

**South Carolina Retirement System Investment Commission  
Audit Committee Meeting Minutes**

**November 17, 2011**

**Wampee Training and Conference Center  
1274 Chicora Drive  
Pinopolis, SC 29461**

**Committee Members Present:**

Mr. Allen Gillespie  
Mr. Reynolds Williams  
Dr. Travis Pritchett

**Others present for all or a portion of the meeting on Thursday, November 17, 2011:** Bob Borden, Sarah Corbett, Nancy E. Shealy, Robert Feinstein, Dori Ditty, Brian Wheeler and James Manning from the South Carolina Retirement System Investment Commission (“RSIC”); Tammy Nichols from the South Carolina Retirement Systems (“SCRS”); Bill Leidinger, Bill Condon and Shakun Tahiliani from the State Treasurer’s Office. Commissioner Loftis attended the meeting as a non-voting observer.

**I. CALL TO ORDER**

Mr. Allen Gillespie called the meeting of the Commission’s Audit Committee (“Committee”) to order. Dr. Travis Pritchett made a motion to approve the agenda, which was seconded by Mr. Reynolds Williams and approved unanimously.

**II. SCRS EXTERNAL AUDIT STATUS**

Mrs. Sarah Corbett stated that she had attended the external audit exit conference at SCRS, and had sent an e-mail to the Committee members summarizing that meeting. She added that Clifton Gunderson, the external auditor, noted significant improvements in communication between the audit staff and RSIC since last year. Mrs. Corbett reported that the auditor issued a clean audit opinion, but noted that if Clifton Gunderson were auditing the RSIC, the firm would have had management letter findings which would mirror the results of Deloitte’s Investment Risk Assessment. Mrs. Corbett suggested inviting the External Auditor to the next Committee meeting so he can discuss his findings with the Committee. She added that the State Auditor was present at the exit conference and reminded Mrs. Corbett that all auditing engagements need to be approved by his office. Accordingly, Mrs. Corbett noted that the Committee will need to obtain approval from the State Auditor regarding Deloitte’s involvement in conducting the RSIC’s Audit Plan.

### III. REVIEW OF AUDIT PLANS

The Committee reviewed the cost estimates for execution of the draft audit plans which Deloitte had prepared as discussed at the Committee's November 10, 2011 meeting. Mr. Williams opined that the estimate was rather high. Dr. Pritchett said he did not understand why there were variations in some of the numbers quoted. In response, Mrs. Corbett noted that because Deloitte would be contracted on a per-hour basis, the cost estimates vary based on Deloitte's estimate of the amount of staff time each task would require. She added that she and Mr. Jordan believe there may be room in the current budget to execute one of the plans, but not all of the plans, and that the matter needs to be investigated further. Mrs. Corbett then noted that the Committee may want to look into alternatives, such as utilizing the services of another firm. Mr. Gillespie agreed, and suggested that the work be put out to bid, to determine if another firm could assist in the execution of all the audit plans for a lesser cost.

Mr. Williams noted that when this process originally began, he remembers being told it could cost up to \$750,000, which is almost on par with the estimate Deloitte provided. Mrs. Corbett said she would consult with the State Auditor regarding the timeframe and process for obtaining bids. Mr. Williams suggested prioritizing the plans so that each plan can be executed based on importance when the funds are available. Mr. Gillespie agreed. Mr. Williams then suggested the Committee authorize Mrs. Corbett to inquire with the State Auditor regarding outside bids, as well as analyze the audit plans based on importance and bring her suggestions back to the Committee. Mrs. Corbett agreed to complete those tasks.

Mr. Gillespie asked if the Committee was prepared to rank the plans today. Discussion regarding ranking and prioritizing of the audit plans ensued. Mr. Borden suggested that while valuation was critical, given the current structure of the Commission's reporting and technology infrastructure, high priority should be given to a review of the holdings of the RSIC to be sure that this information is accurate. Mr. Williams said he believed the plan for Investment Portfolio Valuation was broad enough to add this task to it. Mr. Borden agreed and asked if the review of the basic holdings of the RSIC could be added to the Investment Portfolio Valuation plan. Mrs. Corbett confirmed that it could.

In response to a question from the members of the Committee, Mrs. Corbett reviewed her notes regarding the Committee's prioritization of the audit plans. External Manager Due Diligence was ranked first, with special attention to the Commission's Strategic Partnerships, and evaluating the integrity of the holdings. The second priority was the Investment Portfolio Valuation plan, and third priority was the Cross Trades plan. Mr. Williams asked about who serves as the primary repository for a listing of RSIC's holdings. Mr. Borden responded that BNY Mellon, the master custodian bank, maintains the list of RSIC holdings in some respects, but that many assets are held by sub-custodians and by the time that information gets transferred up to the master custodian, it may lose some level of detail. Mr. Borden reiterated his recommendation that the testing of those processes should be incorporated into the Audit Plan. Mrs.

Corbett confirmed that the appropriate additions will be made to the plan regarding the Commission's holdings, and noted that she will contact the State Auditor regarding the time frame and process for obtaining bids.

Mr. Williams asked what the time frame for executing the plans is expected to be, from start to finish. Mrs. Corbett directed the Committee to the estimate received from Deloitte, which set forth the time allotted to each plan. Deloitte estimated that the work would require a total of 28 weeks. Mr. Borden said some budgetary and other analysis will have to be done in order to see what can be accomplished this fiscal year, and what will have to be deferred until the next year. Mr. Gillespie said he hopes that at least the first two plans can be accomplished by June 30, 2012. Mr. Borden asked what the timeframe would be to commence work on the audit plans, if funds were not an issue. Mrs. Corbett responded that Deloitte would be able to start immediately, but the State Auditor first needs to approve the contract, and she did not yet have information about the timeframe for obtaining this approval. Mr. Borden stated that a big concern is not knowing what the final budget will be for the next fiscal year. He noted that the RSIC's requested budget could accommodate this cost, but there is no guarantee that RSIC will receive funding sufficient to cover the cost. Mr. Gillespie noted that the Commission's case for full funding of this item should be very strong.

In response to a question from the Chairman, Mrs. Corbett restated the next steps. Staff will ask the State Auditor to (i) approve the Commission's exercise of the optional audit services component of its contract with Deloitte, and (ii) in the alternative, to provide a timeframe for bidding out the engagement, should the Commission decide to pursue this latter course of action. Mr. Gillespie stated that the Committee will reconvene once this information has been obtained.

#### **IV. EXECUTIVE SESSION TO REVIEW PERSONNEL MATTERS**

Mr. Gillespie made a motion to enter Executive Session for the purpose of discussing personnel matters, which was seconded by Mr. Williams and approved unanimously.

Upon returning from Executive Session, Mr. Gillespie noted that action was taken to authorize the Chairman to take action with regard to a personnel matter, as discussed within Executive Session.

#### **V. ADJOURNMENT**

There being no further business, the meeting was adjourned.

[Staff Note: In compliance with S.C. Code. Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at the entrance of the South Carolina Retirement System Investment Commission at 1201 Main Street, Suite 1510, Columbia, South Carolina, and were

posted at the Wampee Training and Conference Center at 1274 Wampee Plantation Road, Pinopolis, South Carolina on November 15, 2011. ]