

**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  
Tuesday, July 14, 2016 at 10:00 a.m.**

**Committee Members Present:**

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

**Others present for all or a portion of the meeting on July 14, 2016:** Andrew Chernick, Dori Ditty, Michael Hitchcock, and Tricia Miller from the South Carolina Retirement System Investment Commission; Melinda Al-Hasan and Allen Townsend from the State Treasurer's Office; and John Page from the South Carolina Public Benefit Authority.

- I. **Call To Order and Adoption of Proposed Agenda:** Chairman Allen Gillespie called the meeting of the Audit Committee ("Committee") to order at 10:01 a.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. **Compliance Update:** Mr. Andrew Chernick, Managing Director of Operations and Operational Due Diligence, presented a brief compliance update by stating that all Investment Manager Annual Compliance Questionnaires for fiscal year ending June 30, 2016 ("FYE 16") were sent out on July 1, 2016. He thanked the operational due diligence, investment, IT and legal teams for the collaborative effort. The responses are expected back by July 29, 2016, and Mr. Chernick noted that by the next Committee meeting, the responses will have been reviewed by the investment team and a summary of responses will be provided to the Committee. He noted that, consistent with the previous year, an Annual Compliance Questionnaire had been sent to the investment consultant, Aon Hewitt, to be returned by the end of July. Mr. Chernick noted the ongoing, regular compliance activities continued, including quarterly compliance checks for the quarter ending June 30 for separately managed account and securities lending guidelines.

Chair Gillespie asked about compliance related training for new employees. Mr. Chernick explained that all new employees are required to complete compliance training with the Compliance Officer during the onboarding process. He also noted that all employees are required to annually complete compliance training and employees are required to complete inside trading compliance training during onboarding, and at least every two years thereafter. Mr. Chernick noted that the vendor that provides the inside trading training has additional training modules but other components are more tailored to SEC-registered firms than the agency. Chair Gillespie noted that he would be interested in the agency providing some guidance to employees related to political contributions and Mr. Michael Hitchcock, Chief Executive Officer, agreed that the agency could work on providing employees with additional guidance related to the topic. In response to a question from Mr. Giobbe, Mr. Chernick provided a summary of the RSIC's policies and processes related to employees' personal trading accounts and their required disclosure and monitoring by Compliance.

- III. FY 2016 - 2017 Audit Plan Update:** Ms. Boykin noted that due to the extended absence of Ms. Monica Houston, Chief Audit Officer, Mr. John Page, Director of Internal Audit of PEBA, and Mr. Chernick had been asked to work together to develop recommendations for an interim audit plan to keep the audit function moving forward. Mr. Chernick explained the process that he and Mr. Page followed to develop the recommendations for the proposed interim audit plan. He indicated that they had used the risk assessments developed by Ms. Houston and Mr. Eric Nelson, former Director of Enterprise Risk Management and Compliance, and compared the items highlighted in the assessments with the areas that have been recently reviewed by entities who had provided recommendations to the RSIC, including internal audit, the fiduciary audit, the State Inspector General's Office, and the Legislative Audit Council. The areas remaining from the combined risk assessments, which had not been covered in a review, were then narrowed down to areas for which audits could be outsourced. Based on the evaluation by Mr. Chernick and Mr. Page, with input from management, the three areas that were proposed to be included in the interim audit plan are (a) fixed income internal trading policies and procedures review; (b) human resources employee recruitment; and (c) investment due diligence (initial and ongoing) and investment valuations. Mr. Chernick provided preliminary detail for scope for the proposed items in the plan and answered questions from the Committee. Chair Gillespie asked that Mr. Chernick add review of processes related to trade fails and trade breaks for the fixed income internal trading processes and procedures review. Mr. Chernick confirmed the built out scope would include these components. Mr. Chernick explained that the resource plan for the interim audit plan would include an outside vendor from the State Auditor's list for the fixed income internal trading policies and procedures review; the State Division of Human Resources would review for the human resources employee recruitment; and CliftonLarsonAllen would perform the work for the investment due diligence (initial and ongoing) and investment valuations review. Mr. Chernick noted that the cost for the interim audit plan would be estimated to not exceed \$100,000 and would be supplemented with approximately 80 hours of internal staff assistance.

Ms. Boykin made a motion to approve the interim audit plan outline and resources as presented, with the addition of Chair Gillespie's request to add review of process for trade fails and trade breaks with regard to the expanded scope for item (b), with the budget to not exceed \$100,000. Mr. Giobbe seconded the motion, which passed unanimously.

Chair Gillespie requested that the full list of items developed by Mr. Chernick and Mr. Page be posted so that the Committee can see the areas that may need to be addressed following the completion of the newly approved interim audit plan. Mr. Hitchcock expressed appreciation to Ms. Boykin for her willingness to allow Mr. Page to develop the best proposal for an interim audit plan and also thanked Mr. Chernick for being able to step in and assist with the tasks in addition to his regular responsibilities. Ms. Boykin agreed with Mr. Hitchcock, and thanked the staff for the effective collaboration.

- IV. 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 at 2:34 p.m.
- V. 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.

**VI. 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 Tuesday, July 12, 2016 at 4:39 p.m.]