
Minutes

The Audit and Compliance Committee of the Board of Trustees met on September 13, 2022, at the Virginia Retirement System located in Richmond, Virginia. The following individuals were present.

Audit and Compliance Committee Members:

Joseph W. Montgomery, Committee Chair, Board Vice Chair
W. Brett Hayes, Committee Vice Chair
A. Scott Andrews, Board Chair

Other Members of the Board of Trustees:

J. Brandon Bell, II – attended remotely from Roanoke, Virginia under § 2.2-3708.3(B)(3)
John M. Bennett
Troilen G. Seward, Ed.S.

VRS Staff:

Patricia Bishop, Jennifer Schreck, Judy Bolt, Jeanne Chenault, Michael Cooper, Barry Faison, Laurie Fennell, Joshua Fox, Krystal Groff, Robert Irving, Curt Mattson, Gregory Oliff, Matthew Priestas, Steven Ramirez, Paula Reid, Kristy Scott, Leslie Weldon and Cynthia Wilkinson.

Guests:

Zach Borgerding and Erin Rodriguez, Auditor of Public Accounts

The meeting convened at 2:00 p.m.

Opening Remarks

Mr. Montgomery called the meeting to order and welcomed everyone to the September 13, 2022, meeting of the Audit and Compliance Committee. After noting that meeting was being held in accordance with Section 2.2-3708.3(B)(3) of the *Code of Virginia*, Mr. Montgomery completed a roll call for attendance purposes:

Mr. Hayes: Present
Mr. Andrews: Present
Senator Bell: Present
Mr. Bennett: Present
Ms. Seward: Present
Mr. Montgomery: Present

Approval of Minutes

Upon motion of Mr. Andrews, seconded by Mr. Hayes, the committee approved the minutes of the Audit and Compliance Committee meeting held on June 16, 2022 with the following roll call vote:

Mr. Hayes: Aye
Mr. Andrews: Aye
Senator Bell: Aye
Mr. Bennett: Aye
Ms. Seward: Aye
Mr. Montgomery: Aye

Audit Reports

The committee received two audit reports from staff.

Audit Report 445 – Disability Retirements

Ms. Bolt presented the results of Internal Audit's review of Disability Retirements. The review determined disability retirement processes are operating as expected and disability retirement payments are valid, accurate and complete. There were no recommendations resulting from the review. The committee discussed current trends for disability retirement applications.

Audit Report 446 – Fixed Income and Securities Lending Programs

Mr. Fox presented the results of Internal Audit's review of the Fixed Income and Security Lending Programs. The review determined VRS provides appropriate oversight and monitoring of the programs. There were no recommendations resulting from the review.

Acceptance of the Audit Reports

Upon motion of Mr. Bennett, seconded by Mr. Andrews, the committee accepted audit reports 445 and 446 as presented, with the following roll call vote:

Mr. Hayes: Aye
Mr. Andrews: Aye
Senator Bell: Aye
Mr. Bennett: Aye
Ms. Seward: Aye
Mr. Montgomery: Aye

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 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 Institute of Internal Auditors' *Standards* and noted that the departmental charter had been reviewed for potential updates and none were deemed necessary.

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, 2022. Ms. Schreck noted ARFUS contained ten internal recommendations, one of which was reviewed and released. As a result, there were nine outstanding recommendations in ARFUS which would be monitored during FY 2023.

Annual Reports on FY 2022 Audit Plan and FY 2021 - FY 2024 Long Range Plan Status

Ms. Schreck then presented the annual audit plan results for the fiscal year ended June 30, 2022, 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 FY2023 Annual Audit Plan

Ms. Schreck then presented the proposed audit plan for FY 2023, noting it is derived from the long-range plan, and represents the third year of the long-range audit plan period.

RBA: Approval of the FY2023 Annual Audit Plan

Request for Board Action: *The VRS Board of Trustees approves the proposed FY2023 Annual Audit Plan.*

Upon motion of Mr. Andrews, seconded by Mr. Bennett, the committee approved the proposed Annual Audit Plan for fiscal year 2023 and recommended that the Board approve the plan as well with the following roll call vote:

Mr. Hayes: Aye
Mr. Andrews: Aye
Senator Bell: Aye
Mr. Bennett: Aye
Ms. Seward: Aye
Mr. Montgomery: Aye

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

Ms. Bolt shared there was one Fraud, Waste and Abuse case reported for the period May 1, 2022 through July 31, 2022. The case was related to long term disability benefits, was unsubstantiated and closed.

Miscellaneous UpdatesReview 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, 2022, noting this information was shared with the Administration and Personnel Committee for their September 2022 meeting to support the Board's actions regarding the gain-sharing Bonus for Administrative staff.

Review of VRS Investment Variable Performance Program

Ms. Schreck disclosed the results of Internal Audit's review of the Investment Department's 2022 compensation calculations and noted the results would also be shared with the Administration and Personnel Committee at their September 2022 meeting to support the Board's actions regarding investment professionals' compensation.

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 Audit and Compliance Committee's review.

Next Committee Meeting Date

Ms. Schreck noted the next meeting of the committee is scheduled for December 8, 2022, at 10:00 a.m. Ms. Schreck noted that board and committee members will be polled to determine board and committee meeting dates for calendar year 2023.

Closed Session Motion

Mr. Hayes 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).

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

Mr. Hayes: Aye
Mr. Andrews: Aye
Senator Bell: Aye
Mr. Bennett: Aye
Ms. Seward: Aye
Mr. Montgomery: Aye

Certification

Upon return to the open meeting, Mr. Hayes moved, with a second by Mr. Andrews, 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. Hayes: Aye
Mr. Andrews: Aye
Senator Bell: Aye
Mr. Bennett: 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 Audit Director

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

Upon motion of Mr. Bennett, seconded by Mr. Andrews, the committee approved the performance bonus for the audit director and recommended approval by the Board as well, with the following roll call vote:

Mr. Hayes: Aye
Mr. Andrews: Aye
Senator Bell: Aye
Mr. Bennett: Aye
Ms. Seward: Aye
Mr. Montgomery: Aye

Meeting Adjournment

There being no further business, upon motion by Mr. Andrews, seconded by Ms. Seward, the Audit and Compliance Committee adjourned the meeting at approximately 3:12 p.m. with the following roll call vote:

Mr. Hayes: Aye
Mr. Andrews: Aye
Senator Bell: Aye
Mr. Bennett: Aye
Ms. Seward: Aye
Mr. Montgomery: Aye



Committee Vice Chair



Secretary