

**South Carolina Retirement System Investment Commission  
Audit and Enterprise Risk Management Committee Meeting  
Minutes  
October 24, 2018**

**Capitol Center  
1201 Main Street, Suite 1510  
Columbia, South Carolina 29201**

**Committee Members Present Via Teleconference:**

Ms. Peggy Boykin, Acting Chair  
Mr. William J. Condon, Jr.  
Mr. William H. Hancock

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**I. Call to Order & Adoption of Proposed Agenda**

Ms. Peggy Boykin, acting as Chair of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“Commission”), called the meeting of the Committee to order at 10:01 a.m.

**II. Approval of Minutes (August 30, 2018)**

Chair Boykin referred to the draft minutes from the August 30, 2018 Committee meeting. Mr. William H. Hancock made a motion to adopt minutes from the August 30, 2018 Committee meeting as presented. Chair Boykin seconded the motion, and it was approved with Mr. William J. Condon, Jr. abstaining from the vote.

**III. Selection of Committee Chair**

Chair Boykin then asked if there were any nominations for Chair of the Committee. Mr. Condon made a motion to nominate Mr. Hancock to serve as Chair. Ms. Boykin seconded the motion, and it was approved unanimously. Mr. Hancock then assumed the role of Chair of the Committee.

**IV. Compliance Update**

Chair Hancock recognized Mr. Andrew Chernick, Chief Operating Officer, for the compliance update. Mr. Chernick began by noting that compliance reviews for the quarter ending September 30, 2018 are still in process and should be completed shortly. He stated that the Committee would receive updates about the compliance reviews at the next Committee meeting. Furthermore, Mr. Chernick stated that all Commissioners and employees turned in RSIC’s Material Interest Form, and there were no material interests noted for this Fiscal Year. He added that the disclosure will be included in the Annual Investment Report as is statutorily required.

Mr. Chernick then provided an update on the Annual Investment Manager Compliance Questionnaires (“Manager Questionnaire”) for the Fiscal Year ending June 30, 2018. He noted that RSIC received a 100 percent response rate from RSIC’s investment managers, and all of the responses have been reviewed by assigned members of RSIC Staff (“Staff”). Mr. Chernick then explained the development of the Manager Questionnaire, noting that it is designed to gather various data points and confirm investment managers are in compliance with investment guidelines. He explained that this review process is now part of RSIC’s Ongoing Due Diligence Policy, and therefore, is tested annually as part of the Agreed

Upon Procedures. Mr. Chernick then overviewed some of the data points RSIC collects via the Manager Questionnaire.

## **V. Internal Audit Update**

Mr. Michael Hitchcock, Chief Executive Officer, gave a report on the status of the Fiduciary Performance Audit, which is currently in progress. He noted that the initial draft report has been received from Funston Advisory Services LLC (“Funston”), which has been conducting the review. He noted that Funston had commended RSIC on the amount of progress made since Funston conducted their prior audit of RSIC. Mr. Hitchcock explained that Funston has made about 40 recommendations. He stated that most of the recommendations are not remedial in nature but geared towards moving RSIC to best practices. He noted a copy of the draft report is available to the Commissioners. Mr. Hitchcock then stated that representatives of Funston would be present for the Commission’s November meeting and asked for comments.

Mr. Chernick then turned the conversation to an update on the Cash Management Implementation Review, which was on 2018-19 Fiscal Year Audit Plan. He stated that RSIC had recently transitioned from fulfilling capital calls using fax machines to using an electronic system offered by the Bank of New York Mellon (“BNYM”). Given the risks associated with moving large amounts of money, RSIC engaged in extensive due diligence about BNYM’s Capital Call Management System (“Capital Call System”) before making this transition. He added that, after a few months of utilizing the Capital Call System, Staff plans on utilizing a preapproved vendor to conduct a review of RSIC’s cash wiring procedures to ensure RSIC is following best practices.

Next, Mr. Chernick turned to a discussion of the Agreed Upon Procedures (“AUP”) Review of Fiscal Year end June 30, 2018 (“AUP Review”), which was conducted by CliftonLarsonAllen LLP (“CLA”) and was previously provided to the Commissioners. After noting that the AUP Review had been a recommendation by Funston from its prior review of RSIC, Mr. Chernick introduced Mr. Thomas Rey, a Partner with CLA, to provide a report on the AUP Review. Mr. Rey began by noting that the AUP Review focused on RSIC’s investment due diligence, initial and ongoing, and valuation procedures. He stated that, because CLA audits the South Carolina Public Benefit Authority’s (“PEBA”) Comprehensive Annual Financial Report (“CAFR”), CLA was able to leverage that experience to conduct the AUP Review. Mr. Rey then explained that CLA’s testing resulted in no exceptions being noted. He clarified that the AUP Review focused solely on testing the procedures in place, not the sufficiency of the procedures. Mr. Rey also noted that in addition to this AUP Review, lots of other work is done by CLA at PEBA in the area of valuation as part of the CAFR audit and covered those processes in detail, including price testing in-bank assets and independent confirmations of a large sample of non-custodied assets balances. There was further discussion on how Staff would plan on further educating the Committee on key process in areas such as due diligence and valuation at the next few Committee meetings. This educational series could potentially be helpful in adding procedures the Committee may choose to have covered in future AUP reviews.

Then, Mr. Chernick stated that the Committee would receive a report from ACA Performance Services, LLC (“ACA”) concerning the Global Investment Performance Standards (“GIPS”) examination recently performed for RSIC. He explained that RSIC can now claim GIPS compliance for the fiscal year ending June 30, 2018. Mr. Douglas Finlay of ACA began his presentation by explaining that ACA is a leading provider of risk management and technology solutions focused on regulatory compliance, performance, financial crime and

cybersecurity for the financial services firms. He stated that GIPS are a transparent framework for investment managers to present performance to prospective clients, but GIPS has been modified to fit the needs of asset managers. Mr. Finlay stated that asset managers have begun adopting GIPS to show adherence to ethical standards, internal controls, and instill greater confidence when reporting performance. He explained that the GIPS verification examination tests sample data from BNYM, but the testing also serves as an additional check on RSIC's data integrity, valuation, performance returns, and internal controls. Mr. Chernick noted that RSIC plans on having the verification process performed on an annual basis going forward.

**VI. Discussion of Proposed 2019 Meeting Dates**

Chair Hancock then referred to the proposed meeting dates for the Committee's 2019 meetings and asked if there was a motion to approve the meeting dates. Ms. Boykin made a motion to approve the Committee's meeting dates for the 2019 calendar year as presented. Mr. Condon seconded the motion, which passed unanimously.

**VII. Executive Session**

Ms. Boykin made a motion to recede into Executive Session to discuss personnel matters related to the vacant Enterprise Risk Management & Compliance position pursuant to S.C. Code Ann. Section 30-4-70(a)(1). Mr. Condon seconded the motion, and it passed unanimously.

**VIII. Adjournment**

There being no further business, Ms. Boykin made a motion to adjourn. Mr. Condon seconded the motion, which passed unanimously. The meeting adjourned at 1:00 p.m.

[Staff Note: In compliance with S.C. Code Ann. Section 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 on October 22, 2018 at 4:25 p.m. at the entrance, in the lobbies, and near the 15<sup>th</sup> Floor Presentation Center at 1201 Main Street, Columbia, S.C.]