

**South Carolina Retirement System Investment Commission
Audit and Enterprise Risk Management Committee Meeting
Minutes
April 27, 2021**

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

Committee Members Present:
Dr. Rebecca Gunnlaugsson, Chair
Ms. Peggy Boykin
Mr. William J. Condon, Jr.

I. CALL TO ORDER AND ADOPTION OF PROPOSED AGENDA

Chair Dr. Rebecca Gunnlaugsson called the meeting of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“RSIC”) to order at 10:30 a.m. Mr. William J. Condon, Jr. made a motion, which was seconded by Ms. Peggy Boykin, to adopt the agenda as presented, and it was unanimously approved.

II. APPROVAL OF MINUTES (DECEMBER 9, 2020)

Chair Gunnlaugsson referred to the draft minutes from the Committee’s December 9, 2020 meeting. Ms. Boykin made a motion to adopt the minutes from the December 9, 2020 Committee meeting as presented. Mr. Condon seconded the motion, and it was unanimously approved.

III. ENTERPRISE RISK MANAGEMENT AND COMPLIANCE UPDATES

Chair Gunnlaugsson recognized Ms. Michelle Kennedy, Director of Enterprise Risk Management (“ERM”) and Compliance, for her presentation. Ms. Kennedy began by acknowledging members of the ERM practice group from Deloitte & Touche, LLP (“Deloitte”) who have been assisting with the continuing buildout of RSIC’s ERM function. She then introduced Mr. Antonio Crombie who serves as a Senior Manager with Deloitte and asked him to provide an ERM update.

Mr. Crombie began his presentation by overviewing the purpose of ERM. He explained that RSIC has been on a journey to implement and sustain an effective ERM program and that this process has been informed by three main drivers. The first driver is that ERM serves as a strategic enabler that improves operational excellence and enhances confidence and consistency in achieving mission goals. RSIC meets the objectives of this driver by proactively identifying and managing risks in a holistic and coordinated fashion. The second driver is that, because RSIC’s management and Commissioners are accountable for achieving objectives, there is a top-down mandate to manage risks more

effectively. Mr. Crombie noted that ERM implementation is also considered a leading practice. Finally, the fiduciary audits of RSIC are a driver. These audits were conducted in 2014 and 2018 by Funston Advisory Services, LLC (“Funston”). The 2014 fiduciary audit report recommended that RSIC establish an ERM program, and the 2018 report observed that additional progress needs to be made.

Mr. Crombie then turned to a discussion about the benefits of ERM for RSIC. He stated that ERM will increase positive outcomes while reducing negative surprises, which should decrease the frequency of “fire drills” and allow RSIC to better adapt to risks outside the organization’s control. The second benefit Mr. Crombie mentioned was the breaking down of silos within RSIC, which brings people from across the organization together to discuss risks. He noted that Deloitte has held workshops with RSIC’s risk owners to understand the risks that recur in parts of the organization. Another benefit is reducing performance variability by anticipating risks and taking action to decrease disruptions. The fourth benefit was to increase the range of opportunities by identifying risks on the horizon. Finally, Mr. Crombie explained that ERM improves resource deployment whether it be human capital, budget, or technology resources.

Mr. Crombie then turned to a discussion of where RSIC stands in the ERM lifecycle noting that RSIC has identified and categorized risks that impact the achievement of strategic goals and objectives. He also explained that RSIC has assessed the inherency of the risk exposures to RSIC and is in the process of evaluating the residual risks through RSIC’s Internal Audit (“IA”) function. Mr. Crombie stated that RSIC has prioritized the risks that need to be monitored more closely and will be identifying key risk indicators (“KRIs”) to monitor the risks. He underscored that the ERM lifecycle requires communication across an organization. Mr. Crombie concluded and then introduced Mr. Jake Braunsdorf who serves as a Senior Consultant with Deloitte to further discuss RSIC’s ERM journey.

Mr. Braunsdorf stated that, in the fall of 2020, RSIC and Deloitte began ERM training to help educate risk owners amongst RSIC Staff (“Staff”) on the ERM lifecycle process. Thereafter, Deloitte performed a tiering exercise with Staff to prioritize risks and develop key risk and performance indicators (“KPIs”). Mr. Braunsdorf then overviewed RSIC’s risk-related dashboard report and noted that the report provides a current picture of the risks RSIC faces. Mr. Condon asked if there were any risks that Staff or the Commissioners had previously not identified, and Mr. Braunsdorf responded that were not. He explained that most of the discussions between Deloitte and Staff were about prioritization of risks.

Mr. Braunsdorf then turned to a discussion about risk tiering. He stated that, based on the workshop Deloitte conducted with Staff in January of 2021 and previous assessments, Deloitte had tiered enterprise risk to facilitate the prioritization of KRIs and KPIs. Tier 1 contains the most urgent risks that need to be closely monitored for the next six to twelve months. Tier 2 contains the next most critical. Tier 3 contains the risks that management should monitor for changes over time. Mr. Crombie concluded his presentation by reviewing next steps, which include continuing the development of KRIs and KPIs as well as monitoring and reporting on the performance of risks. Ms. Kennedy thanked Mr. Crombie and Mr. Braunsdorf for their presentation.

Next, Ms. Kennedy provided a presentation regarding compliance matters as of December 31, 2020. She began by reminding the Committee that every quarter the Committee receives an update regarding compliance with policies relating to the following areas: securities lending, personal trading, and separately managed accounts. Ms. Kennedy reported that no material issues were noted for the December 31, 2020 reviews.

IV. INTERNAL AUDIT UPDATE

Chair Gunnlaugsson then asked Mr. Mitchell Goldsmith, Senior Legal Counsel, for the IA update. Mr. Goldsmith began by reminding the Committee about the engagements completed during Fiscal Year 2020-21. He then turned to a discussion of the recently completed Agreed-Upon Procedures (“AUP”) Review of RSIC’s procurement-related areas (“Procurement AUP Review”) for fiscal year-end June 30, 2020. The Procurement AUP Review was performed by the Hobbs Group, PA (“Hobbs Group”) and covered areas including cash receipts, disbursements, payroll journal entries, and the Appropriations Act. Mr. Goldsmith reported that there were no exceptions noted but that Ms. Ally Rivers from the Hobbs Group was on the phone to answer any questions. Hearing none, Mr. Andrew Chernick, Chief Operating Officer, congratulated Mr. Brian Wheeler, Administrative Manager, Ms. Brittany Storey, Human Resources Manager, and Ms. Barbara Creswell, Operations Analyst, for five years without any exceptions noted for the AUP Procurement Review.

Mr. Goldsmith then turned to a discussion of the engagements expected to be completed during the current fiscal year. He began by noting that RSIC is in the process of implementing a new performance reporting software system: Caissa. Mr. Goldsmith explained that, as part of this implementation, Deloitte is conducting the Performance Reporting System Implementation (“System Implementation”) Review (“System Implementation Review”). He then introduced Mr. Ben Quigley who is a Senior Manager with Deloitte to provide an overview of this engagement. Mr. Quigley reported that fieldwork has begun, and the Deloitte Team would be providing an interim report covering the first phase of the implementation with a final report to follow once Caissa is fully implemented.

Mr. Quigley stated that the implementation of Caissa represents a significant change in operations and controls for RSIC. He explained that, in order to assess the implementation, the Deloitte Team has developed an audit plan and related procedures. Mr. Quigley then provided an overview of the first phase of the implementation. He noted that the System Implementation has had the full support of RSIC’s leadership and that the project team has been working diligently to ensure that Caissa is implemented to support complete, accurate, and timely performance reporting data. The Deloitte Team has been embedded with the project team from the beginning of the System Implementation and have been attending weekly status conferences with the project team as well as Caissa’s staff. Mr. Quigley reported that the Deloitte Team has identified no significant control weaknesses. He concluded by noting that the Deloitte Team has identified some opportunities to improve overall project management and that that the System Implementation has taken longer than initially anticipated.

Then, Mr. Condon asked if the Commissioners would see any differences in reporting or if the System Implementation is more of a back-office control. Mr. Chernick responded that the primary goal of the System Implementation is to enhance controls via less reliance on spreadsheets and manual process as well as to enhance reporting capabilities. He explained that the performance framework that was approved by the Commission will not change, but RSIC will leverage Caissa to provide better information to the Commission during the asset class deep dives, which are presented to the Commissioners on a quarterly basis.

Hearing no further questions, Mr. Goldsmith turned to a discussion of the Custodial Services Oversight Review (“Custodial Review”) and asked Mr. Quigley to overview the components of the review. Mr. Quigley began by stating that, as part of IA’s procedures, Deloitte will review the governance structures in place as well as RSIC’s oversight model and related controls for services outsourced to BNY Mellon to validate that related outsourcing risks are mitigated. He explained that the scope for the Custodial Review encompasses a risk-based approach to identifying the highest risks as well as assessing the efficiency of RSIC’s custodial oversight model. Mr. Quigley noted that the Deloitte Team will provide a final report relating insights to leading practices while also providing the findings, recommendations, and opportunities for improvement that are identified during the course of the review.

Mr. Condon moved to approve the proposed Scope for the Custodial Services Oversight Review as presented by Deloitte. Ms. Boykin seconded the motion, which was unanimously approved.

V. EXECUTIVE SESSION

Chair Gunnlaugsson noted that no Executive Session was required for the meeting and moved on to the next agenda item.

VI. ADJOURNMENT

There being no further business, at 11:11 a.m., Ms. Boykin made a motion to adjourn. Mr. Condon seconded the motion, which was unanimously approved.

[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 April 23, 2021 at 8:54 a.m. at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C.]