
Minutes

The Audit and Compliance Committee (committee) of the Board of Trustees (board) met on June 11, 2024, at the Virginia Retirement System located in Richmond, Virginia. The following individuals were present.

Audit and Compliance Committee Members:

Sen. J. Brandon Bell, II, Committee Chair

John M. Bennett, Committee Vice Chair

A. Scott Andrews, Board Chair – attended remotely from The Plains, Virginia under § 2.2-3708.3(B)(1) of the *Code of Virginia* due to a temporary medical condition.

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Judy Bolt, Richard Brooks, Jeanne Chenault, Michael Cooper, Joshua Fox, Krystal Groff, Dane Honrado, Robert Irving, Sandy Jack, Curt Mattson, Matthew Priestas, Kathy Quiriconi, Mark Rein, Kristy Scott and Scott Weaver.

Guests:

Jamie Bitz, Joint Legislative Audit and Review Commission and Zach Borgerding, Erin Shell and Amy Stokes, Auditor of Public Accounts.

The meeting convened at 1:00 p.m.

Opening Remarks

Sen. Bell called the meeting to order and welcomed everyone to the committee's June 11, 2024, meeting. After noting the meeting was being held in accordance with Section 2.2-3708.3(B)(1) of the *Code of Virginia*, Sen. Bell completed a roll call for attendance purposes:

Mr. Andrews: Present

Mr. Bennett: Present

Sen. Bell: Present

Upon completion of the roll call, Sen. Bell asked for and noted no changes or additions to the meeting agenda.

Approval of Minutes

Upon motion of Mr. Bennett, seconded by Mr. Andrews, the committee approved the minutes of the Audit and Compliance Committee meeting held on December 7, 2023.

Election of Committee Vice Chair

Upon nomination and motion of Mr. Andrews, seconded by Sen. Bell, the committee elected Mr. Bennett as Committee Vice Chair of the Audit and Compliance Committee.

Status Update for the 2023 Employer Assurances Review

Mr. Borgerding updated the committee on the status of the Auditor of Public Accounts' (APA) separate examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own annual financial statements in accordance with Governmental Accounting Standards Board Statements No. 68 and 75.

He noted these examinations are progressing as planned and the APA should conclude their work and issue the related opinions for the pension plans later in June and for the other post-employment benefit plans during the month of July. Further, Mr. Borgerding shared management had provided the materials to be audited earlier and the audit team had fewer questions regarding these materials than in prior years.

Entrance Conference on 2024 Annual Comprehensive Financial Report (ACFR)

The committee proceeded to the scheduled entrance with the APA. The primary purpose of the entrance meeting was to review the approach and scope of the APA's annual examination of VRS' ACFR for the fiscal year ending June 30, 2024. Mr. Borgerding noted the APA's primary responsibilities under Generally Accepted Auditing Standards are to provide reasonable assurance as to whether the financial statements are free of material misstatements. Mr. Borgerding also noted APA's responsibility to determine that VRS' financial information is accurately incorporated into the statewide ACFR.

Mr. Borgerding further addressed the APA's use of materiality, responsibility for identifying fraud, as well as reporting on non-compliance items that could have a material direct or indirect effect on financial statements. Finally, Mr. Borgerding shared a report on internal controls and compliance will be provided and any significant findings over internal controls would be included in the Statewide Single Audit (SSA) Report. Mr. Borgerding provided further information about the SSA and its related report.

Audit Reports

The committee received two audit reports from staff.

Audit Report 457 – Member and Employer Contributions

Ms. Scott presented the results of Internal Audit's review of Member and Employer Contributions. The review determined sufficient controls are in place to support VRS member and employer contribution activities and associated processes are working as expected. She discussed the use of data analytics in completing the audit, noting the analytics highlighted an opportunity for management to re-evaluate the existing process for transfers to employer retirement allowance accounts. There were no recommendations resulting from this review.

Audit Report 458 – Investment Decision Support

Mr. Priestas presented the results of Internal Audit's review of Investment Decision Support. The review found the overall controls governing Investment Decision Support are functioning to reasonably minimize risks,

processes generally align with best practice and operational controls in place address risks associated with project management, change management and logical access. Certain areas of enhancement were discussed with management, including one formal recommendation related to memorializing governance over the portfolios and projects managed by Investment Decision Support.

Acceptance of Audit Reports

Upon motion of Mr. Bennett, seconded by Mr. Andrews, the committee accepted audit reports no. 457 and 458 as presented.

Annual Report on Code of Ethics

Mr. Cooper provided an overview of VRS' Code of Ethics and the training provided to personnel. Mr. Cooper confirmed all eligible and available VRS staff had completed the annual code of ethics training by December 31, 2023. Mr. Cooper noted any employees on extended leave as of December 31, 2023, completed their training upon their return.

Mr. Brooks discussed the Investment department's Code of Ethics and Standards of Professional Conduct Policy and compliance monitoring, noting all Investment associates were in compliance as of December 31, 2023.

Ms. Schreck discussed the Internal Audit department's adherence to the VRS Code of Ethics and the Institute of Internal Auditors' Code of Ethics. She noted members of Internal Audit also hold various other professional designations and memberships, which provide similar frameworks for ethical behavior in the practice of that profession. Members of the Internal Audit staff complete annual certifications required by these professional organizations.

Audit Plan Progress as of December 31, 2023

Ms. Schreck reported on the progress of the fiscal year 2024 annual audit plan as of December 31, 2023, the mid-point of the fiscal year. She noted Internal Audit is on track to complete the annual Audit Plan, as adjusted.

Implementation of the 2024 Global Internal Audit Standards

Ms. Schreck discussed the current standards issued by the Institute of Internal Auditors and the implementation of the new Global Internal Audit Standards (Standards) effective in January 2025. She provided an overview of noteworthy changes and as required by the new standards, she asked for input from the committee members on VRS' internal audit function and related governance documents.

As it is a departure from the standards, Ms. Schreck discussed with the committee the benefits of VRS' long-range audit plan approach, potential changes in its duration and the Standards' expectation of an annual audit plan. After a robust discussion, the committee directed Ms. Schreck to retain the long-range plan approach but adjust the duration from a four to three-year perspective.

Ms. Schreck shared with the committee additional items which will require their approval at the September meeting, including updates to the Internal Audit Department and committee charters as well as the long-range and annual audit plans. In addition, she noted the committee would be asked to review and update the documentation regarding the expected qualifications and competencies for the audit director.

Additionally, Ms. Schreck acknowledged the additional efforts underway within the department to support the implementation of the Standards, including the update of internal policies, procedures and forms, the development of a departmental strategic plan and corresponding performance objectives. Ms. Schreck noted the committee would be asked to review and approve the performance objectives at their December meeting.

Finally, as required by the Standards, Ms. Schreck acknowledged the committee's responsibility to monitor and review the quality of the internal audit function through the department's quality assurance improvement program on an annual basis and the use of an external quality assurance review at least once every five years. Ms. Schreck indicated the department's external quality assurance was due this year and discussed her planned approach, approved by the committee chair, to perform a self-assessment with an independent validation, the results of which would be provided to the committee at their December meeting.

Quarterly Reports on Fraud, Waste and Abuse Hotline Cases

Ms. Bolt shared there were no fraud, waste and abuse cases for the period November 1, 2023, through January 31, 2024, and there was one fraud, waste and abuse case reported for the period February 1, 2024, through April 30, 2024. The case was related to short-term disability benefits, was unfounded and closed.

Miscellaneous Updates

Internal Audit's Review of the Cost-of-Living Adjustments

Ms. Schreck shared with the committee the results of Internal Audit's review of the amounts referred to as "Cost-of-Living Adjustments (COLA)" which will be effective July 1, 2024, were included in the meeting book. Ms. Schreck noted the results were provided to the Benefits and Actuarial Committee and Board of Trustees in February 2024 to support their review and approval process for these adjustments.

Management's Quarterly Travel Expense and Per Diem Reports

Ms. Schreck noted management's quarterly travel expense and per diem reports covering the three-month periods ending December 31, 2023, and March 31, 2024, were included in the meeting materials for the Audit and Compliance Committee's review.

Next Committee Meeting Date

Ms. Schreck acknowledged the next meeting of the committee is scheduled for September 18, 2024, at 10:30 a.m.

Meeting Adjournment

There being no further business, upon motion by Mr. Bennett, seconded by Mr. Andrews, the committee voted to adjourn the meeting at approximately 2:15 p.m.



Committee Chair



Secretary