
Minutes

The Audit and Compliance Committee of the Board of Trustees met on September 13, 2021 at the Virginia Retirement System located in Richmond, Virginia. The following individuals were present.

Audit and Compliance Committee Members:

Joseph W. Montgomery, Committee Chair
W. Brett Hayes, Committee Vice Chair
O'Kelly E. McWilliams, III, Board Chair

Other Members of the Board of Trustees:

John M. Bennett
William A. Garrett
Troilen G. Seward, Ed.S.

VRS Staff:

Patricia Bishop, Jennifer Schreck, Rory Badura, Judy Bolt, Jeanne Chenault, Michael Cooper, Valerie Disanto, Barry Faison, Jonathan Farmer, Joshua Fox, Krystal Groff, Curt Mattson, Matthew Priestas, Denise Rasmussen, Paula Reid, Mark Rein, Kristy Scott, Jillian Sherman and Cynthia Wilkinson

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

Department of Planning and Budget: Latosha Johnson

The meeting convened at 1:30 p.m.

WELCOME

Joseph W. Montgomery called the meeting order and welcomed everyone to the September 13, 2021 meeting of the Audit and Compliance Committee of the Virginia Retirement System Board of Trustees and noted no changes or additions to the meeting agenda.

MINUTES

Upon motion of Mr. Bennett, seconded by Mr. Hayes, the Committee approved the minutes of the Audit and Compliance Committee meeting held on June 3, 2021.

***EXIT ON THE 2020
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 are available on the VRS website.

Mr. Borgerding highlighted the review's successes including effective collaboration to produce employer resources efficiently, assurance provided through data-based testing approaches and minimal employer questions and concerns.

The Committee discussed with Ms. Bishop and Mr. Borgerding communications with employers and the nature of certain census data.

**UPDATE ON THE
2021 ANNUAL
COMPREHENSIVE
FINANCIAL REPORT
(ACFR) AUDIT**

Mr. Borgerding reported the APA is progressing as planned with the annual audit of VRS' ACFR. The audit is on schedule to be finished in advance of December 15, 2021.

AUDIT REPORTS

The Committee received two audit reports from staff.

Audit Report 439

Ms. Scott presented audit report 439 – Hosted Systems - Administration which evaluated VRS' processes for hosted systems to determine if they adequately manage vendor risks. There were three written recommendations resulting from the review.

Ms. Bishop discussed agency initiatives related to the areas covered by the audit report. The Committee discussed with Ms. Bishop IT staffing and its recent changes.

Audit Report 440

Mr. Fox presented audit report 440 – Application Controls: VNAV and Enterprise Content Management which reviewed the controls in place to protect the confidentiality, integrity and availability of VNAV and Enterprise Content Management applications' inputs, processing and outputs. Mr. Fox noted VRS has set forth a strong process for performing additional validation and authentication processes when members attempt to perform inherently risky transactions. There were no written recommendations resulting from the review.

**ACCEPTANCE OF
AUDIT REPORTS**

Upon motion of Mr. McWilliams, seconded by Mr. Bennett, the Committee accepted audit reports 439 and 440 as presented.

**MODERNIZATION
QUARTERLY REPORT
- MANAGEMENT**

Ms. Schreck introduced Ms. Rasmussen and discussed the achievement and efforts related to the completion of Phase 4.

Ms. Rasmussen presented Management's report on the Modernization Program – Phase 4. Ms. Rasmussen provided a timeline highlighting the progress and accomplishments of the Modernization Program over the past 10 years and updated the Committee on the Phase 4 progress. Ms. Rasmussen noted a status of complete for the rollout of the remaining Phase 4 myVRS features. The budget and cost updates as of June 30, 2021 were provided.

The Committee discussed the volume of transactions processed by the system and transactions processed with involvement of VRS employees.

**MODERNIZATION
QUARTERLY REPORT
– INTERNAL AUDIT**

Mr. Priestas discussed the final Internal Audit's Review of Modernization - Phase 4 indicating agreement with management's representations regarding the overall status, schedule, budget and scope of Phase 4. Mr. Priestas acknowledged management's thoughtful and deliberate efforts and that Phase 4 is complete. He noted the Phase 4 IT team will continue to provide operational support to the business during fiscal year 2022.

Ms. Bishop discussed VRS' accomplishments with the completion of Phase 4 as well as future goals and initiatives.

**ANNUAL PROGRESS
REPORTS ON
INTERNAL AUDIT**

Ms. Schreck provided the Committee with a summary of the Department's agility and accomplishments over the past year as well as an overview of the Department's initiatives and challenges for the coming year.

**Annual Report on
Internal Audit**

Ms. Schreck recognized the contributions of the internal audit team. She 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. She also discussed the Department's conformance with the IIA's *Standards*.

**Annual Report on the
Audit
Recommendation
Follow-up System -
Management**

Ms. Schreck highlighted the Annual Report on the Audit Recommendation Follow-Up System (ARFUS) for management as of June 30, 2021. Ms. Schreck noted ARFUS contained eight internal recommendations for the fiscal year, four of which were reviewed and released with no comment and one of which was reviewed and released with comment. As of June 30, 2021, there were three outstanding recommendations in ARFUS.

**Annual Report on
the Audit
Recommendation
Follow-up System –
Internal Audit**

Ms. Schreck presented the ARFUS for Internal Audit as of June 30, 2021, noting it was reviewed and released without comment, leaving no recommendations outstanding as of June 30, 2021.

**Annual Reports on
FY2021 Audit Plan
and FY2021-FY2024
Long Range Plan
Status**

Ms. Schreck then presented the annual audit plan results for the fiscal year ended June 30, 2021, along with the status of the long-range audit 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.

**PROPOSED FY2022
ANNUAL AUDIT
PLAN**

Ms. Schreck then presented the proposed audit plan for fiscal year 2022, noting it is derived from the long-range plan, as this is the second year of the long-range plan period.

**RBA: Approval of
FY2022 Annual
Audit Plan**

Request for Board Action: *The VRS Board of Trustees approves the proposed FY2022 Annual Audit Plan.*

Upon motion of Mr. McWilliams, seconded by Mr. Hayes, the Committee approved the proposed Annual Audit Plan for fiscal year 2022 and recommended that the Board approve the plan as well.

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

Ms. Schreck noted there were no Fraud, Waste and Abuse cases reported for the period May 1, 2021 through July 31, 2021.

**MISCELLANEOUS
UPDATES**

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.

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, 2021, noting this information was shared with the Administration and Personnel Committee for their September 2021 meeting to support the Board's actions regarding the Gain-sharing Bonus for Administrative staff.

Review of VRS Investment Incentive Compensation

Ms. Schreck disclosed the results of Internal Audit's review of the Investment Department's 2021 Incentive Compensation and noted they were provided to the Administration and Personnel Committee for their September 2021 meeting to support the Board's actions regarding Investment Professionals' compensation.

Meeting Dates for Calendar Year 2022

Ms. Schreck discussed the confirmed meeting dates for 2022 included in the meeting book.

Finally, Ms. Schreck noted the next meeting of the Committee is scheduled for Monday, December 6, 2021 at 2:00 p.m.

**CLOSED SESSION
MOTION**

Mr. Hayes moved, with a second by Mr. McWilliams, 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 evaluate the performance of the current VRS Internal Audit Director, pursuant to the personnel exemption at Virginia Code § 2.2-3711(A)(1).

The Committee approved the motion upon the following roll call vote:

Mr. Bennett – aye
Chief Garrett - aye
Mr. Hayes – aye
Mr. McWilliams – aye
Ms. Seward – aye
Mr. Montgomery – aye

CERTIFICATION

Upon return to the open meeting, Mr. Hayes moved, with a second by Mr. Bennett, 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. Bennett – aye
Chief Garrett - aye
Mr. Hayes – aye
Mr. McWilliams – aye
Ms. Seward – aye
Mr. Montgomery – aye

**AUDIT DIRECTOR'S
PERFORMANCE
REVIEW**

Upon exiting from the closed session, the Committee indicated they would like to make a recommendation for approval to the full Board.

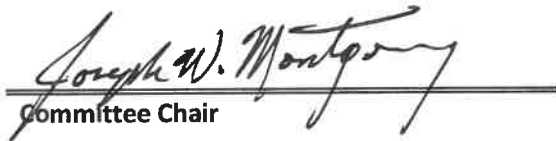
***RBA: Approval of
Performance
Bonus for the
Audit Director***

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

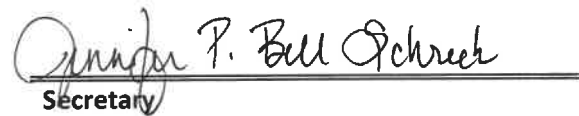
Upon motion of Mr. Hayes, seconded by Chief Garrett, the Committee approved the performance bonus for the Audit Director and recommended approval by the Board as well.

***MEETING
ADJOURNMENT***

There being no further business, upon motion by Mr. McWilliams, seconded by Mr. Bennett, the Committee agreed to adjourn the meeting at approximately 3:20 p.m.



Committee Chair



Secretary