporting and Investment Manager Compensation

Mr. Fox presented the results of Internal Audit's review of Investment Balances, Performance Reporting and Investment Manager Compensation. The review determined investment balances, performance reporting and investment manager compensation are accurately reported and complete. In addition, the review concluded the 2023 VRS Popular Annual Financial Report accurately summarized activities for fiscal year 2023 as reported in the VRS ACFR. There were no recommendations resulting from the review.

Acceptance of Audit Report

Upon motion of Mr. Andrews, seconded by Mr. Bennett, the committee accepted audit report no. 459 as presented.

Internal Audit Assurance Reviews**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, 2024, noting the review's results support the representations set forth by management.

VRS' Investment Incentive Compensation

Ms. Schreck disclosed the results of Internal Audit's review of the Investment department's proposed 2024 incentive compensation calculations for the fiscal year ended June 30, 2024. The review found all investment professionals met the eligibility requirements and both the proposed aggregate and individual payment amounts were accurately computed in accordance with the Investment Professionals' Pay Plan.

Charter Updates**Audit and Compliance Committee Charter**

Ms. Schreck reviewed proposed changes to the Audit and Compliance Committee charter. The updates include revisions because of changes to the Institute of Internal Auditors' *Global Internal Audit Standards*, which are intended to better align the charter with the new standards. Ms. Schreck noted the remaining updates provide clarity in some sections of the charter and reflect associated changes made across all board governance documents.

Ms. Schreck further acknowledged upon recommendation by the committee these updates will be shared with the Administration, Finance and Talent Management Committee for review along with all other committees' proposed charter revisions. Upon review, the Administration, Finance and Talent Management Committee will then recommend approval of the proposed Board governance document to the Board of Trustees at its September meeting.

Internal Audit Charter

Ms. Schreck then reviewed proposed changes to the Internal Audit charter. As with the Audit and Compliance Committee charter, the revisions were suggested to align the charter with the *Global Internal Audit Standards*, provide clarity to some sections and address other changes resulting from the review of related VRS governance documents.

Ms. Schreck thanked management for their feedback and collaboration throughout the process of updating the charters. She noted the committee is required to act on the proposed changes to this charter, but action by the Administration, Finance and Talent Management Committee and Board of Trustees was not necessary.

Approval of Proposed Changes to the Audit and Compliance Committee and Internal Audit Charters

Upon motion of Mr. Bennett, seconded by Mr. Andrews, the committee recommended approval of the proposed changes to the Audit and Compliance Committee charter to the Administration, Finance and Talent Management Committee and approved the proposed changes to the Internal Audit Charter.

Annual Progress Reports on Internal Audit

Annual Report on Internal Audit Department

Ms. Schreck recognized the contributions of the Internal Audit team over the past year. She explicitly confirmed to the committee 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. She also discussed the department's conformance with the *Global Internal Audit Standards*. The committee discussed how the VRS Internal Audit department compares to its peers and requested related information.

Annual Report on the Audit Recommendation Follow-up System

Ms. Schreck highlighted the Annual Report on the Audit Recommendation Follow-Up System (ARFUS) for management as of June 30, 2024. Ms. Schreck noted ARFUS contained 14 recommendations and seven were represented as implemented, two of which were issued by the APA. Six recommendations were released, two with comment. As a result, there were eight outstanding recommendations in ARFUS which would be monitored during FY 2025.

Annual Reports on FY 2024 Annual Plan and FY 2021 - FY 2024 Long Range Plan Status

Ms. Schreck then presented the annual plan results for the fiscal year ended June 30, 2024, along with the status of the long-range plan for the four years ending June 30, 2024. Ms. Schreck noted modifications have been made to the long-range plan to accommodate the changing risk environment.

FY 2025 – FY 2027 Long Range Plan

Ms. Schreck presented the proposed long-range plan for fiscal years 2025-2027. The committee discussed the risk assessment process and allocation of audit resources.

RBA: FY 2025 – FY 2027 Long Range Plan

Upon motion of Mr. Andrews, seconded by Mr. Bennett, the committee recommended approval of the action to the full Board of Trustees:

Request for Board Action: *The VRS Board of Trustees approves the proposed FY 2025 – FY 2027 Long-Range Plan.*

FY 2025 Annual Plan

Ms. Schreck then presented the proposed annual plan for FY 2025, noting it is derived from the long-range plan and represents the first year of the long-range plan period.

RBA: Approval of the FY 2025 Annual Plan

Upon motion of Mr. Bennett, seconded by Mr. Andrews, the committee recommended approval of the action to the full Board of Trustees.

Request for Board Action: *The VRS Board of Trustees approves the proposed FY 2025 Annual Plan.*

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

Ms. Schreck shared there were two Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General during the period of May 1, 2024, through July 31, 2024.

One case alleging a lack of proper oversight over VRS IT contract management was determined to be unsubstantiated and therefore closed. The second case alleging abuse of the Virginia IT Agency state contract process was determined to be unfounded and therefore closed.

Miscellaneous Updates**Management's Quarterly Travel Expense and Per Diem Report**

Ms. Schreck shared management's quarterly travel expense and per diem report was included in the meeting materials for the committee's review.

Committee Meeting Schedule for Calendar Year 2025

Ms. Schreck provided the calendar year 2025 VRS Board and committee meeting dates.

Next Committee Meeting Date

Ms. Schreck noted the next meeting of the committee is scheduled for December 12, 2024, at 10:00 a.m.

New Standards: Chief Audit Executive Position Qualifications and Competencies

Ms. Schreck provided the committee an overview of position qualifications and competencies for a chief audit executive in conformance with the requirements of the new *Global Internal Audit Standards*. The committee discussed how the highlighted competencies will be prioritized as part of the Human Resources department's upcoming updates to VRS' position descriptions, with the committee's feedback considered as part of these updates. In addition, the committee received a timeline of related upcoming committee activities and responsibilities.

Performance Review (Closed Session)

Mr. Bennett moved, with a second by Mr. Andrews, that the Audit and Compliance Committee of the Virginia Retirement System Board of Trustees convene a closed meeting in accordance with the Virginia Freedom of Information Act to evaluate the performance of the VRS Internal Audit director, pursuant to the personnel exemption at Virginia Code § 2.2-3711(A)(1).

Upon return to the open meeting, Mr. Bennett moved, with a second by Sen. Bell, 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.

The committee approved the resolution upon the following roll call vote:

Mr. Andrews: Aye
Mr. Bennett: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Sen. Bell: Aye

RBA: Approval of Performance Bonus for Audit Director

Upon motion of Mr. Andrews, seconded by Mr. Bennett, the committee recommended approval of the action to the full Board of Trustees:

Request for Board Action: The VRS Board of Trustees approves a 7% performance bonus for the audit director payable on October 16, 2024.

RBA: Approval of Salary Increase for Audit Director

Upon motion of Mr. Andrews, seconded by Mr. Bennett, the committee recommended approval of the action to the full Board of Trustees:

Request for Board Action: The VRS Board of Trustees approves a 3% salary increase for the audit director effective on October 10, 2024.

Adjournment

There being no further business, the Audit and Compliance Committee adjourned the meeting at approximately 12:24 p.m.



Committee Chair

Secretary