

**South Carolina Retirement System Investment Commission  
Audit and Enterprise Risk Management Committee Meeting  
Minutes  
December 9, 2020**

**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.

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**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 10:01 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 (OCTOBER 7, 2020)**

Chair Gunnlaugsson referred to the draft minutes from the Committee’s October 7, 2020 meeting. Ms. Boykin made a motion to adopt the minutes from the October 7, 2020 Committee meeting as presented. Mr. Condon seconded the motion, and it was unanimously approved.

**III. DISCUSSION OF PROPOSED 2021 COMMITTEE MEETING DATES**

Chair Gunnlaugsson then referenced the Committee’s proposed 2021 meeting dates: April 27, 2021, July 20, 2021, October 5, 2021, and December 7, 2021. She asked if any of the Committee members had conflicts. Hearing none, Chair Gunnlaugsson asked for a motion to approve the Committee’s 2021 meeting dates. Mr. Condon made a motion to approve the proposed meeting dates for the 2021 calendar year as presented. Ms. Boykin seconded the motion, and it was unanimously approved.

**IV. DISCUSSION OF THE PROPOSED INTERNAL AUDIT CHARTER**

Chair Gunnlaugsson referenced the proposed changes to RSIC’s Internal Audit (“IA”) Charter (“IA Charter”) and asked Mr. Mitchell Goldsmith, Senior Legal Counsel, to provide some context for the changes. Mr. Goldsmith began by noting that the existing IA Charter has not been updated since 2018 and still reflects the time when RSIC had a dedicated internal auditor as a member of RSIC’s Staff (“Staff”). He also noted that the existing IA Charter does not reflect RSIC’s co-sourcing relationship with Deloitte & Touche, LLP (“Deloitte”) or the role of the IA Coordinator. Mr. Goldsmith explained that, in collaboration

with RSIC's Deloitte Engagement Team ("Deloitte Team"), he had updated the IA Charter utilizing the Institute of Internal Auditors ("IIA") Model Charter as well as IIA position papers. He concluded by stating that the proposed IA Charter reflects current leading practice and asked for questions.

Mr. Condon made several suggestions regarding the verbiage of the IA Charter. Then, Mr. Condon inquired about the ability of the Committee to approve resources to meet RSIC's annual IA Plan ("IA Plan"). Mr. Michael Hitchcock, Chief Executive Officer ("CEO"), responded that the Committee, in consultation with the CEO, approves contracts with third party organizations to perform IA activities because the CEO is the RSIC officer with final authority to bind the organization. Mr. Condon then expressed concern over the IA Coordinator also being a member of another department within RSIC. Mr. Hitchcock responded that, in the event any IA review concerns work related to the IA Coordinator, Mr. Hitchcock will appoint another member of Staff to coordinate the review. He went on to overview the governance of RSIC's IA Department and RSIC's co-sourced relationship with Deloitte.

Following additional discussion between Mr. Condon and Mr. Hitchcock, Mr. Condon made a motion that the Committee approve the proposed updates to the IA Charter as presented. Ms. Boykin seconded the motion, and it was unanimously approved.

## **V. ANNUAL REVIEW OF THE COMMITTEE'S CHARTER**

Chair Gunnlaugsson noted that the next order of business was the annual review of the Committee's Charter ("Committee Charter") and asked Mr. Goldsmith for his presentation. Mr. Goldsmith began by noting that the Committee must annually confirm that all of the responsibilities outlined in the Committee Charter have been executed. He highlighted one item that was not in compliance with the Committee Charter per the materials provided before the Committee meeting: evaluating the Committee's and individual members performance on a regular basis in conjunction with the Commission Evaluation Process. However, Mr. Goldsmith explained that Ms. Brittany Storey, Human Resources Manager, confirmed that the task was completed at the Commission's June 4, 2020 meeting, and as such, the Committee is in compliance with all of the requirements of the Committee Charter. Chair Gunnlaugsson then stated the responsibilities outlined in the Committee Charter have been carried out for the 2020 calendar year.

## **VI. INTERNAL AUDIT UPDATE**

Chair Gunnlaugsson then asked Mr. Goldsmith for the IA Update. Mr. Goldsmith began by reminding the Committee about the engagements completed during Fiscal Year 2020-21. He noted that both the Asset Rebalancing and Derivative Overlay Reviews as well as the update to RSIC's Risk Assessment had been presented at the Committee's October 7, 2020 meeting. Mr. Goldsmith then turned to a discussion of the Global Investment Performance Standards ("GIPS") Verification and Performance Examination ("GIPS Review") for fiscal year-end June 30, 2020. The GIPS Review was performed by ACA Performance Services, LLC with fieldwork conducted in September of 2020. Mr. Goldsmith stated that there were no findings, and RSIC is GIPS certified for Fiscal Year-

Ends July 1, 2017 through June 30, 2020. He added that Mr. Jon Rychener, Director of Investment Reporting and Performance, and his team were instrumental in achieving the GIPS certification.

Mr. Goldsmith then turned to a discussion of the annual Agreed-Upon Procedures (“AUP”) Review of RSIC’s Investment Valuation, Investment Diligence and Staff Compliance (“Investment AUP Review”) for Fiscal Year-End June 30, 2020. He stated that the Committee had received a report from CliftonLarsonAllen LLP (“CLA”) regarding the Investment AUP Review. Mr. Goldsmith added that the Investment AUP Review has been expanded to cover areas of Staff and investment compliance in prior years, including RSIC’s Securities Lending and Counterparty Risk Management Policies. As part of the current review, Staff compliance with RSIC’s Personal Trading Policy was added. He then introduced Mr. Tim Rawal and Mr. Thomas Rey with CLA who performed the Investment AUP Review. Mr. Rawal reported there were no material exceptions noted, but there were a couple of minor exceptions in relation to the Investment Valuation testing. Mr. Rey underscored that the result was a clean report and overviewed some of the history of RSIC’s engagements with CLA.

Mr. Goldsmith then turned to a discussion of engagements expected to be completed during the fiscal year. He began by noting that the Business Continuity and Disaster Recovery Planning (“BCP/DR”) Review (“BCP/DR Review”) has just been completed, and the final report would be posted for review by the Committee members following the meeting. Mr. Goldsmith stated that members of the Deloitte Team are on the teleconference and will be presenting on the BCP/DR Review later during the meeting. He then noted that the Performance Reporting System Implementation Review is underway with the Deloitte Team performing an embedded assurance or “ride-along” engagement for the implementation. Later during the fiscal year, the Deloitte Team will be performing the Custodian Oversight Review that was approved as part of RSIC’s Fiscal Year 2020-21 IA Plan. Mr. Goldsmith stated that a scope for the Custodian Oversight Review should be available before the Committee’s first meeting of 2021. Finally, Mr. Goldsmith stated that the annual AUP Review of RSIC’s Procurement-related areas (“Procurement AUP Review”) for Fiscal Year-End June 30, 2020 will likely take place during the first or second quarter of 2021.

Mr. Goldsmith then turned the discussion back to the recently completed BCP/DR Review. He explained that the purpose of the BCP/DR Review was to assess the design and operating effectiveness of processes and controls in place that mitigate risks related to business continuity and disaster recovery planning as well as related policies and procedures. Mr. Goldsmith then introduced Mr. Mike Brodsky who serves as a Managing Director with Deloitte and who oversaw the BCP/DR Review. Mr. Brodsky began by stating that, in light of the recent global health crisis, many organizations are reviewing and modernizing their BCP/DR plans. Mr. Brodsky surmised that the overall goal of BCP/DR is to provide confidence to management that organizations can quickly recover from interruptions. Mr. Brodsky then turned the discussion over to Mr. Paul Meynen who serves as a Senior Manager as well as a BCP/DR subject matter specialist with Deloitte.

Mr. Meynen began by stating that the approach Deloitte takes to BCP/DR is both practical and pragmatic. He explained that the goal of the Deloitte Team is to provide executives and organizations with confidence that, during a disruption, the organization's most important capabilities can be recovered expeditiously. He stated that the BCP/DR Review focused heavily on interviews with key stakeholders and reviewing RSIC's BCP/DR-related documentation. Mr. Meynen stated that Deloitte had two low risk observations. The first observation related to the DR Plan and how it can be used in the event of a disruption. Mr. Meynen surmised that RSIC's DR Plan needs to be updated to include actionable recovery steps that can be utilized in the event of a disruption and that additional Staff need to be trained on such procedures.

In terms of the second observation, Mr. Meynen emphasized the importance of testing BCP/DR procedures and stated that RSIC needs to expand beyond testing information technology. Instead, he suggested testing around tailored disruption scenarios that would challenge Staff's assumptions about RSIC's BCP/DR planning. Mr. Meynen cautioned against having processes that only a few members of Staff have a detailed understanding. He then asked for questions. Mr. Condon inquired about Deloitte's opinion as to whether RISC has enough staff members to be trained on key business processes. Mr. Meynen responded that, while RSIC is a small organization in terms of staff numbers, RSIC has sufficient numbers to train other members of Staff on key processes. Hearing no further questions, Mr. Goldsmith thanked the Deloitte Team for their presentation and informed Chair Gunnlaugsson that the IA Update was complete.

## **VII. COMPLIANCE AND ENTERPRISE RISK MANAGEMENT UPDATES**

Chair Gunnlaugsson then recognized Ms. Michelle Kennedy, Director of Enterprise Risk Management and Compliance, for her presentation. Ms. Kennedy 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 ("SMAs"). Ms. Kennedy reported that no material issues were noted for the September 30, 2020 reviews.

Thereafter, Ms. Kennedy began a discussion concerning RSIC's Annual Investment Manager Compliance Questionnaire ("Compliance Questionnaire") process. She explained that RSIC sends out the Compliance Questionnaire to all external investment managers, and the results are reported to the Committee once each year. Ms. Kennedy stated that the purpose of the Compliance Questionnaire is to gather data on RSIC's investment managers. She noted that the Compliance Questionnaire it is not designed to replace any initial or ongoing due diligence but rather to be another layer of ongoing due diligence. Ms. Kennedy then explained that the topics covered by the Compliance Questionnaire include: regulatory oversight, compliance procedures, legal issues, conflicts, back office structures, SMA monitoring, and various other topics. The Compliance Questionnaire process began after June 30, 2020, and all of the responses were received by August of 2020. Ms. Kennedy noted that, in addition to her review, members of the Investment Team review responses from investment managers and

confirm to her that there are no issues. She surmised that 89 questionnaires were distributed, and all were completed with no material issues cited.

Ms. Kennedy concluded her presentation by providing an Enterprise Risk Management (“ERM”) update. She stated that, at the end of October of 2020, the Deloitte Team conducted a general webinar workshop for all of RSIC’s risk owners to provide an overview of the ERM buildout process. Following the workshop, the Deloitte Team will hold subsequent workshops in January of 2021 with each of the risk owners to begin building out the ERM framework.

## **VIII. EXECUTIVE SESSION**

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

## **IX. ADJOURNMENT**

There being no further business, 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 December 7, 2020 at 11:39 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.]