

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

**July 29, 2014**

**15th Floor Conference Room  
1201 Main Street  
Columbia, South Carolina 29201**

**Commissioners Present:**

Mr. Allen Gillespie, Chairman  
Mr. Edward Giobbe  
Ms. Peggy Boykin

**Others present for all or a portion of the meeting on Tuesday, July 29, 2014:** Andrew Chernick, Gail Cassar, Sarah Corbett, Dori Ditty, Erlinda Doherty, Robert Feinstein, Mitchell Goldsmith, Hamilton Grant, Monica Houston, James Manning, and Corby Selvey from the South Carolina Retirement System Investment Commission; Larry McHale, Tammy Nichols, John Page, and Faith Wright from the Public Employee Benefits Authority; Melinda Al Hasan and David Padgett from the State Treasurer's Office; Wayne Pruitt from the State Retirees Association of South Carolina

**I. CALL TO ORDER CONSENT AGENDA**

Chairman Allen Gillespie called the meeting of the RSIC Audit Committee ("Committee") to order at 10:02 a.m. Chairman Gillespie welcomed new Committee member, Ms. Peggy Boykin, the PEBA Executive Director. Ms. Boykin made a motion to approve the agenda for the July 29, 2014 Audit Committee meeting, which was seconded by Mr. Giobbe and passed unanimously.

**II. APPROVAL OF MINUTES (February 26 and April 22, 2014)**

Chairman Gillespie requested a motion to approve the minutes from the February 26 and April 22, 2014 meetings after a brief review of such by Mr. Gillespie. Mr. Edward Giobbe made the motion to approve the minutes from the February 26 and April 22, 2014 meetings, which was seconded by Chairman Gillespie. The motion was passed with one abstention from Ms. Boykin.

**III. AUDIT COMMITTEE FOLLOW-UP**

Ms. Monica Houston, Internal Audit and Compliance Officer, reviewed the open items from the Audit Committee Follow-up Report. Of the fourteen items on the list, six items remain open. The open items and the course of action discussed were:

- Audit Committee self-evaluation – On today's meeting Agenda for action
- A motion to obtain external legal counsel in the review and assessment of compliance policies – Discuss further in Executive Session to determine if resolved to satisfaction of Audit Committee
- Review of Internal Audit Service Provider Procurement policy – Audit Committee approval requested
- Commission Code of Ethics - On today's meeting Agenda for action
- Statutory requirement of 70% allocation to equity on cost versus market basis – Remains open pending RSIC's management action plan to the Funston Fiduciary

Review as well as response to Commissioner requests at the Wampee Strategic Planning meeting relative to Performance Reporting

- Addition of more timely, standard reporting – Remains open pending RSIC's management action plan to the Funston Fiduciary Review as well as response to Commissioner requests at the Wampee Strategic Planning meeting relative to Performance Reporting.

At the direction of Chairman Gillespie, the Committee reviewed the Internal Audit Service Provider Procurement Policy and after a brief question and answer session, Mr. Giobbe made a motion that the List of Approved Vendors be attached to the policy as Schedule A and that the Internal Audit Service Provider Procurement Policy be approved subject to such change. The motion was seconded by Ms. Boykin and passed unanimously.

Upon the request of Chairman Gillespie, Ms. Houston also briefly reviewed the items closed since last report of which there were four.

#### **IV. COMMISSIONER CODE OF ETHICS**

Mr. Andrew Chernick, Director of Compliance and Risk Management presented a revised draft of the Commissioner Code of Ethics ("COE") document to the Committee for review and approval. Based on the current RSIC employee Code of Ethics, the document is meant to provide guidance as to the values and standards by which the Commissioners are expected to abide. Mr. Chernick stated that the new COE is expected to serve as an annual reminder and supports current policy. After lengthy discussion, Mr. Giobbe proposed a motion for the Audit Committee to recommend approval of the Commissioner Code of Ethics to the full Commission. The motion was seconded by Ms. Boykin, and unanimously approved. Mr. Robert Feinstein, Chief Legal Counsel, inquired relative to the recommended timing of implementation to which Chairman Gillespie responded that it should be effective immediately upon approval and annually thereafter on a fiscal basis.

#### **V. REVIEW AND APPROVAL OF INTERNAL AUDIT CHARTER**

Ms. Houston reviewed the proposed Internal Audit Charter noting that such was in alignment with professional standards and represented a delegation of authority from the Audit Committee to the Chief Audit Officer and governs the operations of RSIC Internal Audit. Ms. Houston informed the Committee that Internal Audit Charter presented was exemplary of that provided by the Institute of Internal Auditors and that the document had been presented to Funston in connection with the Fiduciary Audit. Ms. Houston noted that Funston expressed no concerns with the document and that the approval of an Internal Audit Charter was included in the Fiduciary Audit recommendations. Mr. Gillespie requested a motion to approve the charter, to which Mr. Giobbe moved, Ms. Boykin seconded, and the motion was unanimously approved.

#### **VI. ENTERPRISE RISK MANAGEMENT AND COMPLIANCE UPDATE**

Mr. Chernick explained that the previously identified tasks recommended by the Deloitte Risk Assessment were incorporated into the Funston Fiduciary Audit report recommendations. Ms. Sarah Corbett, Executive Director stated that the Funston recommendation update would supplant the Deloitte Risk Assessment Dashboard updates going forward. Ms. Corbett reported on the progress of the implementation of the Funston recommendations stating that 27 of the more than 120 recommendations have already been completed, and that significant progress has been made on many more. Mr. Chernick requested input from Commissioners on deliverables. In response to a question from Chairman Gillespie as to whether there were material items still open on the Deloitte Report, Mr. Chernick noted that the items on the Deloitte report were to more broad and were split out amongst more specific recommendations in Funston's recommendations. Ms. Boykin also made inquiry as to whether all open items from the Deloitte

report were represented in the Funston report to which Mr. Chernick and Ms. Corbett responded in the affirmative.

Mr. Chernick provided an update on Enterprise Risk Management and his plans to meet with each of the Commissioners in the accomplishment of two main goals, 1) asking what deliverables are desired and 2) performing a risk discussion. A brief discussion was held relative to ERM expectations. Mr. Chernick provided a brief update on compliance activities stating that much progress had been made on employee and investment compliance. He noted that he would like to have an interactive discussion with the Committee in the future to discuss areas of focus given resource constraints.

## **VII. FY 2014 AUDIT PLAN UPDATE**

At the request of Chairman Gillespie, Ms. Houston provided a brief background of the relationship between the Audit and Compliance functions at RSIC as well as the types of engagements performed. The two departments were initially combined but have been separated to fully develop those specific functions. Ms. Houston reviewed progress made on the Audit 2013-2014 plan, explaining the status of each item on the approved plan. While most items were completed or recommended for rollover into the FY 2015 plan, two items were “on hold” status. As part of the discussion on items recommended for rollover, Chairman Gillespie recommended that consideration be given to the associated disclosures inherent in the performance reporting process. In the discussion on the items on hold, Ms. Houston noted that in support of a recommendation by Funston that these items be reviewed by an independent third party the valuation of investments and the initial due diligence (investment and operational) would be part of the Agreed Upon Procedures work for which Clifton Larson Allen are engaged. Mr. Gillespie expressed concern and made inquiry relative to the subjective nature of due diligence and his perceived elevation and use of “standards” by RSIC in carrying out such. A lengthy discussion followed with Mr. Chernick, Ms. Corbett, and Ms. Houston responding to the inquiry as well as additional inquiries from Chairman Gillespie and Mr. Giobbe.

## **VIII. FY 2014-15 INTERNAL AUDIT RISK ASSESSMENT AND AUDIT PLAN**

Ms. Houston reviewed the 2014-15 Audit Plan and provided explanation on the priority, timing, and methodology used to develop the plan. Ms. Houston noted that the plan is risk based and areas included on the plan were determined to present moderate to high risk to the organization. She provided explanation relative to the Audit Risk Cycle and the standard of covering all auditable areas within a 5 year period. Additional explanation was provided relative to certain items contained on the plan or for which there was a deviation to the Audit Risk Cycle. After discussion, Chairman Gillespie requested a motion to approve the 2014-15 Audit Plan be made. Mr. Giobbe made the motion which was seconded by Ms. Boykin, and adopted unanimously.

## **IX. AUDIT COMMITTEE SELF EVALUATION**

Chairman Gillespie requested that the forms provided be completed and returned to Ms. Houston for compilation and presentation at the next Audit Committee meeting.

## **X. EXECUTIVE SESSION**

The Audit Committee adjourned into Executive Session to discuss personnel matters pursuant to S.C. Code Ann. Section 30-4-70(a)(1), investments or other financial matters pursuant to S.C. Code Ann. Sections 9-16-80 and 9-16-320, and receive advice from legal counsel pursuant to S.C. Code Ann. Section 30-4-70(a)(2) at 11:27 a.m..

The Committee reconvened into open session at 2:14 pm. at which time Mr. Giobbe proposed the following motion that was seconded by Mr. Gillespie. Ms. Boykin abstained and the motion was passed.

The Audit Committee directs that letters be sent to the co-trustees of the SCRS trust funds related to the matter discussed in executive session and a letter be sent to the entity referenced therein.

## **XI. ADJOURNMENT**

There being no further business discussed following Executive Session, Chairman Gillespie proposed a motion to adjourn the meeting, which passed unanimously. The meeting was adjourned at 2:16 pm.

[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, in the lobbies, and near the 15<sup>th</sup> Floor Conference Room at 1201 Main Street, Columbia, SC, at 9:54 a.m. on July 28, 2014.]