
Minutes

In accordance with Item 4-0.01 of Chapter 56 of the 2020 Special Session I 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 March 16, 2021.

The following individuals participated electronically.

Audit and Compliance Committee Members:

Joseph W. Montgomery, Committee Chair
W. Brett Hayes, Committee Vice Chair
O’Kelly E. McWilliams, III, Board Chair (joined after the initial roll call)

Other Members of the Board of Trustees:

J. Brandon Bell, II
Michael P. Disharoon
William A. Garrett
Troilen G. Seward, Ed.S.

VRS Staff:

Patricia Bishop, Judy Bolt, Rick Brooks, Jeanne Chenault, Michael Cooper, Valerie Disanto, Barry Faison, Joshua Fox, Krystal Groff, Robert Irving, Curt Mattson, Matthew Priestas, Denise Rasmussen, Paula Reid, Kristy Scott, Jennifer Schreck, Jillian Sherman, Grace Wheaton and Cynthia Wilkinson

Auditor of Public Accounts: Zach Borgerding and Justin Ferrell

Department of Planning and Budget: Latosha Johnson

Joint Legislative Audit and Review Commission: Jamie Bitz

Virginia Senate Finance and Appropriations Committee: James Rosatelli

Mr. Montgomery 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 56 of the 2020 Special Session I Acts of the Assembly of the *Code of Virginia* as it relates to conducting business during a pandemic.

Mr. Montgomery then completed a roll call of each Committee member for attendance purposes:

Senator Bell – present
Mr. Disharoon – present
Chief Garrett – present
Mr. Hayes – present

Ms. Seward – present
Mr. Montgomery – present

PUBLIC COMMENT Mr. Montgomery noted that no individuals registered to provide public comment to the Committee.

Mr. McWilliams joined the electronic meeting.

MINUTES Upon motion of Senator Bell, seconded by Mr. Disharoon, the Committee approved the minutes of the Audit and Compliance Committee meeting held on December 10, 2020 upon the following roll call vote:

Senator Bell – aye
Mr. Disharoon – aye
Chief Garrett – aye
Mr. Hayes – aye
Mr. McWilliams – aye
Ms. Seward – aye
Mr. Montgomery – aye

AUDIT REPORTS The Committee received two audit reports from staff.

Audit Report 434 Mr. Priestas presented audit report 434 – Health Insurance Premiums and Credits which assessed the validity and accuracy of the retiree health insurance premiums withheld from retirees’ benefits, the transfer of such withholdings to the appropriate parties and the validity and accuracy of Health Insurance Credit payments. There was one written recommendation resulting from the review.

Audit Report 435 Mr. Priestas presented audit report 435 – Conformance with VITA’s Security Program. The review determined that VRS’ Security Policies and Standards are compliant with VITA’s Information Technology Security Program. There were no written recommendations resulting from the review and one recommendation outstanding from the prior year’s review.

The Committee discussed the standards VITA adopts and how they relate to VRS standards.

ACCEPTANCE OF AUDIT REPORTS Upon motion of Mr. Hayes, seconded by Ms. Seward, the Committee accepted audit reports 434 and 435 as presented, upon the following roll call vote:

Senator Bell – aye
Mr. Disharoon – aye
Chief Garrett – aye

Mr. Hayes – aye
Mr. McWilliams – aye
Ms. Seward – aye
Mr. Montgomery – 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 as of today, but not by December 31, 2020. As a result, he noted process improvement opportunities were identified for future activities.

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**

Ms. Rasmussen presented Management's report on the Modernization Program - Phase Four. Ms. Rasmussen provided a timeline highlighting the progress of the Modernization Program over the past 10 years and updated the Committee on the Phase Four progress. Ms. Rasmussen discussed the ongoing development efforts, noting the development of member portal functionality, rollout approach for remaining features and recent pilot results for online retirements. The budget and cost updates as of December 31, 2020 were provided.

**MODERNIZATION
QUARTERLY REPORT
- INTERNAL AUDIT**

Mr. Priestas discussed Internal Audit's Review of the Modernization Program - Phase Four indicating agreement with management's representations regarding the overall schedule, budget and scope of Phase Four. Mr. Priestas acknowledged management's continued thoughtful and cautious planned approach through implementation and afterwards, noting diligent management of resources across concurrent projects and organizational initiatives remains critical to realize this effort timely. Looking forward, VRS risk-adverse strategies indicate full release of all features to all members is tentatively set for Fall 2021 to ensure the integrity of VRS and its processing.

**AUDIT PLAN
PROGRESS AS OF
DECEMBER 31, 2020**

Ms. Schreck reported on the progress of the annual Audit Plan as of December 31, 2020, the mid-point of the fiscal year. She noted there were some necessary changes to the planned timing of certain examinations.

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

Ms. Bolt presented the Fraud, Waste and Abuse cases investigated for the period November 1, 2020 through January 31, 2021. Ms. Bolt noted there was one case reported during the period. The case alleged abuse of short-term disability benefits and was determined to be unfounded and therefore closed.

MISCELLANEOUS UPDATES

Management’s Quarterly Travel Expense and Per Diem Report

Ms. Schreck noted management’s quarterly travel expense and per diem report was available in the meeting package for the Audit and Compliance Committee’s review.

Internal Audit’s Review of the Cost of Living Adjustments

Ms. Schreck informed the Committee that 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, 2021. 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 2021 to support the review and approval process for these adjustments.

Next Committee Meeting Date

Ms. Schreck noted the next meeting of the Committee is scheduled for June 3, 2021 at 2:00 p.m.

MEETING ADJOURNMENT

There being no further business, Senator Bell motioned to adjourn the meeting which was seconded by Mr. McWilliams.

Mr. Montgomery adjourned the meeting at approximately 2:45 p.m. upon completion of the following roll call vote:

- Senator Bell – aye
- Mr. Disharoon – aye
- Chief Garrett – aye
- Mr. Hayes – aye
- Mr. McWilliams – aye
- Ms. Seward – aye
- Mr. Montgomery – aye



Committee Chair



Secretary