
Minutes

The Audit and Compliance Committee of the Board of Trustees met on September 20, 2023, at the Virginia Retirement System located in Richmond, Virginia. The following individuals were present.

Audit and Compliance Committee Members:

Joseph W. Montgomery, Committee Chair
A. Scott Andrews, Board Chair

Other Members of the Board of Trustees:

Jessica L. Hood

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Judy Bolt, Jeanne Chenault, Michael Cooper, Joshua Fox, Krystal Groff, Robert Irving, Curt Mattson, David Porter, Matthew Priestas, Paula Reid, Mark Rein, Kristy Scott, Leslie Weldon and Cynthia Wilkinson.

Guests:

Zach Borgerding, Gary Gammon and Erin Shell, Auditor of Public Accounts

The meeting convened at approximately 10:00 a.m.

Opening Remarks

Mr. Montgomery called the meeting to order and welcomed everyone to the September 20, 2023, meeting of the Audit and Compliance Committee and noted no changes or additions to the meeting agenda.

Approval of Minutes

Upon motion of Mr. Andrews, seconded by Ms. Hood, the committee approved the minutes of the Audit and Compliance Committee meeting held on June 13, 2023.

Exit on the 2022 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. All resources for employers are available on the VRS website.

Update on the 2023 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, 2023. He noted currently there are no formal findings and provided an update on the audit's staffing.

Internal Audit Assurance ReviewsAgency Performance Outcomes and Operational Measures

Mr. Fox reported on Internal Audit's review of the Agency Performance Outcomes and Operational Measures for the fiscal year ended June 30, 2023, noting the review's results supported the representations set forth by management.

VRS' Investment Incentive Compensation

Mr. Fox disclosed the results of the Internal Audit department's review of the Investment department's proposed 2023 incentive compensation calculations for the fiscal year ended June 30, 2023. The review found all investment professionals met the eligibility requirements, and that both the proposed aggregate and individual payment amounts were accurately computed in accordance with the Investment Professionals' Pay Plan.

Annual Progress Reports on Internal AuditAnnual 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 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, 2023. Ms. Schreck noted ARFUS contained eleven recommendations and four were represented as implemented, one of which was issued by the APA. Three recommendations were released, one with comment. Ms. Schreck noted the APA recommendation will remain in ARFUS until released by the APA. As a result, there were seven outstanding recommendations in ARFUS which would be monitored during FY 2024.

Annual Reports on FY 2023 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, 2023, 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. She acknowledged planning activities for the next long range audit plan would be commencing later this year.

Proposed FY 2024 Annual Audit Plan

Ms. Schreck then presented the proposed audit plan for FY 2024, noting it is derived from the long-range plan and represents the fourth year of the long-range audit plan period.

RBA: Approval of the FY 2024 Annual Audit Plan

Request for Board Action: *The VRS Board of Trustees approves the proposed FY 2024 Annual Audit Plan.*

Upon motion of Mr. Andrews, seconded by Ms. Hood, the committee approved the proposed Annual Audit Plan for fiscal year 2024 and recommended that the Board approve the plan as well.

Miscellaneous Updates

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

Ms. Schreck shared there were no Fraud, Waste and Abuse cases reported for the period May 1, 2023, through July 31, 2023.

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 2024

Ms. Schreck provided an update on the progress of determining the calendar year 2024 VRS Board and committee meeting dates, noting committee members would be receiving a survey.

Next Committee Meeting Date

Ms. Schreck noted the next meeting of the committee is scheduled for December 7, 2023, at 10:00 a.m.

Audit Report

The committee received the following audit report:

Audit Report 454 – Human Resources and Employee Payroll

Ms. Scott presented the results of Internal Audit's review of Human Resources and Employee Payroll. The review determined sufficient controls are in place to support human resources and employee payroll processes, and overall, associated controls are operating as expected. There were no recommendations resulting from the review.

Closed Session Motion

Mr. Andrews moved, with a second by Ms. Hood, 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 (i) for the purpose of discussing Audit Report 453 – Logical and Physical Access pursuant to

the exemption contained in Virginia Code § 2.2-3711(A)(19) and (ii) to evaluate the performance of the VRS Internal Audit director, pursuant to the personnel exemption at Virginia Code § 2.2-3711(A)(1).

Certification

Upon return to the open meeting, Mr. Andrews moved, with a second by Ms. Hood, 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
Ms. Hood: Aye
Mr. Montgomery: Aye

Acceptance of the Audit Reports

After exiting from the closed session, upon motion of Ms. Hood, seconded by Mr. Andrews, the committee accepted audit reports 453 and 454 as presented.

Audit Director's Performance Review

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 payable on October 16, 2023.*

Upon motion of Mr. Andrews, seconded by Ms. Hood, 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. Andrews, seconded by Ms. Hood, the Audit and Compliance Committee adjourned the meeting at approximately 11:15 a.m.



Committee Chair



Secretary