

**South Carolina Retirement System Investment Commission  
Audit and Enterprise Risk Management Committee Meeting  
Minutes  
June 7, 2018**

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

**Committee Members Present Via Teleconference:**

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

**Others present for all or a portion of the meeting on Thursday, June 7, 2018:** Betsy Burn, Andrew Chernick, Dori Ditty, Brad Gainey, Michael Hitchcock, and Tricia Miller from the South Carolina Retirement System Investment Commission.

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

Chair Allen Gillespie called the meeting of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“RSIC”) to order at 10:00 a.m. Ms. Peggy Boykin made a motion, which was seconded by Mr. Edward Giobbe and passed unanimously, to approve the agenda as presented.

**II. Approval of Minutes (March 22, 2018)**

Ms. Boykin made a motion to approve the Minutes as drafted from the March 22, 2018 meeting, which was seconded by Mr. Giobbe and passed unanimously.

**III. Compliance Update**

Chair Gillespie turned the meeting over to Mr. Brad Gainey, Director of Enterprise Risk and Compliance. Mr. Gainey began with a Compliance update. As of March 31, 2018, Separately Managed Accounts (“SMA”), Securities Lending review and Personal Trading review were all up to date with no material items to note. Mr. Gainey stated that Bank of New York Mellon (“BNYM”) was in the process of expanding compliance reporting to SMA accounts which we supplied the individual guidelines and they are in the process of coding. BNYM noted that it will take approximately six weeks for the coding to be completed. He also stated that we will begin with Global Fixed Income Accounts mandates.

Ms. Boykin asked about if we had any procedures or concerns regarding Wells Fargo accounts and recent news about them. Mr. Gillespie followed up by inquiring if we have any counterparty risk management procedures and stated that it would be easy to track since Wells Fargo is a publicly traded company. Mr. Andrew Chernick, Chief Operating Officer, noted that RSIC already has Counterparty Policy in place which was a Funston recommendation and it is circulated among key investment staff on a quarterly basis. He noted that he will double check what the policy covers but if custody relationship not covered it would be an easy to add to our ongoing monitoring process.

Mr. Gainey noted that the personnel compliance is an update on the Statement of Economic Interest and all of them have been received with no issues to note.

Lastly, the Annual Manager Questionnaire is currently being revised to be sent out to all managers by the end of the fiscal year to evaluate the compliance matters. Mr. Gainey reviewed what is to be included in the Questionnaire which are due back by the end of July when we will begin a multi-level review.

#### **IV. Internal Audit Update**

Mr. Gainey began the Internal Audit Update by stating since the last meeting of the Audit and Enterprise Risk Management Committee, RSIC has received one report from the State Auditor's Office. The report was received on May 9<sup>th</sup> with no findings noted. The scope of Agreed Upon Procedures report covered cash receipt and disbursements; targeted testing over payroll; various journal entries and transfers; and compliance with the Appropriations Act during fiscal year ending 2016. Mr. Michael Hitchcock, Chief Executive Officer, noted that this is the second year in a row that RSIC has received the report from the State Auditor's Office with no findings. Mr. Hitchcock complimented Mr. Brian Wheeler, Administrative Manager and Ms. Lisa Scott, Administrative Analyst for their work especially for having two years of reports with no findings.

Mr. Gainey's next item was an update on the Fiduciary Performance Review which is being performed by Funston Advisory Services. The submission of documentation went extremely well and they have inquired with follow up questions. He stated that Funston will be bringing six people to the onsite visit where they will conduct 24 separate interviews beginning the week of June 18<sup>th</sup>. Once Funston has completed the interviews, they have requested interviews with the Commissioners, representative from the retiree group, legislative body, external service providers, several investment managers who have recently gone through our due diligence process. Mr. Gainey noted that those interviews will begin once feedback has been provided on the first round of interviews.

Mr. Gainey noted that the final item in the internal audit update is GIPS compliance. He reminded the Committee that the State Auditor's Office assisted in selecting a company to perform GIPS compliance and that company was ACA Compliance Group. He noted that the contract was signed on April 20<sup>th</sup> and the initial work has already started. Mr. Gainey stated ACA had their initial meeting with Mr. Gainey, Mr. Chernick, and members of the reporting team the week of May 28<sup>th</sup>. Requirements of the GIPS reporting was discussed at this initial meeting. RSIC will be responsible for documenting the approach for reporting the GIP compliance figures. Mr. Gainey explained that ACA will visit one more time which is their verification phase. This meeting must be done after year end and RSIC will prepare a report using financial data as of fiscal year end. Ms. Boykin stated that she was very pleased with the GIPS progress. Mr. Gainey asked the Committee if there were any questions regarding GIPS and there were no questions at this time.

#### **V. ERM Update**

Mr. Gainey stated that the current goal is to manage risk to an acceptable level. To date, Mr. Gainey explained that the organization is identifying residual risk. To achieve that goal, he polled a select group of Staff/Management and asked them to identify the top risks to the organization. The only materials that were provided to the group was a copy of the Strategic Plan. Mr. Gainey expressed the he wanted to solicit genuine feedback which will provide a top down approach. Next, he will take those risks that were compiled and consolidate them into overall themes. From there, each area will be looked at to identify residual risk and

trends. Once that has been completed, Mr. Gainey stated that the mitigation gaps will be identified and then he will be able to begin reporting on the risk profile of the organization. Upon receiving the responses, Mr. Gainey noted that he was pleased with the responses and happy with the overall progress.

**VI. Adjournment**

There being no further business, Mr. Giobbe made a motion to adjourn. Ms. Boykin seconded the motion, which passed unanimously. The meeting adjourned at 10:22 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 June 6, 2018 at 9:34 a.m. at the entrance, in the lobbies, and near the 15<sup>th</sup> Floor Presentation Center at 1201 Main Street, Columbia, S.C.]