
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on September 21, 2023, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
Susan T. Gooden, Ph.D.
Jessica L. Hood
Lindsey K. Pantele

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair (*attended remotely*)

VRS Staff:

Patricia Bishop, Jennifer Schreck, Andrew Junkin, Rory Badura, Sara Denson, Parham Behrooz, Jeanne Chenault, Michael Cooper, Juanita Cribbs, Pam Elam, Jonathan Farmer, Jay Gentry, JT Grier, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Matt Lacy, Chung Ma, Curt Mattson, Walker Noland, Greg Oliff, Paula Reid, Mark Rein, Emily Trent, Leslie Weldon, Dan Whitlock, Cindy Wilkinson, Steve Woodall, and Dane Honrado.

Guests:

Chris Doll, CEM Benchmarking; Chau Nguyen, Westlake Capital Partners; Justin Flores, Private Equity Stakeholder Project; Jim Flaherty, Office of the Attorney General; and Jeremy Bennett, Virginia Association of Counties.

The meeting convened at 1:09 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the September 22, 2023, meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Following a motion by Dr. Gooden, and a second by Mr. Montgomery, the VRS Board of Trustees unanimously approved the minutes from its June 15, 2023, meeting and September 21, 2023, Brown Bag Lunch meeting.

Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), began his report by noting the IAC met on August 23, 2023, and approved the minutes from its April 12, 2023, meeting. The Committee received the Chief Investment Officer's (CIO) report that included an overview of market conditions, asset allocation, tracking error and total fund performance as of June 30, 2023. The Committee then received the Portfolio Solutions Group program review. Last, the Committee participated in the forward returns and stress test scenarios discussion which included four prospective recovery scenario simulations and their potential implications for the long-term assumed rate of return, funded status, contribution rates and liquidity.

Mr. Andrews thanked Mr. Kochard for his report.

Report of the Chief Investment Officer

Andrew Junkin, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund performance and tracking error, concluding that risk measures are within Board-approved levels. Mr. Junkin then discussed the New Investments and Terminations report, the Diverse Investment Manager Engagement (DIME) report and the Quarterly External Investment Manager Referral report.

Mr. Andrews thanked Mr. Junkin for his report.

Annual CEM Benchmarking Report on Administration

Chris Doll of CEM Benchmarking, Inc., provided the annual Pension Administration Benchmarking Report for FY 2022 to the Board. CEM measures cost, and service levels and provides an analysis of performance relative to peer agencies, as well as comparative data and insights from a broader group of CEM-participating plans. The presentation focused on VRS compared to a peer group of other U.S.-based retirement systems with similar membership size. Areas of service reviewed and measured included the call center, VRS website (including myVRS), one-on-one membership counseling and presentations, pension inceptions and member statements.

With a cost of \$74 per active member and annuitant, VRS' total pension administration cost per active member and annuitant is \$39 below the peer group average of \$113. Mr. Doll provided a summary of the trend in total pension administration costs from 2015 to 2022. He noted that VRS' total pension administration cost per active member was lower due to fewer front office FTE per 10,000 active members and annuitants and lower support costs per member.

Mr. Doll advised that VRS achieved a total service score of 83, which is above the peer group median of 78. VRS' service score has increased from 79 to 83 between 2015 and 2022. Further, the service score increased by 2 from 2021 to 2022 as one-on-one and group counseling returned post pandemic.

Mr. Doll concluded by reiterating that VRS provides a relatively high level of service at a cost comparatively lower than its peers.

Mr. Andrews thanked Mr. Doll for his presentation and commended the VRS staff for achieving these exceptional results. Mr. Andrews noted that providing a high level of service at a lower cost when

compared to U.S. peers is a testament to staff's commitment to exceptional service and continuous improvement.

Report of the Defined Contribution Plans Advisory Committee

The VRS Board of Trustees received the report of the Defined Contribution Plans Advisory Committee following its meeting on September 7, 2023, and placed it on file.

ADMINISTRATION

Administrative Reports & Communications

Staff provided an overview of the DC plans, as well as an update on administrative reports for the second quarter of 2023. An overview of assets and accounts across the various defined contribution plans, as well as account trends was also provided. Staff shared that assets and accounts have increased slightly since last quarter.

Staff provided an update on the age-based catch-up contributions of the SECURE 2.0 provision. VRS made the decision to pause age-based catch-up contributions for 2024 due to implementation challenges. However, the IRS has granted an administration transition period of two years for plans to come into compliance with this provision, Section 603. Staff further presented various optional provisions from SECURE 2.0 which are under consideration.

Staff reminded the Committee that the FOCUS newsletter is one of the primary mediums to communicate to participants and members. These newsletters are included with the quarterly statements. There are multiple versions with varied and timely topics.

Highlights from Hybrid 2023 Automatic Escalation were shared, which included the number of participants who used auto-escalation and the results of those who remained, increased or decreased their voluntary percentages. Staff also shared an overview of ORPHE assets, including participant counts and balances with DCP (MissionSquare) and TIAA.

DC Plans Record Keeper Transition Update

Staff provided an update on the DC Plans Record Keeper Project. We are in full planning mode with Voya. Discovery meetings are in progress with various teams. Project plan is forthcoming.

INVESTMENTS

Annual Investment Review

Staff reviewed investment duties and responsibilities of the DCPAC. Staff provided the Committee with its annual investments review as of June 30, 2023, which included investments for the unbundled DC plans and the TIAA ORPHE. Staff highlighted the participant fee savings due to moving to lower share classes for various funds and informed the Committee of ongoing monitoring of DC investment trends

and developments such as default investment options, investment menu structure, behavioral finance, investment advice and retirement income. Staff also included Vanguard's How America Saves 2023 Report in the Appendix to serve as a reference.

OTHER BUSINESS

Discussion of New Ideas

A discussion was held about thoughts on next steps regarding the SECURE 2.0 optional provisions. Staff stated conversations will be had with employers along with additional research in order to make final decisions on the optional provisions. Further discussions were held about behavioral finance and participant behavior along with the possibility of educational sessions.

2023 MEETINGS

Senator Bell confirmed the following DCPAC meeting date for 2023:

- November 30th at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 19, 2023. This is not a DCPAC Committee meeting; however, members may attend if interested.

Mr. Andrews thanked Senator Bell for his report.

Report of the Audit and Compliance Committee

The VRS Board of Trustees received the report of the Audit and Compliance Committee following its meeting on September 20, 2023, and placed it on file.

APPROVAL OF MINUTES

Mr. Montgomery began his report by noting the Committee approved the minutes of its June 13, 2023, meeting.

EXIT ON THE 2022 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2023 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The Auditor of Public Accounts (APA) reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, has concluded. The APA has issued their related opinions for the Pension and Other Post-Employment Benefit (OPEB) plans.

The APA also reported the 2023 VRS ACFR Audit is progressing as planned and is on scheduled to be finished in advance of December 15, 2023.

INTERNAL AUDIT ASSURANCE REVIEWS

The Committee received the results for the following reviews completed by the Internal Audit Department:

Agency Performance Outcomes and Agency Operational Measures

The principal auditor for investments and operations discussed Internal Audit's review of management's representations regarding the agency performance outcomes and operational measures for the fiscal year ended June 30, 2023, noting nothing came to Internal Audit's attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

VRS' Investment Incentive Compensation

The principal auditor for investments and operations noted Internal Audit completed its review of the Investment Department's proposed incentive compensation amounts and determined they were accurately calculated in accordance with the authorized pay plan and related eligibility requirements were met.

INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2023

The Committee received the following updates:

Internal Audit Department's Annual Report

The audit director provided the Committee with a summary of Internal Audit's accomplishments over the past year as well as an overview of the department's initiatives for the coming fiscal year. She recognized the contributions of the internal audit team, highlighting their internal and external service during the year.

The audit director explicitly confirmed the department and its staff are organizationally independent of the activities they examine. The audit director also discussed the augmentation the department's information technology audit resources to meet the needs of the proposed audit plan. Finally, she discussed the Institute of Internal Auditors' *Standards* including review of the relevant charters and planned response to *The Standards* update expected in 2024.

Annual Report on the Audit Recommendation Follow-Up System (ARFUS)

The annual ARFUS report as of June 30, 2023 was presented. The audit director noted ARFUS contained eleven recommendations, four were represented as implemented, one which was issued by the APA. Three recommendations were released, one with comment, leaving eight outstanding as of June 30, 2023.

Annual Plan and Long-Range Plan Progress

The audit director discussed the annual plan results for the fiscal year ended June 30, 2023, along with the status of the long-range plan for the four years ending June 30, 2024.

PROPOSED FY2024 ANNUAL AUDIT PLAN

The audit director discussed the proposed annual audit plan for fiscal year 2024, which is derived from the approved long-range audit plan.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

RBA: Approve FY 2024 Audit Plan

Request for Board Action 2023-09-14: The VRS Board of Trustees approves the proposed FY2024 Annual Audit Plan.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

The audit director shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General or other sources during the period of May 1, 2023, through July 31, 2023.

Management's Quarterly Travel Expense and Per Diem Report

The Committee received Management's Quarterly Travel Expense and Per Diem report.

Committee Meeting Schedule for Calendar Year 2024

The Committee received an update on the progress of determining the 2024 Committee meeting dates.

Next Committee Meeting Date

The Committee's final 2023 Committee meeting is scheduled for Thursday, December 7, 2023, at 10 a.m.

AUDIT REPORT

The Committee received a report on Internal Audit's review of *Human Resources and Employee Payroll* which determined sufficient controls are in place to support human resources and employee payroll processes and the associated controls are operating as intended. There were no formal recommendations as a result of this review.

AUDIT REPORT AND AUDIT DIRECTOR'S PERFORMANCE EVALUATION (CLOSED SESSION)

The Committee went into closed session to receive the *Logical and Physical Access* audit report and review the audit director's performance for the fiscal year ended June 30, 2023.

Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees approved the following action:

RBA: Internal Audit Director's Performance Review

Request for Board Action 2023-09-15: The VRS Board of Trustees approves a 7% performance bonus for the audit director.

Mr. Andrews thanked Mr. Montgomery for his report.

Report of the Administration, Finance and Talent Management Committee

The VRS Board of Trustees received the report of the Administration, Finance, and Talent Management Committee following its meeting on September 20, 2023 and placed it on file.

APPROVAL OF MINUTES

Mr. Andrews began his report by noting the Committee approved the minutes of its June 13, 2023, meeting.

REVIEW ATTAINMENT OF FY2023 AGENCY PERFORMANCE OUTCOMES (APOS) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2023 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had six APOs for the fiscal year, with a target of completing at least five. Staff met this goal by successfully completing all six APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate. Mr. Cooper noted that while not meeting the call abandonment rate target for the year, the agency's recent SMS surveying data indicates an overwhelmingly positive customer experience for those communicating with the customer contact center.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

RBA: Attainment of FY 2023 APOs and Operational Measures (and corresponding lump-sum bonus)

Request for Board Action 2023-09-16: The VRS Board of Trustees approves (i) the attainment of FY 2023 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.

REVIEW PERFORMANCE BONUSES FOR ELIGIBLE ADMINISTRATIVE AND INVESTMENT OPERATIONS AND ADMINISTRATION EMPLOYEES

Paula Reid, Human Resources Director, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2023.

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the VRS Board of Trustees approved the following action:

RBA: Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees

Request for Board Action 2023-09-17: The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.

BUDGET UPDATE (YEAR END RESULTS AND BIENNIUM BUDGET PROPOSAL)

Mr. Cooper presented the FY 2023 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$9.94 million, which will be returned to the Fund. Mr. Cooper next provided an update on the agency’s FY 2024 budget, noting that expenses to date are in line with budgeted amounts. Next, Mr. Cooper provided a detailed review of the agency’s FY 2025-2026 biennium budget proposal. Following discussion on the proposals with the Committee members, a request for board action was considered.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

RBA: Authorize Budget Request to the Department of Planning and Budget

Request for Board Action 2023-09-18: The VRS Board of Trustees authorizes staff to request spending authority from the Department of Planning and Budget and legislature, as applicable, to execute planned initiatives for the next two fiscal years.

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS

Mr. Junkin informed the Committee of two IAC members due for reappointment. Mr. Junkin indicated that Hance West and Nan Leake have been active and engaged participants of the IAC and each are willing to continue their service on the IAC.

Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees approved the following action:

RBA: Reappointment of Investment Advisory Committee (IAC) Members

Request for Board Action 2023-09-19: The Board reappoints William “Hance” West and Nancy G. Leake to the Investment Advisory Committee, each for a two-year term ending December 31, 2025.

APPROVE REVISED PAY PLANS

Paula Reid advised the Committee that the Governor has approved the 2023 Appropriation Act, which includes a 2% salary increase for eligible employees of the Commonwealth, as well as related changes to the pay bands of the Commonwealth’s pay plan. In keeping with these changes, Ms. Reid advised that VRS is proposing to amend the pay bands of its three pay plans as well.

Upon a motion by Mr. Montgomery, with a second by Dr. Gooden, the VRS Board of Trustees approved the following action:

RBA: Approve Revised Pay Plans

Request for Board Action 2023-09-20: The Board approves an amended Administrative Pay Plan, Investment Operations and Administration Staff Pay Plan and Investment Professionals’ Pay Plan, effective December 10, 2023.

INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR’S PERFORMANCE REVIEW)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director’s performance at its September 20, 2023, meeting. Each year, the A&C Committee reviews the Internal Audit Director’s performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes.

COMPENSATION AND BENEFITS (CLOSED SESSION)

The Committee went into closed session to discuss benefits and compensation related to specific individuals.

Upon a motion by Mr. Montgomery, with a second by Ms. Hood, the VRS Board of Trustees approved the following action:

RBA: FY 2023 Incentive Pay for Investment Professionals

Request for Board Action 2023-09-21: The VRS Board of Trustees approves payment of an incentive amount of approximately \$9,164,370.33 for FY 2023 to VRS investment professionals as authorized by the Investment Professionals’ Pay Plan.

Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees approved the following action:

RBA: VRS Director’s Performance Review

Request for Board Action 2023-09-22: *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 16, 2023 and supplemental payment of \$89,250.00 made on December 1, 2023 as authorized in the 2023 Appropriation Act.*

Report of the Director

Ms. Bishop, Director, began her report with an update on the agency road map for FY 2024, noting all projects are progressing as planned, as well as a review of New Coverage Elections.

Lastly, Ms. Bishop recognized Kelly Hiers, Defined Contribution Plans Administrator, as the incoming president of the National Association of Government Defined Contribution Administrators (NAGDCA). Ms. Hiers joined NAGDCA's executive board in 2019 as a member-at-large, and she'll begin her new leadership role in October. NAGDCA is a well-respected source of data and best practices for public-sector defined contribution plans.

Ms. Bishop provided updates on operational and ongoing activities.

Mr. Andrews thanked Ms. Bishop for her report.

Securities Litigation (Closed Session)

Upon a motion by Mr. Montgomery, with a second by Ms. Hood, that the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act for the purpose of consultation with legal counsel about actual litigation pursuant to the exemption contained in *Code of Virginia* § 2.2-3711(A)(7).

Upon return to open meeting, Mr. Montgomery moved, with a second by Mr. Disharoon, the following resolution:

WHEREAS, 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 the Board that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, the Board 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 Board.

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

Senator Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye

Dr. Gooden: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Other Business

Lastly, Mr. Andrews reviewed the following meeting schedule:

- Benefits and Actuarial Committee – October 18 at 1:00 p.m.
- Board of Trustees – October 19 at 1:00 p.m.

Adjournment

There being no further business and following a motion by Mr. Montgomery, with a second by Ms. Hood, the VRS Board of Trustees agreed to adjourn the meeting at 2:33 p.m.


Chair
Secretary

Report

The Defined Contribution Plans Advisory Committee (DCPAC) convened on September 7, 2023 at 1:00 p.m. and took up the following matters:

WELCOME

Senator Bell welcomed Committee members, Board members, agency officials, representatives from stakeholder groups, and other members of the public joining in person and through electronic means, to the DCPAC.

ADMINISTRATION

Administrative Reports & Communications

Staff provided an overview of the DC plans, as well as an update on administrative reports for the second quarter of 2023. An overview of assets and accounts across the various defined contribution plans, as well as account trends was also provided. Staff shared that assets and accounts have increased slightly since last quarter.

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Annual Investment Review

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2023 MEETINGS

Senator Bell confirmed the following DCPAC meeting date for 2023:

- November 30th at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 19, 2023. This is not a DCPAC Committee meeting; however, members may attend if interested.

There was no other business to come before the Committee.

That concludes my report to the Board.

Submitted to the Board of Trustees on September 21, 2023.



J. Brandon Bell, Chair
Defined Contribution Plans Advisory Committee

Report

The Audit and Compliance Committee met on September 20, 2023. Mr. Montgomery welcomed committee members, board members, agency officials, and other members of the public joining in person and through electronic means. The committee discussed the following:

APPROVAL OF MINUTES

The committee approved the minutes of its June 13, 2023 meeting.

EXIT ON THE 2022 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2023 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The Auditor of Public Accounts (APA) reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, has concluded. The APA has issued their related opinions for the Pension and Other Post-Employment Benefit (OPEB) plans.

The APA also reported the 2023 VRS ACFR Audit is progressing as planned and is on scheduled to be finished in advance of December 15, 2023.

INTERNAL AUDIT ASSURANCE REVIEWS

The committee received the results for the following reviews completed by the Internal Audit Department:

Agency Performance Outcomes and Agency Operational Measures

The principal auditor for investments and operations discussed Internal Audit's review of management's representations regarding the agency performance outcomes and operational measures for the fiscal year ended June 30, 2023, noting nothing came to Internal Audit's attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

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INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2023

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The audit director discussed the annual plan results for the fiscal year ended June 30, 2023, along with the status of the long-range plan for the four years ending June 30, 2024.

PROPOSED FY2024 ANNUAL AUDIT PLAN

The audit director discussed the proposed annual audit plan for fiscal year 2024, which is derived from the approved long-range audit plan. The committee reviewed the plan and voted to recommend approval of the following action to the full Board:

***Request for Board Action:** The VRS Board of Trustees approves the proposed FY2024 Annual Audit Plan.*

MISCELLANEOUS UPDATES

The committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

The audit director shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General or other sources during the period of May 1, 2023 through July 31, 2023.

Management's Quarterly Travel Expense and Per Diem Report

The committee received Management's Quarterly Travel Expense and Per Diem report.

Committee Meeting Schedule for Calendar Year 2024

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Next Committee Meeting Date

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AUDIT REPORT

The committee received a report on Internal Audit's review of *Human Resources and Employee Payroll* which determined sufficient controls are in place to support human resources and employee payroll processes and the associated controls are operating as intended. There were no formal recommendations as a result of this review.

AUDIT REPORT AND AUDIT DIRECTOR'S PERFORMANCE EVALUATION (CLOSED SESSION)

The committee went into closed session to receive the *Logical and Physical Access* audit report and review the audit director's performance for the fiscal year ended June 30, 2023.

Upon returning to open meeting, the committee voted to recommend approval of the following action to the full Board:

Request for Board Action: *The VRS Board of Trustees approves a 7% performance bonus for the audit director.*

Respectfully submitted to the Board of Trustees on September 21, 2023.



Joseph W. Montgomery, Chair
Audit and Compliance Committee

Report

The Administration, Finance and Talent Management Committee met on September 20, 2023, and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its June 13, 2023, meeting.

REVIEW ATTAINMENT OF FY2023 AGENCY PERFORMANCE OUTCOMES (APOS) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2023 agency performance outcomes (APOS) and operational measures. Mr. Cooper noted that the agency had six APOs for the fiscal year, with a target of completing at least five. Staff met this goal by successfully completing all six APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate. Mr. Cooper noted that while not meeting the call abandonment rate target for the year, the agency's recent SMS surveying data indicates an overwhelmingly positive customer experience for those communicating with the customer contact center.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The VRS Board of Trustees approves (i) the attainment of FY 2023 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

REVIEW PERFORMANCE BONUSES FOR ELIGIBLE ADMINISTRATIVE AND INVESTMENT OPERATIONS AND ADMINISTRATION EMPLOYEES

Paula Reid, Human Resources Director, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an "exceptional" rating on their performance evaluation qualify for a 4% bonus. Employees who earn an "exceeds" rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2023.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.*

BUDGET UPDATE (YEAR END RESULTS AND BIENNIUM BUDGET PROPOSAL)

Michael Cooper presented the FY 2023 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$9.94 million, which will be returned to the Fund. Mr. Cooper next provided an update on the agency's FY 2024 budget, noting that expenses to date are in line with budgeted amounts. Next, Mr. Cooper provided a detailed review of the agency's FY 2025-2026 biennium budget proposal. Following discussion on the proposals with the committee members, a request for board action was considered.

Request for Board Action: *The VRS Board of Trustees authorizes staff to request spending authority from the Department of Planning and Budget and legislature, as applicable, to execute planned initiatives for the next two fiscal years.*

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS

Andrew Junkin, Chief Investment Officer, informed the committee of two IAC members due for reappointment. Mr. Junkin indicated that Hance West and Nan Leake have been active and engaged participants of the IAC and each are willing to continue their service on the IAC.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board reappoints William "Hance" West and Nancy G. Leake to the Investment Advisory Committee, each for a two-year term ending December 31, 2025.*

APPROVE REVISED PAY PLANS

Paula Reid advised the Committee that the Governor has approved the 2023 Appropriation Act, which includes a 2% salary increase for eligible employees of the Commonwealth, as well as related changes to the pay bands of the Commonwealth's pay plan. In keeping with these changes, Ms. Reid advised that VRS is proposing to amend the pay bands of its three pay plans as well.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board approves an amended Administrative Pay Plan, Investment Operations and Administration Staff Pay Plan and Investment Professionals' Pay Plan, effective December 10, 2023.*

INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR'S PERFORMANCE REVIEW)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director's performance at its September 20, 2023, meeting. Each year, the A&C Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the committee for informational purposes.

COMPENSATION AND BENEFITS (CLOSED SESSION)

The Committee went into closed session to discuss benefits and compensation related to specific individuals.

Upon returning to open meeting, the Committee recommends the approval of the following actions to the full Board:

Request for Board Action: *The VRS Board of Trustees approves payment of an incentive amount of approximately \$9,164,370.33 for FY 2023 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.*

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2023, and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

Request for Board Action: *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 16, 2023 and supplemental payment of \$89,250.00 made on December 1, 2023 as authorized in the 2023 Appropriation Act.*

Submitted to the Board of Trustees on September 21, 2023.



A. Scott Andrews, Chair
Administration, Finance and Talent Management Committee