

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

**November 10, 2011**

**15<sup>th</sup> Floor Conference Room  
1201 Main Street  
Columbia, SC 29201**

**Committee Members Present:**

Mr. Allen Gillespie  
Mr. Reynolds Williams  
Dr. Travis Pritchett

**Others present for all or a portion of the meeting on Thursday, November 10, 2011:** Sarah Corbett, Nancy E. Shealy, and Robert Feinstein from the South Carolina Retirement System Investment Commission (“RSIC”); Bill Leidinger and Shakun Tahiliani from the State Treasurer’s Office (“STO”); John Page from the South Carolina Retirement Systems (“SCRS”), and Joe Dietzer from Deloitte & Touche (“Deloitte”).

**I. Call to Order**

Mr. Allen Gillespie called the meeting of the Audit Committee of the RSIC (the “Committee”) to order at 12:00 p.m. and welcomed the Committee and guests. He made a motion to approve the draft agenda, which was seconded by Dr. Travis Pritchett and approved unanimously.

**II. Approval of Minutes**

Mr. Gillespie announced that the draft minutes from the Committee meeting on September 8, 2011 had been received by the Committee. Dr. Pritchett made a motion to approve the minutes as drafted. Mr. Gillespie relinquished the Chair and seconded the motion, which was approved by unanimous consent. Mr. Gillespie resumed his responsibilities as Chairman.

**III. SCRS Memorandum of Understanding Status**

Mrs. Corbett provided an update regarding the Commission’s Memorandum of Understanding (“MOU”) with the SCRS. She provided a brief summary of the MOU, which had been discussed at length during the Committee’s September 8, 2011 meeting, and noted that the following had been included in the final text of the MOU: (1) language providing that RSIC be included in the audit entrance and exit conferences for the SCRS’ annual financial statement audit, and (2) requirements that the SCRS’ external auditor maintain the confidentiality of all audit information obtained from the RSIC as part of the financial statement audit. Mrs. Corbett indicated that these additions to the MOU had been approved by SCRS, as well as Mr. Robert Borden, and concluded by noting that the MOU had been fully executed.

#### **IV. Review and Approval of Audit Manual**

Mrs. Corbett presented the draft Audit Manual for the Committee's consideration. She explained that it was produced by Deloitte and Touche and that she had reviewed the document. With regards to the Commission's information technology systems, Mr. Gillespie asked if there is a specific level of permission and security in place to allow a Director of Internal Audit to keep information secure. In response, Mrs. Corbett proposed that staff create (i) a shared drive that only the Internal Audit staff would have the ability to access, and (ii) a secure location on the Commission's extranet for the Audit Committee. Mr. Gillespie indicated that this proposal was adequate, but requested a list of those individuals who would have access.

Mr. Joe Dietzer (Deloitte and Touche) and Mrs. Corbett led a discussion regarding the Audit Manual. Mr. Dietzer stated that this document is more about the governance structure of the internal audit function for RSIC, and that items such as file/information security are still being developed. Dr. Pritchett asked if it would be advisable to get the input of the Director of Internal Audit prior to final approval of the Audit Manual. Mr. Gillespie noted that the plan previously discussed was to have Deloitte initially assist with the RSIC's audit function by developing the Audit Manual and implementing the audit plan, with the Director of Internal Audit assuming these responsibilities over time. Mrs. Corbett agreed, and added that this will add more detail to the Audit Manual, which is currently a generalized document. She stated that it would be useful for the Commission to decide whether it is going to trigger the previously negotiated, optional audit services component of its contract with Deloitte. Mr. Gillespie stated that he believed the intent of the Commission was to have Deloitte assist the Commission by executing the first year audit plan. Mrs. Corbett concurred, but explained that action needed to be taken by the Commission because the Commission's contract with Deloitte provided that the execution of the audit plan was an optional service which required the payment of additional fees on a per/hour basis. Mrs. Corbett suggested having Deloitte provide cost estimates to the Committee for the conduct of the audits called for under the Audit Plan. Mr. Gillespie agreed, and Deloitte was directed to provide cost estimates.

Mr. Gillespie noted that, as the Audit Manual lays the groundwork for the Audit Plan, the Audit Manual should be approved, with the understanding that it may be amended as needed. Dr. Pritchett thereupon made a motion to approve the Audit Manual as presented. Mr. Gillespie relinquished the Chair and seconded the motion, which was approved unanimously. Mr. Gillespie thereafter resumed his responsibilities as Chairman.

#### **V. Review and Approval of Audit Plans**

Mrs. Corbett presented the proposed Audit Plans for the Committee's consideration. She stated that the Audit Plan is more detailed than the Audit Manual, and requested the Committee's guidance as to how they would like to review the areas of focus outlined in the Audit Manual. Mr. Gillespie recommended that the Committee prioritize the areas of focus, and then assess the cost. Mr. Dietzer suggested that valuations, due diligence, and manager fees be the top three areas of focus. Mr. Gillespie agreed, but opined that items which have high economic impact need to be carefully considered. In the ensuing discussion: (i) Mrs. Corbett noted that the samples of what will be tested need to be chosen, (ii) Dr. Pritchett asked for, and received, some clarification regarding the use of the term "Key Stakeholders" in the document,

and (iii) Mr. Dietzer noted that the Audit Plans are still in draft form, and concerns related to technical aspects can easily be changed.

Mr. Gillespie announced that Mr. Reynolds Williams joined the meeting at 12:22 p.m.

Mrs. Corbett said that since the Committee had decided that Deloitte will assist in the execution of the first year audit plans, Deloitte will be able to do more research to clear up some unresolved issues. She added that the current plans had been submitted as draft documents. Mrs. Corbett suggested that the Committee vote to approve Deloitte's execution of the first year Audit Plan, which will be based on Deloitte providing a cost analysis of each task at hand. Mr. Gillespie suggested creating a cost estimate for the main area of focus, then breaking it into sub-categories as well. Mr. Dietzer indicated that Deloitte would provide this break down. Ms. Nancy Shealy, the Commission's General Counsel, suggested that it be noted in the Audit Plan (and reflected in the cost estimates) that certain processes (for example, NEPC's due diligence procedures), are not included in the audits. Mr. Dietzer confirmed that these distinctions will be laid out. Mr. Gillespie requested that the frequency and size of revisions made by managers over time be added to the checklist for the audit of valuations.

Mr. Williams asked if the Committee needed to adopt the draft document, in order for Deloitte to create its cost estimates. Mrs. Corbett asked the Committee to approve the topics listed, with the understanding that Deloitte would then develop cost estimates for the Committee's review. Mr. Williams made a motion to formally request that Deloitte develop cost estimates covering the topics listed in the draft audit plan. Dr. Pritchett seconded the motion and it was approved unanimously.

## **VI. Executive Session to Review Personnel Matters**

Dr. Pritchett made a motion that the Committee go into executive session, for the purpose of interviewing candidates for the position of Director of Internal Audit and Compliance, and discussion related to the interviews. Mr. Gillespie seconded the motion, and it was approved unanimously.

Mr. Gillespie noted that, in accordance with the Committees Policy, Mrs. Corbett and Mr. Dietzer had been invited to assist the Committee in conducting the interviews. Mr. Bill Leidinger (STO) stated that Mr. Loftis had asked for Mr. Leidinger to be permitted to attend the executive session as representative of the Treasurer. Mr. Williams pointed out that the Commission has never allowed a Commissioner's employee or designee to attend an executive session in his stead. Commission counsel was consulted. Mr. Feinstein stated that, in the opinion of counsel (Mr. Feinstein and Ms. Shealy), the Committee has discretion as to whether or not to permit Mr. Leidinger to attend the executive session as representative of the Treasurer. Mr. Gillespie asked if a confidentiality agreement could be drafted and signed. Mr. Williams expressed his concern for allowing anyone other than staff requested by the Committee and members of the Committee into the closed session, and said he was against it. Ms. Shealy noted that there is no provision in state law for proxy voting. Dr. Pritchett asked what the purpose of Mr. Leidinger's participation would be, noting that if Mr. Loftis participated, Mr. Loftis could only be present as a non-voting observer. Mr. Leidinger stated that Mr. Loftis has a keen interest in the matter, and asked that his request be shared with the Committee.

Mr. Williams said he had not reconsidered his position and he maintained his opposition to allowing Mr. Leidinger to join the executive session. Dr. Pritchett said he was not opposed to Mr. Leidinger's attendance during closed session, and asked for the matter to be decided by Mr. Gillespie. Mr. Gillespie noted that because all information discussed at the executive session would later be publicly reported, he would allow Mr. Leidinger to observe, but stated that he would feel more comfortable with some form of a confidentiality agreement. He noted that the recourse could be a censure for violating Commission policies. Mr. Feinstein noted that there were provisions of the Commission's governance policies that were applicable in this situation, and that Mr. Leidinger could not vote or participate in any discussions. Ms. Shealy added that no documentation should leave the room.

Mr. Gillespie asked to confer with Ms. Shealy and Mr. Feinstein. Mr. Gillespie thereafter announced that Mr. Leidinger (i) would be invited to silently observe the executive session, (ii) would be held to the same level of confidentiality as Mr. Loftis, and (iii) would be limited to discussion of the matters taken up in the Committee's executive session only with Mr. Loftis. Mr. Gillespie further announced that the Treasurer would be fully responsible for any actions taken by Mr. Leidinger in violation of these terms or the Commission's policies. Mr. Leidinger accepted the terms of the invitation. Mr. Gillespie announced that the Committee would meet in executive session for the purposes of interviewing candidates for the Director of Internal Audit position and discussions related to the interviews.

## **VII. Adjournment**

The Committee reconvened in open session.

Mr. Williams announced that all Committee members had turned in all interview materials, with the exception of himself; he indicated that he had taken notes on the back of one page of a candidate's writing sample. Mr. Gillespie noted that no actions were taken during executive session. Mr. Williams made a motion to adjourn the Committee until November 17, 2011 at the Wampee Retreat. Dr. Pritchett seconded the motion, and, on consent of the members, Mr. Gillespie declared the meeting adjourned.

[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, on November 8<sup>th</sup>, 2011.]