

**South Carolina Retirement System Investment Commission
Audit and Enterprise Risk Management Committee Meeting
Minutes
June 16, 2020**

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

Committee Members Present:
Mr. William H. Hancock, Chair
Ms. Peggy Boykin
Mr. William J. Condon, Jr.

I. CALL TO ORDER AND ADOPTION OF PROPOSED AGENDA

Chair Mr. William H. Hancock called the meeting of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“RSIC”) to order at 8:30 a.m. Ms. Peggy Boykin made a motion, which was seconded by Mr. William J. Condon, Jr., to adopt the agenda as presented, and it was unanimously approved.

II. APPROVAL OF MINUTES (FEBRUARY 18, 2020)

Chair Hancock referred to the draft minutes from the Committee’s February 18, 2020 meeting. Ms. Boykin made a motion to adopt minutes from the February 18, 2020 Committee meeting as presented. Mr. Condon seconded the motion, and it was unanimously approved.

III. PROPOSED CHARTER UPDATES

Chair Hancock then turned to proposed updates to the Committee’s Charter and asked Mr. Mitchell Goldsmith, Senior Legal Counsel, to walk the Committee members through the changes. Mr. Goldsmith began by explaining that the Charter had not been updated since the enactment of the Pension Reform Act of 2017 and that many of the concepts in the Charter are outdated. He stated that the proposed Charter reflects how RSIC’s internal audit (“IA”), enterprise risk management (“ERM”), and compliance functions currently operate. Mr. Goldsmith pointed out that the proposed Charter references the creation of RSIC’s IA Coordinator position, which is currently staffed by Mr. Goldsmith, as well as RSIC’s relationship with Deloitte & Touche L.L.P. (“Deloitte”). Deloitte currently serves as RSIC’s co-sourced IA service provider. In concluding his remarks, Mr. Goldsmith noted that the revisions to the Charter reflect leading practices taken from the Institute of Internal Auditor’s form charter, which is seen as industry leading practice.

Mr. Condon suggested adding that the Committee should be able to hire additional resources as necessary. Mr. Hitchcock suggested that the proposed Charter be revised to state that the Committee may authorize investigations into any matter within its scope

of responsibility and in accordance with any policies related thereto and shall seek approval from the Commission for any necessary additional resources. Mr. Condon agreed with Mr. Hitchcock's proposed addition.

Mr. Condon made a motion to approve the proposed updates to the Committee's Charter as discussed during the meeting. Ms. Boykin seconded the motion, and it was unanimously approved.

IV. INTERNAL AUDIT UPDATE

Chair Hancock then recognized Mr. Goldsmith for an update on RSIC's IA function. Mr. Goldsmith began his presentation by overviewing the engagements that were completed during the 2019-20 fiscal year. Mr. Goldsmith began by noting that the AUP Review of RSIC's procurement-related areas ("Procurement AUP Review") for fiscal year-end June 30, 2019 is complete. The Procurement AUP Review was performed by the Hobbs Group and covered areas including cash receipts, disbursements, payroll journal entries, and the Appropriations Act. He reported that there were no exceptions noted but that Ms. Ally Rivers from the Hobbs Group is on the phone to answer any questions. Hearing none, Mr. Goldsmith thanked Mr. Brian Wheeler, Administrative Manager, for all of his team's work in successfully completing the review. Next, Mr. Goldsmith reminded the Committee that, during the previous meeting, a report had been provided regarding the Investment Cash Processing & Capital Call/Distribution Review that was performed by the Deloitte Team.

He then turned to a discussion about the Information Technology ("IT") General Controls and End User Computing Controls Review ("IT Controls Review") that was recently completed by the Deloitte Team. The purpose of the IT Controls Review was to assess the design and implementation of IT general controls ("ITGC") that mitigate technology risk for RSIC as well as to assess end user computing controls ("EUCC") for RSIC's key spreadsheets. He stated that the review period for the IT Controls Review was January 1, 2019 through May 30, 2020. Mr. Goldsmith then introduced Mr. Craig Stanton, who is a Manager with Deloitte, to provide the Deloitte Team's presentation.

Mr. Stanton began by addressing the review of RSIC's ITGCs. He explained that the ITGC review focused on four of RSIC's key systems and assessed systems access, change management, security configuration, and management's review of SOC-1s for relevant vendor-supported applications. He stated that, with respect to the ITGC portion of the IT Controls Review, RSIC received a "satisfactory" rating, which is the Deloitte Team's highest rating for such a review. He noted that two low risk observations were noted, but the Deloitte Team ultimately determined that RSIC has implemented controls that are designed and implemented effectively.

Then, Mr. Stanton turned the presentation over to Mr. Ben Quigley, who is a Senior Manager with Deloitte, to provide an overview of the EUCC portion of the IT Controls Review. Mr. Quigley began by explaining that the EUCC testing encompassed policies, processes, and controls in place that relate to system access, oversight of changes, and

version control for two of RSIC's key spreadsheets. The EUCCs testing resulted in a rating of "needs significant improvement", but Mr. Quigley noted that the risk level is "moderate". He explained that the "needs significant improvement" rating resulted from RSIC not having a formal spreadsheet policy or a formal spreadsheet inventory. Mr. Quigley noted that the use of spreadsheets by RSIC has grown markedly over the last several years. He also noted that it is not uncommon for Deloitte to encounter similar issues within organizations in the investment industry. He surmised that there are opportunities for improvement but nothing unattainable by RSIC.

Mr. Quigley then paused for questions. Ms. Boykin asked if there would be a need for the Deloitte Team to follow up with respect to the IT Controls Review once management has adopted changes to processes. Mr. Quigley responded that the Deloitte Team, along with Mr. Goldsmith, will track Deloitte's recommendations and management's responses. He stated that Deloitte conducts follow up testing where observations are ranked as "moderate" to "high". Basically, in such cases, the Deloitte Team tests to ensure the management action plan put in place has been acted upon. For lower rated observations, the recommendations are still tracked, but remediation is usually determined by affirmations from management that observations have been addressed.

Mr. Goldsmith then provided an overview of the engagements to be completed in the 2020-21 fiscal year. He began by noting that the list of engagements is not exclusive. Before finalizing a list of engagements, the Deloitte Team will be reevaluating the risk assessment to determine if the engagements proposed by the Deloitte Team in August of 2019 remain appropriate or require reordering. Mr. Goldsmith then explained that the Derivative Overlay Implementation Review ("Overlay Review"), which was on the 2019-20 fiscal year audit plan, had been delayed because the subject matter specialist that the Deloitte Team identified for the review had been unable to travel to RSIC's offices due to the recent global health crisis. Even though work is still being done, the final report will be delayed until the fall of 2020.

In order to continue utilizing the Deloitte Team's time prudently, Staff has moved up the Portfolio Rebalancing and Exposure Processes Review ("Rebalancing and Exposure Review"), which was slated to be part of the 2020-21 fiscal year audit plan. Mr. Goldsmith explained that the review will assess RSIC's portfolio rebalancing and asset allocations processes, review exposure monitoring, investment compliance, and reporting on tactical asset allocation and rebalancing decisions. He reported that Staff and the Deloitte Team have already begun planning as well as sharing policies and procedures with respect to the Rebalancing and Exposure Review. Mr. Goldsmith then asked if there were any questions about the proposed scope for the Rebalancing and Exposure Review.

Hearing none, Chair Hancock called for a motion. Mr. Condon made a motion to approve the scope of the Rebalancing and Exposure Review. Ms. Boykin seconded the motion, which passed unanimously.

V. EXECUTIVE SESSION

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

VI. ENTERPRISE RISK MANAGEMENT AND COMPLIANCE UPDATES

The Chair then recognized Ms. Kennedy for her report. Ms. Kennedy began by providing an update on routine compliance matters. Ms. Kennedy reported that the compliance reviews regarding the Securities Lending, Separately Managed Accounts, and Personal Trading for the quarter ending March 31, 2020 are complete, and no material issues were noted.

Ms. Kennedy then turned to the continuing buildout of RSIC's ERM function. She explained that the implementation process is on schedule, and Deloitte is planning on holding an online webinar with key risk owners amongst Staff in October of 2020 in preparation for the on-site workshops in November of 2020. Ms. Kennedy then concluded her report.

Before adjourning, Chair Hancock stated that, with the Commission's Committee assignments being reshuffled soon, this could be his last meeting as a member of the Committee. He stated that the IA, ERM, and Compliance functions have all progressed significantly. He also thanked Mr. Goldsmith and Ms. Kennedy for all their efforts. Chair Hancock concluded by thanking the members of the Committee for the opportunity to serve with them.

VII. ADJOURNMENT

There being no further business, Ms. Boykin made a motion to adjourn. Mr. Condon seconded the motion, which was unanimously approved. The meeting adjourned at 9:19 a.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 12, 2020 at 1:33 p.m. at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C.]