



Audit and Compliance Committee Meeting

1111 E. Main Street
Third Floor Board Room

Monday, 12/6/2021
2:00 - 4:00 PM ET

- I. Welcome
- II. Minutes of the September 13, 2021 Meeting
 - Meeting Minutes - Page 2*
- III. Matters for Discussion with the Auditor of Public Accounts
 - Matters for Discussion with the APA - December 2021 - Page 9*
 - APA VRS Board Update - December 2021 - Page 11*
 - A. Exit on VRS 2021 Annual Comprehensive Financial Report
 - B. Entrance on the 2021 Employer Assurances Review
- IV. Audit Report
 - A. Report 441: Retiree Payroll and Changes
 - Audit Report 441 - Page 39*
- V. Quarterly Report on Fraud, Waste and Abuse Hotline Cases
 - Fraud Waste and Abuse Report - August 1, 2021 through October 31, 2021 - Page 57*
- VI. Quality Assurance and Improvement Program Results
 - QAIP Results - FY2021 - Page 61*
- VII. Miscellaneous Updates
 - A. Management's Quarterly Travel Expenses and Per Diem Report
 - Management's Travel Expense and Per Diem Report - Page 64*
 - B. Next Scheduled Meeting Date: Tuesday, March 29, 2022 at 2:00 p.m.

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

Matters for Discussion with the Auditor of Public Accounts

Matters for Discussion with the APA

Exit on the 2021 VRS ACFR Audit

While the Auditor of Public Accounts (APA) anticipates completing their review of VRS' Annual Comprehensive Financial Report (ACFR) on December 10th, the majority of their work for VRS is complete and they plan to exit with the Committee on December 6th. We are not aware of any formal, written audit recommendations for the audit; however, at the time of compilation of these materials, the APA's examination was in its final stages and certain observations may still be under consideration.

QUESTIONS POSED TO EXTERNAL AUDITORS WHEN EXITING

For reference purposes, a list of example questions posed to external auditors when exiting is set forth below. However, exit meetings with the APA are typically informal, with questions posed as the members of the Committee see fit.

- Are there any unresolved accounting or auditing problems?
- Were there any significant adjustments to the accounting records?
- Were there any significant accounting or auditing problems encountered during the examination?
- Were there any significant changes in accounting policies or principles during the year?
- Are there any major year-to-year fluctuations in the amounts reported in the financial statements? What were the causes of the changes?
- In your review of other documents prepared by management (e.g., Department of Accounts ACFR submissions), did you identify any inconsistencies or material misstatements of fact?
- Were there any indications of financial weaknesses, which should be addressed by the Committee?
- Did you detect any material errors, fraud, illegal acts or significant deficiencies or material weaknesses in the internal control system?
- Are there any pertinent comments concerning operations in general?
- Did you review information furnished to others (e.g., actuaries)?
- Did the quality and quantity of personnel involved in the preparation and control of financial information appear adequate? Did personnel seem to be fulfilling their responsibilities in a conscientious and professional manner?
- Was the level of cooperation received from management and internal audit during the examination appropriate?
- Did you have enough time to complete all phases of your audit?

APA Exit Materials

The APA has provided a series of slides highlighting the results of the audit, addressing certain required communications and discussing emerging areas of focus.

APA 2021 Report on Internal Control

The APA's companion Report on Internal Control and Compliance issued in conjunction with its opinion on the financial statements will be provided to the Committee and Board of Trustees once finalized. Given the expected completion date for fieldwork, the APA anticipates releasing their report in late December or early January.

VRS 2021 ACFR

Due to the voluminous nature of VRS' ACFR, it is not included in the meeting materials. An unaudited draft report was provided to the Committee ahead of this meeting. Once finalized, the 2021 ACFR will be found on VRS' website at the following link, along with prior year annual reports dating back to 2002:

[Publications | Virginia Retirement System \(varetire.org\)](#)

Entrance on the VRS 2021 Employer Assurances Audit

The APA will entrance with the Committee on their 2021 Employer Assurances Audit. Materials relating to the entrance begin on page 16 of their presentation, which immediately follows this document. A copy of their engagement memorandum, which details the staffing, timing, scope and reports, as well as the terms of the engagement, will be discussed with management and provided to members of the Committee at a later date.

For reference purposes, a list of some types of questions posed to external auditors when entrancing is provided below. However, entrance meetings with the APA are typically informal, with questions posed as the Committee deems necessary.

QUESTIONS POSED TO EXTERNAL AUDITORS WHEN ENTRANCING

- Do you anticipate any substantial changes in your audit approach, scope, standards, procedures, resources allocated or other circumstances which may significantly affect your examination?
- Are there any significant changes in generally accepted accounting principles or other changes which will significantly impact your examination, our financial reporting or your opinion thereon?
- Have you identified any possible changes in the character of VRS' activities? Have these changes, if any, affected your audit approach or scope?
- Are there any special areas in which you expect to focus?
- Are there any potential restrictions on your audit scope or other matters that could affect your audit opinion?
- Do you foresee any significant problems and, if so, how will they be handled?
- Are there any issues the Committee needs to be aware of or are there any areas where you require special assistance or cooperation from VRS?

Scope

As was done for 2020, the scope of work for this year's Employer Assurances Audit will include the reporting requirements for Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions (as amended) and GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (as amended).

Engagement Memo

A more detailed document defining the terms of the audit engagement will be discussed with management and provided to members of the Committee at a later date.



2021 VRS Financial Statement Audit Update

December 6, 2021

Zach Borgerding

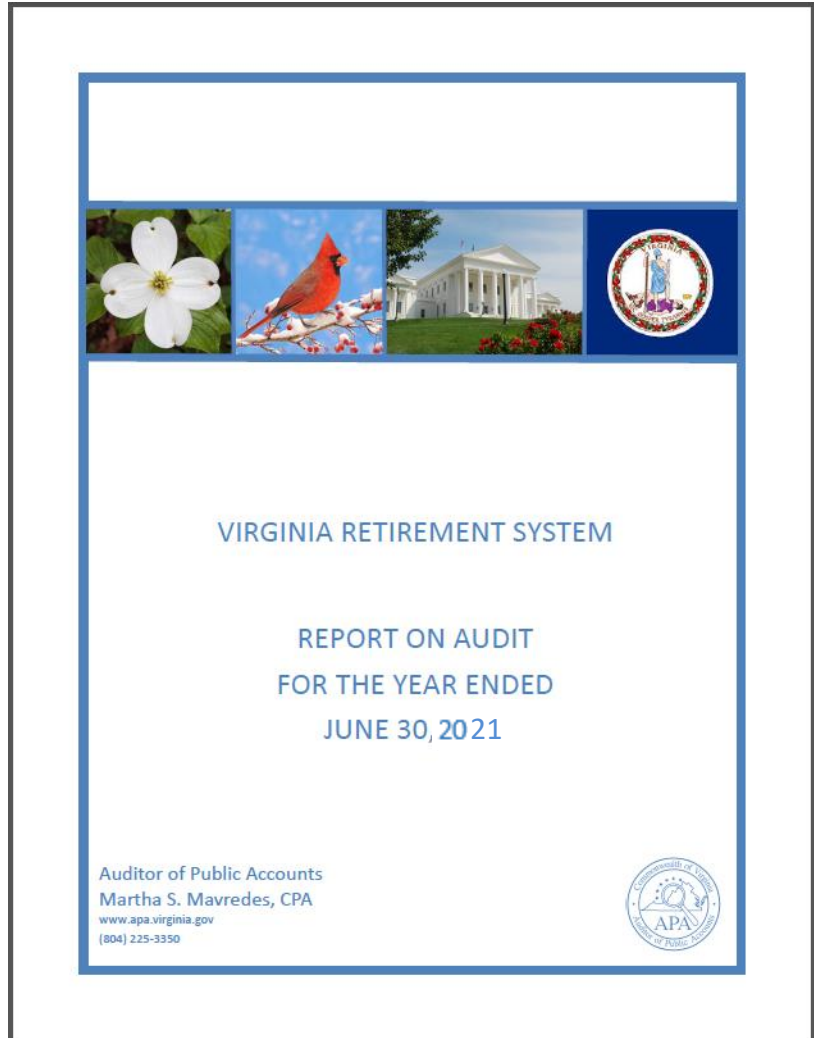
Auditor of Public Accounts

Audit Status as of December 1st

- Audit work is in final stage
- All adjustments currently proposed have been addressed by management
- Anticipated opinion date is December 10, 2021
- Anticipated issuance of report on internal controls and compliance is late December or early January

Report on Internal Controls

- **Results of Internal Control and Compliance Testing as of Dec. 1st**
 - No written findings in prior year
 - No current year significant deficiencies or material weaknesses identified
 - No instances of non-compliance identified



Fraud and Illegal Acts

- Audit team assessed the risk of fraud through collaborative brainstorming process
- Audit team conducted interviews of employees throughout the agency asking about known or suspected fraud and fraud opportunities
- Audit team exercised professional skepticism throughout engagement
- **No fraud or illegal acts were identified as a result of the audit**

Significant Accounting Policies and Estimates

- No significant changes in accounting policies (See Note 1 in the Annual Report)
- Significant estimates include:
 - Fair value measurements
 - Actuarially determined amounts
- Audit team evaluated estimates and found them to be reasonable and fairly presented

Substantive Audit Approach to Fair Value

Evaluation of pricing methodologies used by master custodian (BNY Mellon)

Fair Value Levels 1 & 2

Fair Value Level 3 & NAV

Analytical procedures

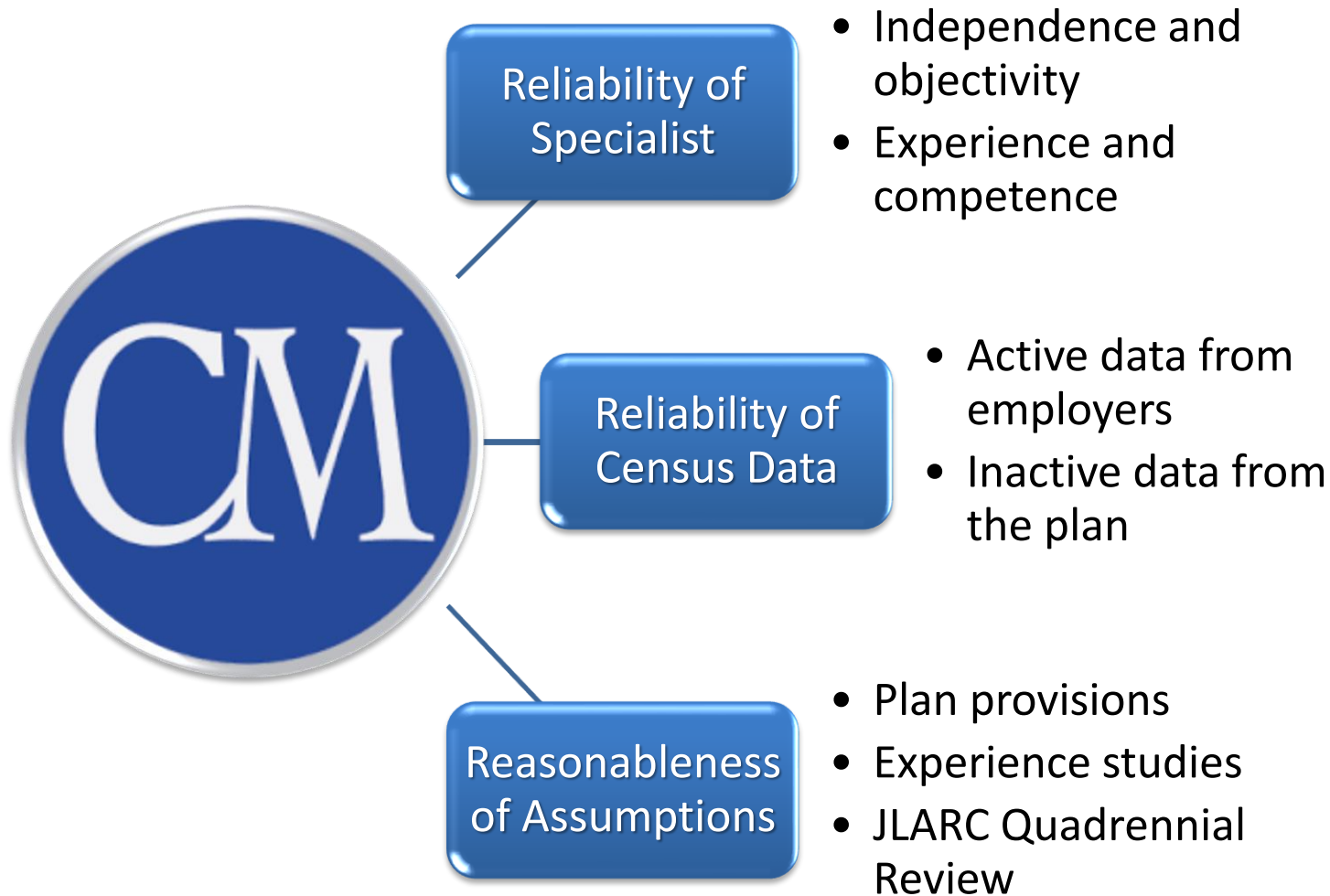
Samples to compare pricing to market quotes or secondary pricing vendors

Reviewed audited financials and manager statements

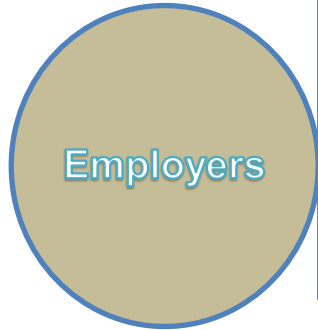
Reperformed roll-forward procedures as applicable

- See Note 5 in the VRS Annual Report for detailed information relating to fair value

Audit Approach to Actuarial Amounts



Census Data Responsibilities



- Responsible for accuracy of active member data
- CPA firms examine census data for local government



- Responsible for accuracy of inactive member data
- Ensures confidentiality, integrity, and availability of all census data in its custody
- Ensures accurate accumulation of data to the actuary



- Audits active member data for state employers
- Reviews active member data results for local government
- Audits inactive member data at the plan
- Audits plan's accumulation of data to the actuary

Employer Audit Results - Active Member Data

Local Government

- 363 examination reports on local government data received as of Nov. 30th
- 100% include a clean opinion over the accuracy of the data
- 23 (6%) reporting minor errors in the data

State Employers

- 15 audits have reported results as of Nov. 30th
- 4 exceptions out of at least 2,000 data elements tested for over 475 members
- 3 deficiencies reported involving untimely removal of VNAV access for separated employees

- See Notes 2 and 3 and Actuarial Section in VRS Annual Report for additional information on actuarial amounts and assumptions

Additional Audit Results

- Our audit identified:
 - Proper treatment of accounting principles
 - No material alternative accounting treatments
 - No significant disagreements with management



Future Focus: Information Systems

Due to ongoing information system initiatives, we will continue to consider the following:

- Cardinal Human Capital Management (HCM) Implementation (FY21/22)
- Replacement of General Ledger System for MUNIS (FY21/22)
- Online Retirements (FY21/22)
- Cloud Data Center Migration (FY24)

Future Focus: Legislative Agenda

We will continue to monitor the following:

- De-coupling hybrid contribution rates (FY25)
- Potential changes in benefit provisions
- Potential non-employer contribution(s)
- Creation of new participating employers
 - Virginia Passenger Rail Authority (FY22)
 - Secretary of Labor (FY22)
 - Cannabis Authority (if reenacted, FY24)

Future Focus: Long-Term Rate of Return

- Long-term expected rate of return used as discount rate for all plans other than Line of Duty
- The General Assembly has followed its funding plan for several years and is currently funding 100 percent of the actuarially recommended rates
- Any future decision by the Commonwealth to not fully fund pension or OPEB plans may:
 - Jeopardize the discount rate used in the actuarial valuation
 - Require the use of the risk-free rate of return as the discount rate at the cross-over point which may materially increase liabilities

Future Focus: New GASB Statements

- GASB 87 – *Leases* (FY22): May require time to implement, but effect is unlikely to be material
- Implementation time and effect is unlikely to be material
 - GASB 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period* (FY22)
 - GASB 92 – Omnibus 2020 (FY22)
 - GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans (FY22)
 - GASB 91 – Conduit Debt Obligations (FY23)
 - GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements (FY23)
- GASB 96 – *Subscription-Based Information Technology Arrangements* (FY23): Implementation time will depend on whether VRS has applicable arrangements - effect is unlikely to be material

Future Focus: New ASB Statements

- **SAS No. 134 – Auditor Reporting and Amendments**
 - Opinion to come first
 - More boilerplate language on audit responsibilities
 - Key Audit Matters (only when engaged to report)
- **Other Auditing Standards Effective for FY2022**
 - SAS 135 – Omnibus Statement on Auditing Standards
 - SAS 136 – Employee Benefit Plans Subject to ERISA
 - SAS 137 – Auditor’s Responsibilities Relating to Other Information
 - SAS 138 – Amendments to the Description of the Concept of Materiality
 - SAS 139 – Amendments to AU-C Sections 800, 805, and 810
 - SAS 140 – Amendments to AU-C Sections 725, 730, 930, 935, and 940

Employer Audit Assurances

Employer Resources to Comply with GASB 68 and 75

AUDIT ENGAGEMENT ENTRANCE

Audit Logistics

- Timing:
 - Audit Period: July 1, 2020 – June 30, 2021
 - Audit Timing: January, 2022 – June, 2022
- Audit Team:
 - Zach Borgerding (Project Manager)
 - Brian Deveney (In-Charge)
 - Erin Rodriguez (Co-In-Charge)
 - Audit Staff
- Timing of staff auditors anticipated to align with planned availability of actuarial schedules

Our Team

Zach Borgerding



- Director
- 13 years experience
- 6 years experience with VRS
- CPA, CISA and CGFM
- Specialty Focus: Reporting and Standards

Brian Deveney



- Supervisor
- 8 years experience
- 3 years experience with VRS
- CPA, CISA, and Masters of Accountancy
- Specialty Focus: Reporting and Standards

Erin Rodriguez



- Senior
- 3 years experience
- 3 years experience with VRS
- MBA
- Specialty Focus: Data Analysis

Theresa Murray



- Auditor
- 2 years experience
- 3 months experience with VRS
- CPA
- Specialty Focus: Reporting and Standards

Danielle Tolford



- Auditor
- 1 year experience
- 3 months experience with VRS
- Specialty Focus: Data Analysis

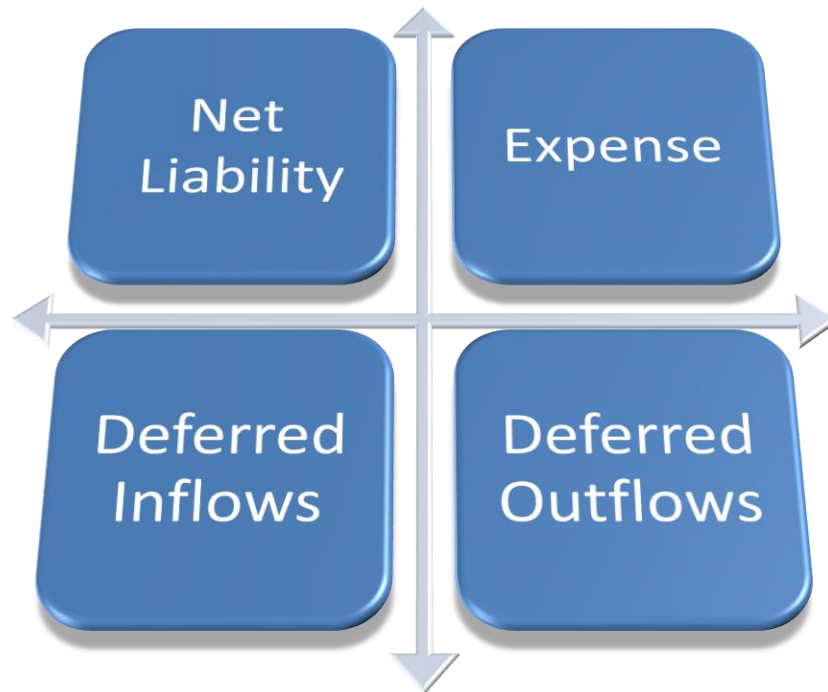
Bill Clymer



- Associate Auditor
- 6 months experience
- 6 months experience with VRS
- Specialty Focus: Reporting and Standards

Cost Sharing APA Audit Assurances

- Provide opinion on Pension/OPEB amounts at plan level
- Provide opinion on employer allocation percentages



Employer Code	Employer	Employer Contributions	Employer Allocation Percentage
40100	ACCOMACK COUNTY SCHOOL BOARD	\$ 3,023,764	0.35461%
40101	ALBEMARLE COUNTY SCHOOLS	9,491,479	1.11311%
40102	ALLEGHANY COUNTY SCHOOL BOARD	1,435,188	0.16831%
40103	AMELIA COUNTY SCHOOL BOARD	903,338	0.10594%
40104	AMHERST COUNTY SCHOOL BOARD	2,704,879	0.31721%
40105	APPOMATTOX COUNTY SCHOOL BOARD	1,176,909	0.13802%
40106	ARLINGTON PUBLIC SCHOOLS	29,095,514	3.41217%
40107	AUGUSTA COUNTY SCHOOL BOARD	6,291,642	0.73785%
40108	BATH COUNTY SCHOOL BOARD	498,809	0.05850%
40109	BEDFORD COUNTY SCHOOL BOARD	5,682,514	0.66642%
40110	BLAND COUNTY SCHOOL BOARD	483,108	0.05666%
40111	BOTETOURT COUNTY SCHOOLS	3,106,162	0.36427%
40112	BRUNSWICK COUNTY PUBLIC SCHOOLS	1,137,210	0.13337%
40113	BUCHANAN COUNTY SCHOOL BOARD	1,757,633	0.20613%
40114	BUCKINGHAM COUNTY SCHOOL BOARD	1,213,826	0.14235%

Cost Sharing Plans under Audit

- Teacher's Pension Plan
- State Pension Plan
- Teacher's Retiree Health Insurance Credit
- State Retiree Health Insurance Credit
- Group Life Insurance (GLI)
- Virginia Sickness and Disability Program (VSDP)
- Line of Duty Act (LODA)
- Virginia Local Disability Program (VLDP) will not be audited due to immateriality

Agent Multiple Plan APA Assurances

Provide opinion on proper accumulation of census data by the plan

Provide opinion on fair presentation of changes in fiduciary net position by employer

Net liabilities are the residual balance of total liabilities and fiduciary net position

Total Pension Liability

Less: Fiduciary Net Position

Net Pension Liability

Total OPEB Liability

Less: Fiduciary Net Position (FNP)

Net OPEB Liability

Agent Multiple Plans under Audit

- Political Sub-division Pension Plans
- Political Sub-division Retiree Health Insurance Credit
- The following Retiree Health Insurance Credit Plans will not be audited due to immateriality:
 - Constitutional Officers
 - Registrars
 - Social Services Local Employees

Examination Opinion – Census Data

- Examination reports will include management assertion defining significant census data fields accumulated to the actuary
- Two separate reports and opinions will be issued for pension and OPEB census data
- Examination opinions will attest to management's assertion
- Employer information may be provided in two batches – pensions then OPEBs

Internal Controls Report

- We will not issue an internal controls report for this engagement
- Any significant internal control deficiencies will be reported to the Committee in a timely manner and included in the internal controls report for the FY 2022 financial statement audit

Audit Billing for Employer Assurances

- APA will bill VRS for work performed in accordance with existing memorandum of understanding (MOU)
- MOU instructs APA to bill for actual hours worked not to exceed \$259,500 unless mutually agreed to in advance
- APA has not previously exceeded the maximum and does not anticipate excesses for fiscal year 2021

Terms of the Engagement

A more detailed document defining the terms of the audit engagement will be discussed with management and provided to members of the Committee at a later date.

Intended Use Statement

This presentation is intended solely for the information and use of those charged with governance and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Audit Report



INTERNAL AUDIT

Report No. 441

Retiree Payroll

April 1, 2020 through March 31, 2021

THIS REPORT IS INTENDED SOLELY FOR THE USE OF THE VRS BOARD OF TRUSTEES AND THE MANAGEMENT OF VRS AND IS NOT INTENDED FOR OTHER PURPOSES.



TRANSMITTAL LETTER
November 4, 2021

Dear Members of the Audit and Compliance Committee,

We have completed audit number 441, "Retiree Payroll." The main purpose of our audit was to determine that processes associated with the monthly retiree payroll and changes to it as well as the annual generation and distribution of the related 1099-R tax data and forms are working as expected.

We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for the conclusions based upon our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report was distributed to the VRS Director and members of management for review and comment. As our review did not result in a written recommendation, management did not provide a written response but expressed substantial agreement with our report.

We appreciate the cooperation and assistance of the Benefit Disbursements and Information Technology Departments throughout this audit.

Respectfully Submitted,

A handwritten signature in black ink that reads 'Jennifer P. Bell Schreck'.

Jennifer P. Bell Schreck, CPA, CISA, PMP
Audit Director

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EXECUTIVE SUMMARY

We conducted an examination of the Retiree Payroll processes of the Virginia Retirement System (VRS) for the period April 1, 2020 through March 31, 2021. Our review determined:

- Processes associated with the monthly retiree payroll and annual generation and distribution of 1099-R data and tax forms are working as expected;
- Changes to members' monthly payroll payments are valid and accurate; and
- Controls are in place to protect the confidentiality, integrity and availability of interfaces pertinent to the monthly retiree payroll and annual generation and distribution of 1099-R tax forms.

Our review focused exclusively on the VNAV processes for and changes to the existing retiree payroll, interfaces with third parties related to the monthly retiree payroll and annual generation and distribution of 1099-R tax forms.

The review also included a limited review of interfaces with the general ledger system and excluded new additions to the retiree payroll as both areas will be considered further through separate examinations at a later date.

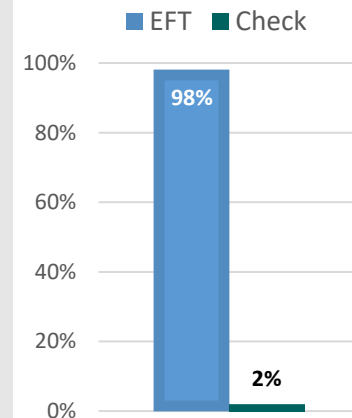
Further, overarching application controls supporting VNAV were recently addressed in a separate engagement known as the Application Controls: VNAV and Enterprise Content Management Systems (Report No. 440). Therefore, application controls tested as a part of Report No. 440 were excluded here. Finally, the general controls supporting VNAV and interfaces were not in scope as they are reviewed in a separate engagement currently underway known as the General Controls Review over VRS' Operating Environment Audit.

While there are no written recommendations resulting from our review, we identified limited individual data quality scenarios to be resolved and shared with management an opportunity to consider relative to the protection of member data which they agreed with and moved quickly to address.

SNAPSHOT

Monthly disbursements for the audit period totaled **\$5.4 billion** with a total of **2,715,100 payments** issued, the **majority** of which were **made via** electronic funds transfer (**EFT**).

PAYMENT BY TYPE



AUDIT ASSESSMENT

Monthly retiree payroll processes are working as expected and changes to retirees' payroll disbursements are valid and accurate.

Written Recommendations: 0

BACKGROUND

INTRODUCTION

There are two types of disbursements for retiree payroll, recurring and non-recurring. The recurring payroll processes once a month. Non-recurring payrolls occur twice per week and include benefits that are outside of the recurring monthly payroll such as refunds, minor adjustments, retroactive payments, PLOPs (partial lump-sum option payments), etc. The audit of Retiree Payroll centered on the recurring payroll process and changes to established retirees' monthly benefit during the period under examination.

PAYROLL DISBURSEMENT PROCESS

Disbursement Scheduling

Monthly benefit payments are disbursed to members on the 1st of the month or on the last business day of the previous month if the first of the month falls on a non-business day. Monthly payroll disbursements are scheduled out for the entire fiscal year in VNAV. A workflow process ensures the accuracy of the dates and approval of the schedule. If necessary and with appropriate approvals, disbursement personnel have the ability to cancel, add or change a monthly retiree payroll.

Payroll Validation Activities

Pre-Disbursement Payroll

At migration, a pre-disbursement payroll was created to support ensuring the accuracy and *integrity* of the payroll prior to the actual monthly run. Through collaboration and *teamwork*, the Information Technology (IT) team and management enhanced this activity from a three to seven business day process prior to the final monthly retiree payroll disbursement run. Today, the pre-disbursement is run each day for seven business days ahead of the final disbursement run to support the disbursement reconciliation and payment validation process.

Disbursement Reconciliation

Reconciliation queries were created by the technology area during migration to help ensure the *integrity* of the monthly payroll by identifying changes (which include additions, deletions, suspended records and changes in dollars) and assessing their accuracy. The original

VRS migrated processing its monthly beneficiary payroll from its legacy system to VNAV in April 2019.

reconciliation reviewed all changes from the last legacy system processed payroll to the first VNAV payroll and has continued month-to-month, comparing the previous payroll to the next.

These reconciliations were performed by IT staff at go-live in 2019 and through most of calendar year 2020 when the responsibility for the review began transitioning to the business. Presently, IT staff perform only minor parts of the reconciliations, which include evaluation of known issues, as well as federal and state taxes, health insurance credits, health insurance premiums and taxable and non-taxable base benefit amounts.

If an error is discovered during the reconciliation, the appropriate business unit is notified to assist in its resolution. VRS works to correct identified issues prior to running the actual monthly payroll disbursement; however, if this is not possible, they suspend the member from the payroll disbursement. Once the error is corrected, the member will receive a check for the month through the non-recurring payroll process. Future payments will occur as usual through the recurring payroll.

Disbursement Processing

On the scheduled disbursement run day, the pre-disbursement is reviewed one last time, reconciliations are run and reviewed, the pre-disbursement is approved and the disbursement is locked. The pre-disbursement process freezes the payroll from any other changes being made and the approval kicks off the running of the payroll. Any other changes approved after the disbursement is locked will not go into the disbursement.

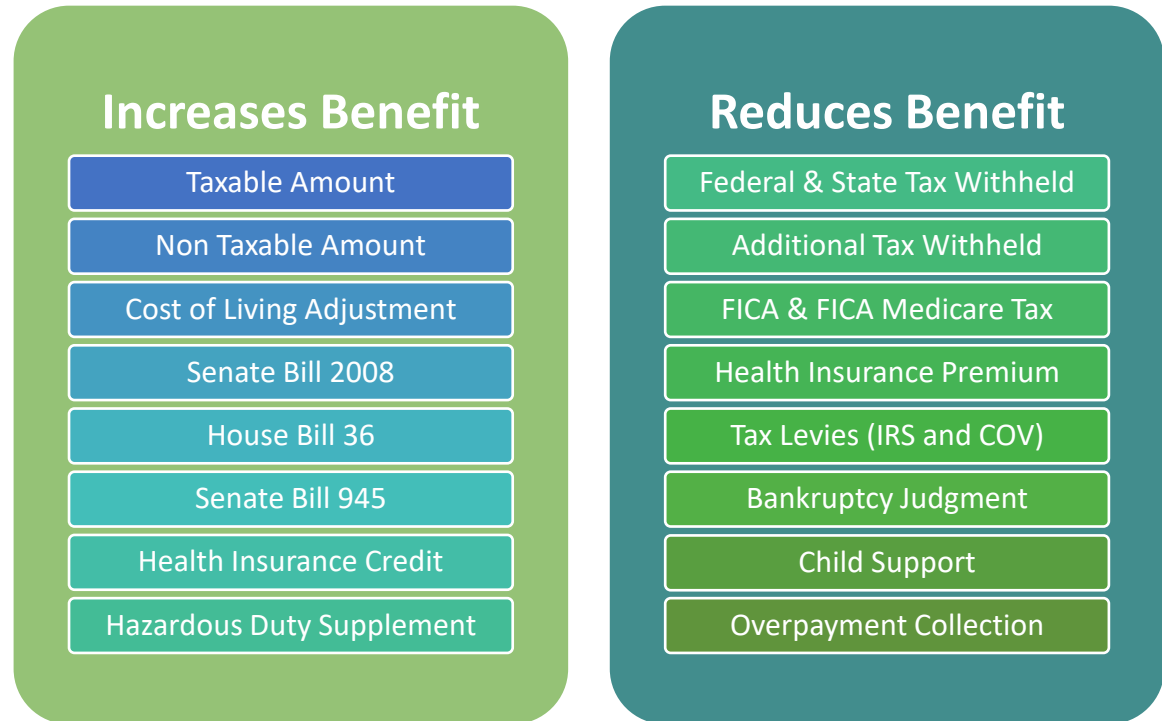
That evening, an automated batch scheduler runs the disbursement jobs, produces files in VNAV, posts history to member accounts, posts check numbers for individuals and posts the general ledger transactions. Vouchers are also created for paper checks, Electronic Fund Transfers (EFT) and payroll tax distributions and compared to the VNAV dashboard to ensure all total dollar amounts appropriately tie to those that correspond and that employee and employer FICA taxes match. The vouchers break down dollars further for third-party garnishments (such as child support or tax levies), health insurance, taxes, EFTs and checks.

Once all reviews are complete, the payroll vouchers are approved electronically which creates a workflow for the Financial Controls Unit (Control). Control then electronically compiles the vouchers and the associated support and sends them to the Chief Financial Officer who approves them both electronically and with a wet signature.

MONTHLY BENEFIT COMPOSITION AND ADJUSTMENTS

Payroll Line Items

The following illustrates the payroll line items typically comprising a benefit payment. As reflected, these line items can either increase or reduce the net benefit payment amount.



* Senate Bill 2008 (1994 Special Session I), House Bill 36 (1998 Session) and Senate Bill 945 (2001 Session) define modifications to the monthly retirement allowance calculation for members of certain defined benefit plans who retired prior to a certain date.

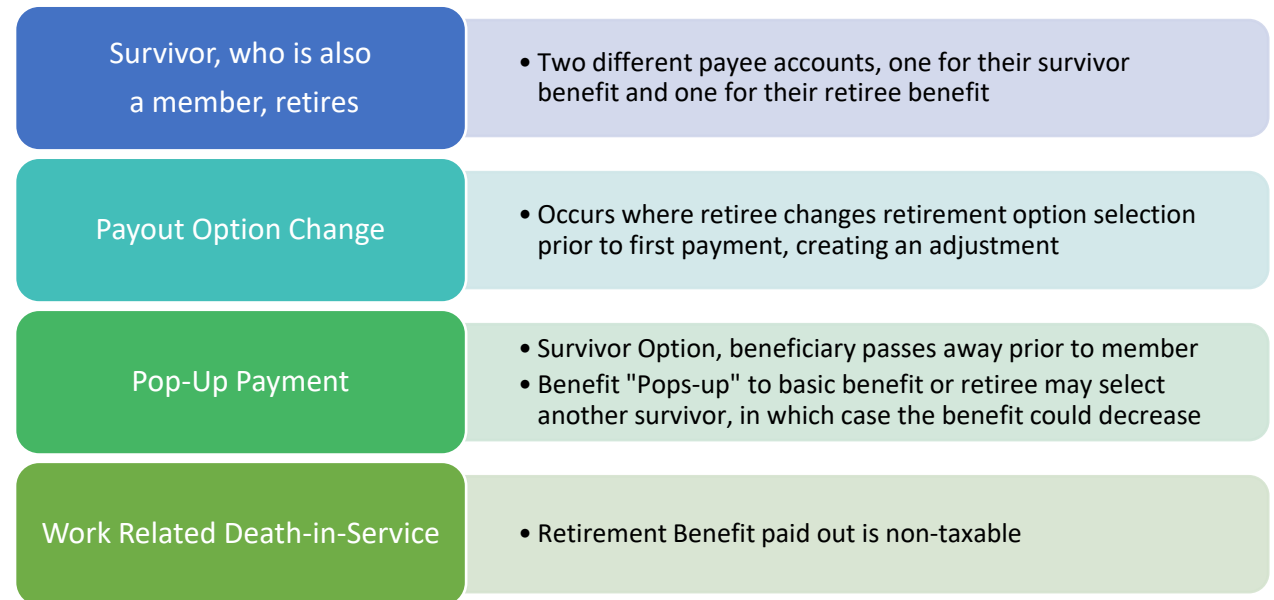
Changes

Changes may be initiated by a retiree or beneficiary to address an individual request or by VRS to address a global routine adjustment such as changes to the federal or state tax tables or the application of a cost-of-living adjustment. Generally, changes to a monthly benefit net payment amount can be categorized in one of three ways:

- Initiation of a benefit or deduction
- Increase or decrease in the amount of a benefit or deduction
- Cessation of a benefit or deduction

Valid reasons for the cessation of a benefit or deduction include, but are not limited to, death of the retiree or beneficiary; attainment of the age where a benefit discontinues (such as the hazardous duty supplement); returning to work in a VRS-covered position; change in a court-ordered deduction or the satisfaction of an overpayment.

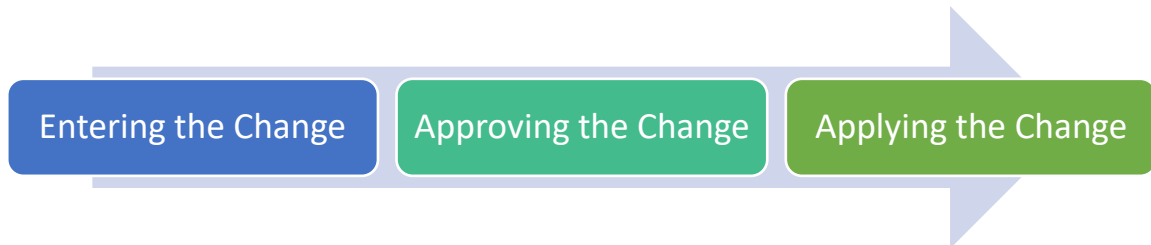
The complexity of the retiree benefit calculation is highlighted when you consider the unique types of events that can affect the monthly benefit payment amount such as, but not limited to:



Section 415(B) of the Internal Revenue Code provides for dollar limitations on benefits and under qualified retirement plans.

Global Changes

There are several standard rate tables that are used to support payroll processing including federal and state tax rates, hazardous duty rates, health insurance rates, Section 415(B) limits and cost of living adjustment rates. The process for addressing rate changes in VNAV is the same for all table-based rates. There are three steps involved to make rate changes:



Changes are not applied immediately when entered. They must be approved first, then applied. Some are applied at calendar year-end, others at fiscal year-end, depending on the nature of the rate change.

Typically, the Benefits Disbursement Supervisor sets up and approves the rates. In addition, while they do not have access to approve the COLA or Hazardous Duty Supplement rates in VNAV, the Retiree Services Manager will review and provide approval for these two rates via email.

Application of the changes must be done by another staff member who initiates the applicable batch job in the system to apply the change. As a further control, rate change batch jobs remain in a deactivated state until needed to avoid accidentally applying rates prior to the appropriate time. The IT team activates the batch job when needed and deactivates it once the job is complete.

Once the tables are updated and approved, validation occurs to ensure accuracy of the change against the impacted payee accounts. Discrepancies identified during validation are investigated and resolved.

Alternate Payee and Third-Party Withholding Payments

VRS is authorized when directed by a court to split an annuitant's benefits or withhold amounts from an annuitant's check that are due to a third party. Benefits are typically split as a result of an Approved Domestic Relations Order (ADRO). Other types of legal garnishments are set up as a deduction of the annuitant's benefit.

For a third-party withholding to be initiated, VRS must be in possession of a legal court order or other qualified documentation substantiating adjustment to the retiree's gross benefit or the withholding or garnishment of the benefit. Upon review and approval of an ADRO, the retiree's

gross payment will be re-calculated and adjusted and a new payee established for the benefit allocated to the ADRO recipient. Other court orders will result in the establishment of a deduction from the monthly benefit to collect the amount due to the third party. Payments to these third parties are generated and remitted to the appropriate entity as a part of the recurring disbursement.

1099-R AND OTHER TAX FORMS

Annually VRS generates various tax forms and other income/benefit verification letters to be distributed to its retirees and beneficiaries in January in support of their tax reporting responsibilities for the previous year. These forms include 1099-Rs, W-2s, Income Verification Letters for work-related disability annuitants, as well as Healthcare Enhancement for Local Public Safety (HELPS) and Line of Duty Act (LODA) letters.

LODA Letter

Recipients of a death benefit payment under LODA also receive an income verification letter for record filing purposes for the year in which the benefit payment was made. This letter is generated manually during, but independent of, the 1099-R year end process.

1099-R

Retirees and their beneficiaries, including those receiving non-work related disability benefits, receive a 1099-R

W-2

Retirees in the Benefit Restoration Program (BRP) receive a W-2 for the BRP portion of their Benefit

In addition, retirees with insurance benefits greater than \$50,000 receive a W-2 for imputed income on the insurance greater than \$50,000

Income Verification Letter

As their benefits are non-taxable, retirees collecting work-related disability benefits receive an income verification letter for record filing purposes

HELPS Letter

This letter notifies the retiree of their eligibility in the federal HELPS Act program and what information on the 1099-R can be used to claim this benefit

In addition to receiving a copy in the mail, by late January each year, retirees can access electronic copies of their forms in myVRS to support completion of their federal and state income tax returns. VRS staff can also access these documents in VNAV if the permissions associated with their role allows this system access.

Gathering the Data

As recurring and non-recurring retiree payrolls are processed throughout the year, VNAV records payment data for tax reporting. This information is the source for generating the files containing tax data for members, retirees and beneficiaries who received a payment from VRS that are provided to the Internal Revenue Service (IRS), Social Security Administration (SSA), Virginia Department of Taxation and the print vendor who generates and mails the forms to the applicable member, retiree or beneficiary.

Validating the Data

To validate its accuracy, VNAV payment data is subject to annual data quality processes and then reviewed and approved by the disbursements business unit prior to being provided to the IRS, Virginia Department of Taxation, SSA and print vendor. The forms generated by the print vendor are also subject to data quality reviews and then review and approval by the disbursements business unit prior to mailing to retirees and enabling their availability within myVRS and VNAV.

SYSTEM INTERFACES

An interface represents the place at which independent and often unrelated systems meet and act on or communicate with each other, primarily to routinely exchange data. The place the systems meet could be located within the VRS network for internal systems and outside of the VRS network for systems managed by external parties. An interface may or may not require a dedicated connection between systems for data to be exchanged.

VNAV interfaces with internal VRS systems, such as the general ledger, along with external systems managed by outside agencies and other third-party partners to send and receive data necessary to complete VRS processes, including the monthly retiree payroll and distribution of 1099-R data and tax forms. VRS has implemented various controls and processes to protect the confidentiality, integrity and availability of its interfaces and the related transmissions of data.

SCOPE AND METHODOLOGY

The recurring monthly payroll was reviewed to ensure that proper controls are in place to protect the *integrity* of the monthly benefits paid to the Commonwealth's retired workforce and their

beneficiaries. Non-recurring payrolls and new additions were not included as part of this examination and will be reviewed at a later date. Our examination was designed to:

- Determine the validity and accuracy of the scheduling and execution of the monthly retiree payroll;
- Determine the validity and accuracy of changes to the monthly retiree payroll; and,
- Gain reasonable assurance that interfaces pertinent to the monthly recurring retiree payroll process and generation and distribution of 1099-R forms are accurate, authorized, complete and protected from disclosure.

GENERAL ASSESSMENT AND UNDERSTANDING

We obtained a general understanding of the monthly Retiree Payroll processes and procedures, as well as the controls in place by meeting with key individuals from the Benefit Disbursements, Retiree Services and Information Technology areas. We also reviewed the applicable policies and procedures and other relevant documents to assist in our understanding of this area.

PAYROLL DISBURSEMENT PROCESS

We obtained an understanding of the scheduling and execution of the monthly retiree payroll disbursement process and the pre-disbursement review and reconciliation processes through examination of the various process guides related to the monthly disbursement activity. We assessed the results of the queries used for the pre-disbursement reconciliation for the March 1, 2021 payroll for reasonableness. We validated the execution of the quality assurance activities during pre-disbursement. Further, for all monthly retiree payroll disbursements during the audit period, we summarized the number and total dollar amount of payments by month, the number of payments by payment method (EFT or check) and the composition of benefit payments.

MONTHLY BENEFIT COMPOSITION AND ADJUSTMENTS

We determined the type and volume of changes to the various payment line items for all monthly Retiree Payroll benefit payments during the audit period. Where possible, we programmatically identified reasons for a change using messages, events, workflows or correspondence or other communications in VNAV. Payment line items with a small number of changes or payment line items with a small number of residual changes that could not be programmatically explained were reviewed in full. Likewise, changes that are specific to an individual, such as child support

Retiree Payroll Pg. 11 of 17

or ADROs, were also reviewed in full. Other payment line items were sampled and manually reviewed.

ADROs and child support payments were reviewed for accuracy, proper support and to ensure that they were applied per a valid court order. Changes to the hazardous duty supplement were examined to ensure changes were accurate and in line with the rules set forth for hazardous duty pay. FICA taxes were evaluated for accuracy based on changes that occur based on the age of the benefit recipient. The August 2020 benefit payments were analyzed to assess the application of the COLA benefit. We considered tax rate changes outside of traditional change windows for federal and state tax withholdings to ensure that tax line items were reasonable.

Further, we evaluated the process for applying global rate changes in VNAV for the various payroll line items for which rate changes occur.

Lastly, payments that appeared outside of key parameters were reviewed to determine the reasonableness of such occurrences, including:

-
- Multiple Payments Made to the Same Account Number or Payee
 - Retiree on an Active Payroll (Return to Work)
 - VRS Employee on Retiree Payroll
 - Retirees Receiving a Gross Monthly Benefit Exceeding the IRS Limit
 - Retirees Receiving a Gross Monthly Benefit Less than \$50
 - Retirees Over 100 Years of Age
 - Returned Benefit Payments

1099-R DATA AND TAX FORMS

The recording of VNAV data to support 1099-R reporting and related annual and quarterly data quality processes were discussed with management and assessed to determine if they support providing valid and accurate information to the IRS, SSA, Virginia Department of Taxation, print vendor and retirees.

For calendar year 2020 1099-R reporting, artifacts related to the annual 1099-R data quality reviews and approvals by the Disbursements business unit were obtained to determine if they demonstrated management following its described processes.

SYSTEM INTERFACES

Processes related to system interfaces pertinent to the monthly retiree payroll and annual generation and distribution of 1099-R tax forms were discussed with management and assessed to determine if they protect the confidentiality, integrity and availability of the interfaces and data. Evidence demonstrating these processes described were obtained for review.

In addition, user logical access to files generated or received related to these interfaces was reviewed for reasonableness in relation to job responsibilities and the principle of least privilege.

CONCLUSIONS

GENERAL ASSESSMENT AND UNDERSTANDING

The review found the overall process in place for the scheduling and execution of the monthly recurring retiree payroll is sufficient and changes to the monthly retiree payroll were valid and accurate. Further, reasonable assurance was obtained that interfaces pertinent to the retiree payroll process and generation and distribution of 1099-R forms are accurate, authorized, complete and protected from disclosure.

PAYROLL DISBURSEMENT PROCESS

Overall, the process in place for the scheduling and execution of the monthly recurring retiree payroll is reasonable and working as expected. The pre-disbursement review and reconciliation

queries reviewed appeared reasonable to assist management with identifying and correcting issues prior to the final disbursement. For the 12 monthly Retiree Payroll disbursements during the audit period, there were a total of 2,715,100 payments for a total of \$5.4 billion. Most payments were made via EFT, with paper check payments representing less than 2% of total payments. On average, each monthly disbursement consists of 226,258 individual payments for a total of \$450 million in benefits paid.

MONTHLY BENEFIT COMPOSITION AND ADJUSTMENTS

Overpayments, Non-Taxable and Taxable Benefit Amounts

Review of changes to payroll line items for overpayments, non-taxable and taxable benefit amounts found that changes in these areas were accurate and appropriate.

Application of the COLA

Review of the application of the COLA confirmed the majority of the records either appropriately received or did not receive an increase. Limited exceptions relative to the population as a whole were identified where data quality for individual retirees or the uniqueness of certain retirees' benefits impacted the application of the COLA for the period under review.

Management was provided with these exceptions and they immediately worked to correct the individual retiree's records and benefits accordingly. Further we discussed opportunities to potentially enhance the existing detective and preventive processes to support the application of the COLA in the future by sharing the approaches used during the audit with the business.

Federal and State Taxes

Examination of changes to the federal and state payroll line items found that changes were accurate and were supported.

FICA Changes Based on Age

Review of changes to FICA tax payroll line items found that approximately 400 records were not working as expected, whereby the records were not appropriately adjusted based on rules surrounding FICA taxes. These records represent a minimal number of records in comparison to the total number of retiree payroll checks issued each month. Management was made aware of these records and worked to correct these records immediately.

ADROs, Child Support, Hazardous Duty Supplement

We found that changes to payroll line items for ADROs, child support and the hazardous duty supplement were accurate, properly supported and appropriate.

Other Analytics

While several payees with multiple payee accounts were identified, all were deemed reasonable. Most were attributable to having multiple survivor accounts from different retirees.

All retiree benefit payments made to current or former VRS employees are reasonable.

Retirement payments are below the allowable IRS limits.

Of the 160 payments made to individuals with an active status in VNAV, all but two were attributed to allowable causes. The remaining two were immediately addressed by management upon notification.

Further, management highlighted quality monitoring activities which had already been put in place to identify and correct similar scenarios in the future. This quality monitoring was not in place when these two payments were made. We commend management for their proactive efforts in this space.

Payments to individuals for less than \$50 were valid and reasonable.

Evaluation of payments made to individuals over 100 years of age found that payments were valid and reasonable.

Returned payments were reissued timely and issues surrounding the returned payments were resolved.

During calendar year 2021, management demonstrated *agility* as they worked to enhance their 1099 data quality processes by working towards quarterly validation activities to increase efficiencies at calendar year end and ensure the *integrity* of the process and accuracy of the data. We commend the team for this proactive initiative and encourage their continued focus on such opportunities.

1099-R DATA AND TAX FORMS

Management's discussion of its annual and quarterly data quality processes indicated activities supporting valid and accurate 1099-R information being provided to the IRS, SSA, Virginia Department of Taxation, print vendor and retirees. Artifacts provided demonstrated management following its described annual data quality reviews and obtaining approvals from the Disbursements business unit for calendar year 2020 1099-R reporting.

SYSTEM INTERFACES

Management's discussion of system interfaces for monthly retiree payroll and annual generation and distribution of 1099-R data and tax forms indicate processes to protect their confidentiality, integrity and availability. Evidence provided supports the presence of the processes described by management.

VRS personnel's logical access to files related to these interfaces appears reasonable in relation to job responsibilities and the principle of least privilege.

While protected, an opportunity to enhance the IT controls around the confidentiality of certain data was identified and discussed with management who noted agreement with the assessment and took immediate action to review and implement appropriate responses.

FOLLOW-UP ON PRIOR REPORTS

There were no outstanding audit recommendations to consider.

RECOMMENDATIONS

We have no written recommendations to offer as a result of our review.

MANAGEMENT EXIT CONFERENCE

This report was distributed to Ms. Bishop and other members of VRS' management and staff for review and comment. They expressed substantial agreement with this report.

As there are no written recommendations, a written response from management is not required.

REPORT DISTRIBUTION

Submitted to the Audit and Compliance Committee at its meeting held
December 6, 2021

MEMBERS OF THE AUDIT AND COMPLIANCE COMMITTEE

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

WITH COPIES TO:

OTHER MEMBERS OF THE BOARD OF TRUSTEES

J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
William A. Garrett
Susan T. Gooden
Troilen G. Seward

VRS EXECUTIVE LEADERSHIP

Patricia S. Bishop
Ronald D. Schmitz

Members of the Director's
Executive Committee

AUDITOR OF PUBLIC ACCOUNTS

Staci Henshaw

JLARC

Kimberly A. Sarte
Jamie Bitz

PRINCIPAL AUDITOR IN-CHARGE

Judy Bolt, CPA, CIA, CISA, CFE

PRINCIPAL AUDITOR – DATA ANALYTICS

Krystal Groff, CIA, CISA

AUDIT SUPERVISOR

Josh Fox, CIA, CIDA, CFE

Quarterly Report on Fraud, Waste and Abuse

Report of Alleged Fraud, Waste and Abuse Hotline Cases

**For Complaints Received During the Period
August 1, 2021 through October 31, 2021**

SUMMARY OF CASES REVIEWED AND CLOSED

During the period August 1, 2021 through October 31, 2021, we received one case of potential Fraud, Waste and Abuse from the Office of the State Inspector General. The case alleged abuse of retirement benefits and was determined to be unfounded and thus closed.

VRS Control Number	Date Complaint Received	Noted Concern	VRS Personnel Assisting with Allegation	Case Closed	Resolution	Source of the Complaint	Report to OSIG
43	9/7/2021	There is an allegation of retirement benefit abuse.	Cheryl Jones	Yes	The case was unfounded.	OSIG	No

Background

Fraud, Waste and Abuse relating to VRS can be comprised of any number of concerns. Such items can be reported to VRS' Internal Audit Department directly or through the Office of the State Inspector General (OSIG) State Employee Fraud, Waste and Abuse Hotline. (A majority of complaints are received through OSIG.)

All matters that relate to Fraud, Waste and/or Abuse reported are reviewed to determine the proper protocol for investigation.

Committee Reporting

Cases of a serious and/or significant nature will be reported to the VRS Audit and Compliance Committee immediately. At a minimum, a summary of all Hotline cases will be reported to the Audit and Compliance Committee on a quarterly basis.

Retention

Hardcopy documents, including handwritten notes, are stored in a secure location until the case is closed, upon which they are shredded. Electronic files are stored on Internal Audit's secured drive. Documentation containing case details are labeled "**CONFIDENTIAL – STATE FRAUD, WASTE AND ABUSE HOTLINE DOCUMENTS**" and sensitive items are labeled FOIA Exempt. As appropriate, files are disposed of in accordance with the Library of Virginia's retention policy.

FRAUD, WASTE AND ABUSE CASE MANAGEMENT

PROCESSING OF COMPLAINTS

When received, the Audit Director and Hotline Auditor perform a preliminary review of the complaint. After initial discussion, the Hotline Auditor determines whether a formal response is required by OSIG (cases referred by OSIG may or may not require a formal response, depending on the nature of the complaint) and adds the case to Internal Audit's Hotline Tracking System.

The Hotline Auditor sets up a case file on Internal Audit's secured and restricted drive to maintain confidentiality. The Hotline Auditor then evaluates the case details and may review information available in VRS' systems to obtain further details about the subject of the complaint. Additionally, the Hotline Auditor may forward the details of the case to other VRS personnel for review. The Hotline Auditor also notifies the VRS Director of the case.

Complaints regarding disability benefits constitute the large majority of the Hotline cases received by VRS. The Hotline Auditor will meet with appropriate VRS staff, as necessary, to discuss details of the case in order for all parties to proceed forward with their portion of the investigation. Complaints forwarded to others are monitored for resolution. Actions and determinations for cases are reviewed for reasonableness by the Hotline Auditor. Once a determination of appropriate action has occurred, such action is documented in the Internal Audit case file and on the Hotline Tracking System. The Internal Audit Director is apprised of all actions and determinations.

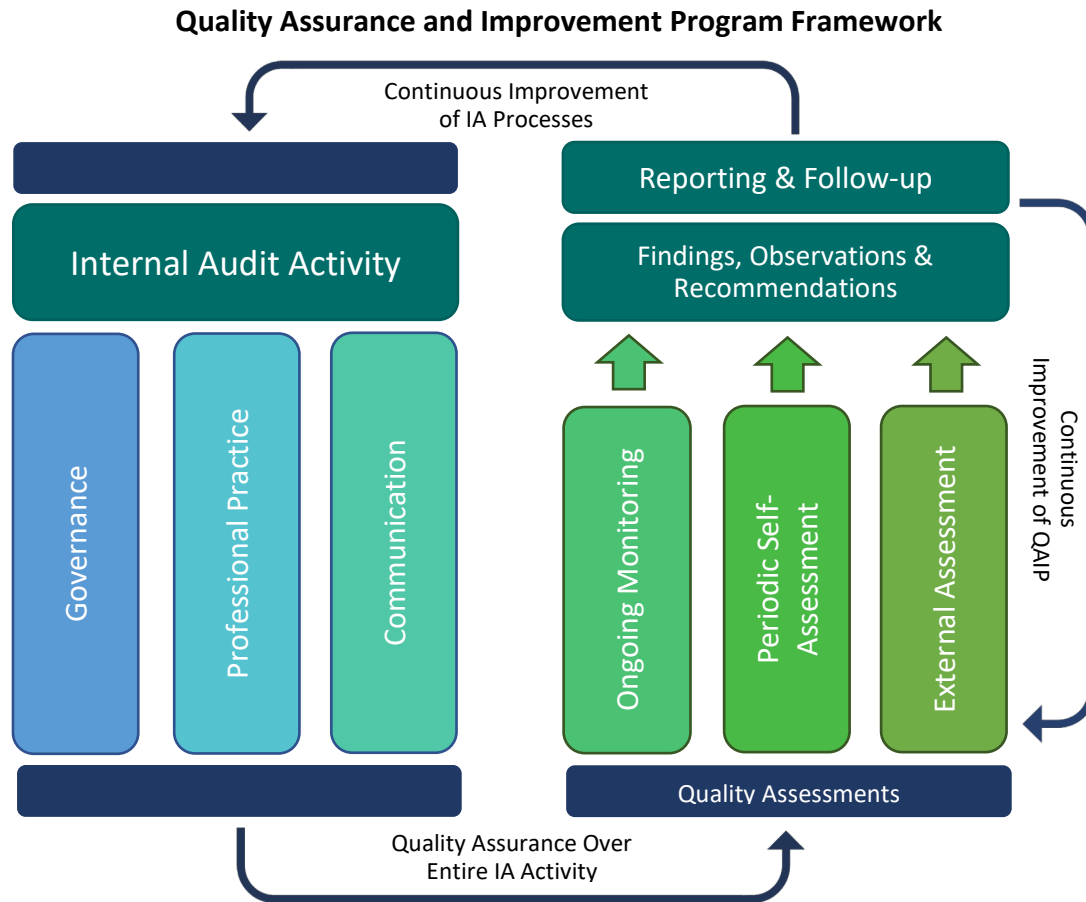
For other complaints, such as internal fraud, waste or abuse (examples could include abuses of various types of leave, teleworking policies, employee theft, etc.), the Hotline Auditor investigates the allegation and obtains supporting documentation from management, as needed. If a determination is made that there is a reasonable possibility of fraud, waste or abuse, management is notified of the allegation by the Audit Director and given a reasonable timeframe in which to report back to the Audit Director any actions taken regarding the allegation. The Audit Director determines the reasonableness of such action, reports the actions and resolution of the complaint to the Hotline Auditor who documents the results in the case file and on the Hotline Tracking System.

All investigation results are reported to the VRS Director and members of the VRS Audit and Compliance Committee once a case is resolved, regardless of the outcome.

Internal Audit Quality Assurance Review

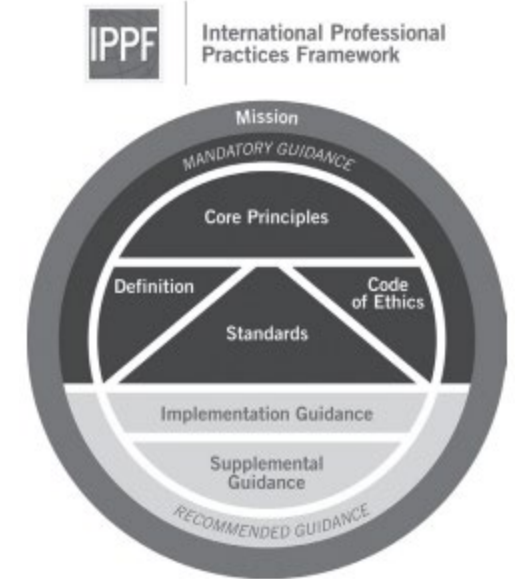
Quality Assurance and Improvement Program

In compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, the VRS Internal Audit Department implemented a continuous Quality Assurance and Improvement Program (QAIP).



As a part of this program, the Department performs on-going monitoring and conducts a self-assessment on an annual basis. The self-assessment is managed and executed by the principal auditor charged with responsibility for this program. A formal external assessment is performed once every five years. The next external assessment will cover FY 2024, the results of which will be reported out in the fall of FY 2025.

Quality Assurance Improvement Program



The requirements and characteristics of quality in an internal audit activity are defined by the IPPF; which consists of mandatory and recommended guidance, all provided within the context of the Mission of Internal Audit as defined in the IPPF.

Overall Conclusion

Our review of the internal audit process and activity for FY 2021 concluded there is reasonable assurance that the VRS Internal Audit Department generally conforms with the *International Standards for the Professional Practice of Internal Auditing*.

Annual QAIP Review Highlights for FY 2021



Governance

- Internal Audit Departmental Charter is up to date and consistent with the IIA *Standards*.
- Reporting lines are appropriate.
- Quality Assurance Improvement Program has been implemented and is executed in accordance with the IIA *Standards*.

Staff

- Internal Audit staff possess the appropriate qualifications to perform their assignments.
- The pursuit of continuing professional education requirements is encouraged and monitored to ensure completion.
- Performance appraisals are performed yearly as required by the IIA *Standards*.
- Conflict of Interest and Statement of Understanding forms are on file for all staff and appropriately considered in assignments.

Management

- The audit plan is based on a risk assessment. The methodology for developing the audit plan is reasonable.
- Planned versus actual engagements performed during the current year were monitored and changes were properly supported and communicated.
- Required communications with management and the Committee were completed.

Process

- Internal Audit Policies and Procedures and standard forms were appropriately updated.
- The Audit Recommendation and Follow-up System (ARFUS) is appropriately monitored and communicated with responsible parties.
- Workpapers are controlled and appropriately retained.
- Audit results are monitored and their disposition is appropriately communicated to management and the Committee.


Miscellaneous Updates



P.O. Box 2500, Richmond, VA 23218-2500
Toll-free: 888-827-3847
Website: varetire.org
Email: vrs@varetire.org

Patricia S. Bishop
Director

MEMORANDUM

To: Jennifer P. Schreck, Internal Audit Director
From: Patricia S. Bishop, Director 
Date: November 19, 2021
Subject: Summary of Travel Related Expenses

I am attaching the following:

1. Summary of Travel Related Expenses Paid During the Quarter of and Fiscal Year-to-Date Through September 30, 2021.
2. Summary of Other Sponsored Travel Related Expenses Paid During the Quarter of and Fiscal Year-to-Date Through September 30, 2021. *There was no reportable Other Sponsored Travel Related Expenses for the period.*
3. Detail of Travel Related Expenses Paid During the Quarter of and Fiscal Year-to-Date Through September 30, 2021.
4. Record of Attendance and Per Diems for the Quarter Ended September 30, 2021.

This information should be shared with the Audit & Compliance Committee.

If you have any questions, please do not hesitate to ask.

PSB/lbk

Attachments

Summary of Travel Related Expenses
 Virginia Retirement System
 Board/Committee Members and Selected VRS Staff

Fiscal Year-To-Date **Q1 2022**

Traveler	Current Quarter Expenses											Fiscal Year-To-Date Expenses				
	Total Travel			Out-of-State-Travel								Total Travel			Out-of-State-Travel	
	Sponsor Paid	VRS Paid	Total	# Trips	Cost	Travel reasons						Sponsor Paid	VRS Paid	Total	# Trips	Cost
AM						CF	DD	MM	SV	TR						
Bell II, John	-	\$658.56	\$658.56	-	-	-	-	-	-	-	-	-	\$658.56	\$658.56	-	-
Disharoon, Michael	-	\$123.20	\$123.20	-	-	-	-	-	-	-	-	-	\$123.20	\$123.20	-	-
Garrett, William	-	\$440.08	\$440.08	-	-	-	-	-	-	-	-	-	\$440.08	\$440.08	-	-
Lewis, Wilbert	-	\$666.11	\$666.11	-	-	-	-	-	-	-	-	-	\$666.11	\$666.11	-	-
McWilliams III, O'Kelly	-	\$1,518.90	\$1,518.90	-	-	-	-	-	-	-	-	-	\$1,518.90	\$1,518.90	-	-
Montgomery, Joseph	-	\$188.16	\$188.16	-	-	-	-	-	-	-	-	-	\$188.16	\$188.16	-	-
Seward, Troilen	-	\$201.60	\$201.60	-	-	-	-	-	-	-	-	-	\$201.60	\$201.60	-	-
Chang, Warren	\$1,140.91	\$20.00	\$1,160.91	1	\$1,160.91	1	-	-	-	-	-	\$1,140.91	\$20.00	\$1,160.91	1	\$1,160.91
Coleman, Thomas	-	\$1,990.45	\$1,990.45	2	\$1,990.45	-	-	2	-	-	-	-	\$1,990.45	\$1,990.45	2	\$1,990.45
Noland, Walker	-	\$266.08	\$266.08	1	\$266.08	-	-	-	-	1	-	-	\$266.08	\$266.08	1	\$266.08
Sarki-Hurd, Hajara	-	\$220.64	\$220.64	1	\$220.64	-	-	-	-	1	-	-	\$220.64	\$220.64	1	\$220.64
Total	\$1,140.91	\$6,293.78	\$7,434.69	5	\$3,638.08	1	-	2	-	2	-	\$1,140.91	\$6,293.78	\$7,434.69	5	\$3,638.08

Travel Reasons Legend			
AM	Advisory/Assoc. Meeting	MM	Manager Meeting
CF	Conference	SV	Site Visit
DD	Due Diligence	TR	Training

Detail of Travel Related Expenses

Virginia Retirement System

Board/Committee Members and Selected VRS Staff

Paid in Q1 2022

Traveler	Travel Start	Travel End	Destination	Sponsor	Purpose	Sponsor Paid	VRS Paid	Total
Bell II, John	08/26/2021	08/26/2021	Richmond, VA		Attended Investment Advisory Committee Meeting	-	\$219.52	\$219.52
Bell II, John	09/02/2021	09/02/2021	Richmond, VA		Attended the Defined Contribution Plans Advisory Committee Meeting	-	\$219.52	\$219.52
Bell II, John	09/21/2021	09/21/2021	Richmond, VA		Attended the VRS Board of Trustees meeting.	-	\$219.52	\$219.52
Disharoon, Michael	09/21/2021	09/21/2021	Richmond, VA		Attended the VRS Board of Trustees meeting.	-	\$123.20	\$123.20
Garrett, William	08/26/2021	08/26/2021	Richmond, VA		Attended Investment Advisory Committee Meeting	-	\$117.52	\$117.52
Garrett, William	09/13/2021	09/13/2021	Richmond, VA		Attended the Audit and Compliance Committee Meeting.	-	\$107.52	\$107.52
Garrett, William	09/15/2021	09/15/2021	Richmond, VA		Attended the Administration and Personnel Committee Meeting.	-	\$107.52	\$107.52
Garrett, William	09/21/2021	09/21/2021	Richmond, VA		Attended the VRS Board of Trustees meeting.	-	\$107.52	\$107.52
Lewis, Wilbert	08/25/2021	08/26/2021	Richmond, VA		Travel to Richmond, VA to attend the Investment Advisory Committee (IAC) Meeting	-	\$666.11	\$666.11
McWilliams III, O'Kelly	07/06/2021	07/06/2021	Richmond, VA		JLARC Meeting	-	\$321.91	\$321.91
McWilliams III, O'Kelly	08/25/2021	08/26/2021	Richmond, VA		Attendance at Investment Advisory Committee Meeting	-	\$435.88	\$435.88
McWilliams III, O'Kelly	09/13/2021	09/15/2021	Richmond, VA		Attended the Audit and Compliance Committee meeting on September 13, 2021 and attended the Administration and Personnel Committee meeting on September 15, 2021.	-	\$635.67	\$635.67
McWilliams III, O'Kelly	09/21/2021	09/21/2021	Richmond, VA		Attended the VRS Board of Trustees meeting.	-	\$125.44	\$125.44
Montgomery, Joseph	09/13/2021	09/13/2021	Richmond, VA		Attended the Audit and Compliance Committee Meeting	-	\$62.72	\$62.72
Montgomery, Joseph	09/15/2021	09/15/2021	Richmond, VA		Attended the Administration and Personnel Committee Meeting.	-	\$62.72	\$62.72

Detail of Travel Related Expenses

Virginia Retirement System

Board/Committee Members and Selected VRS Staff

Paid in Q1 2022

Traveler	Travel Start	Travel End	Destination	Sponsor	Purpose	Sponsor Paid	VRS Paid	Total
Montgomery, Joseph	09/21/2021	09/21/2021	Richmond, VA		Attended the VRS Board of Trustees meeting.	-	\$62.72	\$62.72
Seward, Troilen	08/26/2021	08/26/2021	Richmond, VA		Attended Investment Advisory Committee Meeting	-	\$50.40	\$50.40
Seward, Troilen	09/13/2021	09/13/2021	Richmond, VA		Attended the Audit and Compliance Committee Meeting.	-	\$50.40	\$50.40
Seward, Troilen	09/15/2021	09/15/2021	Richmond, VA		Attended the Administration and Personnel Committee Meeting.	-	\$50.40	\$50.40
Seward, Troilen	09/21/2021	09/21/2021	Richmond, VA		Attended the VRS Board of Trustees meeting.	-	\$50.40	\$50.40
Chang, Warren	09/08/2021	09/09/2021	New York, NY	Morgan Stanley; Morgan Stanley Prime Property	Morgan Stanley Prime Property Advisory Committee	\$1,140.91	\$20.00	\$1,160.91
Coleman, Thomas	07/07/2021	07/08/2021	Dallas, TX		Due Diligence - Pritzker	-	\$899.19	\$899.19
Coleman, Thomas	08/23/2021	08/25/2021	Madison, WI		Quad CP - First Martin	-	\$1,091.26	\$1,091.26
Noland, Walker	08/11/2021	08/11/2021	Raleigh, NC		Crow Holdings - Potential new manager/site visits	-	\$266.08	\$266.08
Sarki-Hurd, Hajara	08/11/2021	08/11/2021	Raleigh, NC		Crow Holdings - Potential new manager/site visits	-	\$220.64	\$220.64
Total						\$1,140.91	\$6,293.78	\$7,434.69

**VRS BOARD OF TRUSTEES AND COMMITTEES
RECORD OF ATTENDANCE & PER DIEMS
FOR 3Q2021**

Month Paid:		Sep-21							Total Days Attended	Per Diem Rate	Per Diem Payments			Total
Jul-21	6/24/21	8/26/21	9/1/21	9/2/21	9/13/21	9/15/21	9/21/21	Jul			Aug	Sep		
Member	Area	DCPAC	IAC	B&A	DCPAC	A&C	A&P	BOT						
J BRANDON BELL, II	BOT	X	X	X	X	-	-	X	9	\$ 300.00	\$ 300.00	\$ -	\$ 1,200.00	\$ 1,500.00
JOHN M. BENNETT	BOT	X	X	X	-	X	X	X	4	300.00	300.00	-	1,500.00	1,800.00
MICHAEL P. DISHAROON	BOT	X	-	X	X	-	-	X	7	300.00	300.00	-	900.00	1,200.00
WILLIAM A. GARRETT	BOT	X	X	X	X	X	X	X	9	300.00	300.00	-	1,800.00	2,100.00
SUSAN GOODEN	BOT	X	-	-	X	-	-	-	3	300.00	300.00	-	300.00	600.00
W. BRETT HAYES	BOT	-	-	-	-	X	X	X	6	300.00	-	-	900.00	900.00
O'KELLY E. MCWILLIAMS, III	BOT	X	X	X	X	X	X	X	8	300.00	300.00	-	1,800.00	2,100.00
JOSEPH W. MONTGOMERY	BOT	-	-	-	-	X	X	X	8	300.00	-	-	900.00	900.00
TROILEN G. SEWARD	BOT	-	X	X	-	X	X	X	8	300.00	-	-	1,500.00	1,500.00
RIVINDRA DEO	DCPAC	-	-	-	-	-	-	-	1	300.00	-	-	-	-
SHANNON T. IRVIN	DCPAC	X	-	-	X	-	-	-	1	300.00	300.00	-	300.00	600.00
RICK LARSON	DCPAC	X	-	-	X	-	-	-	1	300.00	300.00	-	300.00	600.00
BRENDA O. MADDEN	DCPAC	X	-	-	X	-	-	-	1	300.00	300.00	-	300.00	600.00
KATHERINE T. SEAY (2)	DCPAC	-	-	-	-	-	-	-	-	-	-	-	-	-
DAVID A. WINTER	DCPAC	X	-	-	X	-	-	-	1	300.00	300.00	-	300.00	600.00
DEBORAH ALLEN-HEWITT	IAC	-	X	-	-	-	-	-	1	300.00	-	-	300.00	300.00
MICHAEL R. BEASLEY	IAC	-	X	-	-	-	-	-	1	300.00	-	-	300.00	300.00
THEODORE ECONOMOU (1)	IAC	-	-	-	-	-	-	-	1	-	-	-	-	-
THOMAS S. GAYNER	IAC	-	X	-	-	-	-	-	-	300.00	-	-	300.00	300.00
LAWRENCE E KOCHARD	IAC	-	X	-	-	-	-	X	2	300.00	-	-	600.00	600.00
NANCY G. LEAKE	IAC	-	X	-	-	-	-	-	1	300.00	-	-	300.00	300.00
WILBERT BRYAN LEWIS	IAC	-	X	-	-	-	-	-	1	300.00	-	-	300.00	300.00
ROD SMYTH	IAC	-	X	-	-	-	-	-	1	300.00	-	-	300.00	300.00
WILLIAM H. WEST	IAC	-	X	-	-	-	-	-	1	300.00	-	-	300.00	300.00
											\$ 3,000.00	\$ -	\$ 14,700.00	\$ 17,700.00

Number Attending	10	13	6	9	6	6	9						
Total Days per Diem Paid (Control Total)	10	13	6	9	6	6	9	59	x \$300				= 17,700.00

(1) This individual waived the payment of stipend and per diem payments for meetings attended effective 8/2/15.
(2) This individual waived the payment of per diem payments for meetings attended.

X = Present