

**SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION  
AUDIT COMMITTEE MEETING**

**SC Retirement System Investment Commission  
1201 Main Street, 15<sup>th</sup> Floor  
Columbia, SC 29201**

**Meeting Location: Presentation Center  
Wednesday, June 15, 2016 at 2:00 p.m.**

**Committee Members Present:**

Mr. Allen Gillespie, Chairman  
Ms. Peggy Boykin  
Mr. Edward Giobbe (via telephone)

**Others present for all or a portion of the meeting on June 15, 2016:** Geoff Berg, Betsy Burn, Andrew Chernick, Dori Ditty, Michael Hitchcock, Monica Houston (via telephone), Bryan Moore, and Tricia Miller from the South Carolina Retirement System Investment Commission; John Page from the South Carolina Public Employee Benefit Authority; Wayne Pruitt from the State Retirees Association of South Carolina; Melinda Al-Hasan and Allen R. Townsend from the State Treasurer's Office; and Thomas Ray from CliftonLarsonAllen (via telephone).

- I. **Call To Order:** Chairman Allen Gillespie called the meeting of the Audit Committee ("Committee") to order at 2:00 p.m. Mr. Edward Giobbe made a motion to adopt the Agenda as presented, and Ms. Peggy Boykin seconded the motion, which was unanimously approved.
- II. **Approval Of Minutes:** (Sept. 3 and 25, Nov. 12, and Dec. 29, 2015; Jan. 22, Feb. 17, and April 11, 2016) Chairman Allen Gillespie explained that there were several draft meeting minutes to approve and suggested that each be reviewed separately. Ms. Peggy Boykin made a motion to carry over approval of the draft minutes from September 3, 2015, September 25, 2015 and November 12, 2015 and approve all other draft minutes as presented. Mr. Edward Giobbe seconded the motion, the minutes of December 29, 2015, January 22, 2016, February 17, 2016 and April 11, 2016 were approved unanimously.
- III. **Report from CliftonLarsonAllen:** Mr. Thomas Ray from CliftonLarsonAllen, via telephone, presented the Agreed Upon Standards Report which was issued in March 2016. Mr. Ray explained that the procedures are owned by the Audit Committee and the Commission. There were no findings around the examined valuation issues; there were two findings in the area of due diligence regarding the documentation of the review of audited financial statements being completed within 150-days of year-end. Chairman Gillespie inquired about the explanation for the two findings. Mr. Andrew Chernick, Managing Director of Operations and Operational Due Diligence, explained that both financial statements were reviewed, but outside of the 150-day window that is internally set as the goal for the timing of review for financial statements. Mr. Bryan Moore, Director of Global Core Strategies, further explained that the deadline is an internal process goal, set by the investment staff. He noted that for the past three years since this process had started, there were no material findings reported in the financial statements for the direct investments, which have a review deadline of 150 days following year-end, or in the fund of fund managers, which have a 180-day post year-end review deadline.

Mr. Ray went on to say that CliftonLarsonAllen holds the Commission as an industry leader and an example to others for thorough due diligence procedures. He added that CliftonLarsonAllen was impressed by the work of the RSIC, and by the enhancement around the Valuation Policies and Due Diligence Procedures, and by the RSIC's format and practices for due diligence documentation and the use of the Tamale System. Ms. Boykin asked for any recommendations for the Financial Statement Audit for PEBA going forward, and whether there should be any enhancements. Mr. Ray stated that they do much more for PEBA around the area of valuation, and this Agreed Upon Standards Report is in addition to what they currently do for PEBA's audit. Mr. Giobbe stated that he believes the report was positive overall with no material deficiencies found.

- IV. **Audit Committee Self Evaluation:** Chairman Gillespie stated that the audit department had faced a difficult year with the Chief Audit Officer being out of the office due to a medical reason. Ms. Monica Houston, Chief Audit Officer, stated that the last time the Self Evaluation was completed was in May 2015, and the committee is due again for a Self Evaluation according to the Committee's Charter. Chairman Gillespie said that due to this being a challenging year the distribution would be taken up at a later date.
- V. **Compliance Update:** Mr. Chernick, as acting compliance staff, presented the Compliance Update. He noted that the most important thing that is being done by Compliance, as the end of the fiscal year approaches, is the Annual Manager Compliance Questionnaire and Certification. He explained that this is the fourth year RSIC has completed this and has worked with several teams across the agency to continue to improve the format and data received. The Annual Manager Compliance Questionnaire and Certification will be sent out to all active managers around July 1<sup>st</sup>. Other items that Compliance has been working on are compliance training for all new hires, personnel training, Completeness Checks for potential investments, Sourcing and Conflicts Disclosure Form reviews, as well as the first round of Securities Lending Compliance, which is done on a quarterly basis. Mr. Chernick ended his presentation by stating that there were no material compliance violations to report.
- VI. **Internal Audit Update:** Ms. Houston presented the Internal Audit Update. She stated that she has completed the reports for the outstanding items for the 2014-2015 Audit Plan and should be able to issue the reports by the end of the week following the completion of management review of some of the reports. In response to a question from Chairman Gillespie, Ms. Houston noted that the outstanding items include the AIP and SIOP Compliance Audit Follow Up, Ethic/Conflicts of Interest Audit, AIR Audit Follow Up and Agency Relationship Audit reports. Ms. Houston noted that the Performance Reporting Audit Report was already issued. Chairman Gillespie suggested that a folder in WatchDox be created for Audit's completed items, reports, etc. Ms. Houston stated that she did not put the Performance Reporting Audit Report in the proper folder in WatchDox before going out on leave again. Ms. Boykin suggested that Ms. Houston go back to 2014-2015 Audit Plan and label what was carried over to the 2015-2016 Audit Plan and note which items still remain open. A discussion between Chairman Gillespie and Ms. Houston as to how to set up the folder followed. Chairman Gillespie asked that a column be added to the Audit Plan with a link that will connect the report on WatchDox. Ms. Houston agreed that she could complete that request.

Ms. Houston stated that the 2015-2016 Audit Plan revisions should be presented in September. The Audit Plan presented was only for the approval of resources. All of the 2014-2015 completed external audits' costs were less than the budgeted amount. Ms. Houston stated that the Securities Lending Audit had not been completed and should be carried over until the next

year's plan. Mr. Michael Hitchcock, Chief Executive Officer, Mr. Geoff Berg, Acting Chief Investment Officer, and Chairman Gillespie discussed the importance of the Securities Lending Audit. Mr. Chernick added that the policy for Securities Lending was relatively new and thus, it may not be appropriate to audit this area until the policy had been in effect and operative for at least a year. Ms. Houston recommended that the Performance Reporting Audit, if possible, should be completed as a follow-up item.

Chairman Gillespie stated that he wanted to table the discussion of the Resourcing Plan, proposed Audit Plan, and Risk Assessment until after Executive Session. The Committee agreed to his request. Chairman Gillespie inquired about the Service Delivery portion of the proposed 2015-2016 Audit Plan. Ms. Houston explained that every year the Plan has a Service Delivery section included and it shows how the audit work for the proposed plan is broken down across areas such as Operational, Consulting, Departmental, Compliance, Financial, and Other. Mr. Hitchcock had previously asked for a discussion on this topic. Chairman Gillespie asked that this be carried over as well, to which the Committee agreed.

- VII. Executive Session:** Mr. Giobbe moved to go into Executive Session to obtain advice from legal counsel and to discuss personnel matters pursuant to S.C. Code Ann. Sections 30-4-70(a)(1) and (a)(2). Ms. Boykin seconded the motion, which passed unanimously. The Committee recessed into Executive Session at 2:34 p.m.
- VIII. Potential Actions Resulting From Executive Session:** At 3:15 p.m. Chairman Gillespie reported that no action had been taken during Executive Session; the Committee received legal advice and personnel updates.
- IX. ADJOURNMENT:** There being no further business, Ms. Boykin made a motion to adjourn the meeting. Mr. Giobbe seconded the motion, which passed unanimously, and the meeting adjourned at 3:24 p.m.

[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 the parties who requested notice and were posted in the entrance, in the lobbies, and near the 15<sup>th</sup> Floor Conference Room at 1201 Main Street, Columbia, SC, on Monday, June 13, 2016 at 9:33 a.m.]