

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

**August 13, 2013**

**SC Retirement System Investment Commission  
1201 Main Street, 15<sup>th</sup> Floor  
Columbia, SC 29201  
Meeting Location: Presentation Center**

**Committee Members Present:**

Mr. Allen Gillespie, Chairman  
Mr. David Avant  
Mr. Ed Giobbe

**Others present for all of a portion of the meeting on Tuesday, August 13, 2013:**

Andrew Chernick, Monica Houston, Darry Oliver, Nancy Shealy and Brian Wheeler from the South Carolina Retirement System Investment Commission (“RSIC”); Clarissa Adams, Wes Hill and David Padgett from the State Treasurer’s Office; Tammy Nichols, John Page and Faith Wright from Public Employee Benefits Authority (“PEBA”); Wayne Pruitt from the State Retirees Association of South Carolina.

- I. **Call to Order:** Chairman Allen Gillespie called the meeting of the RSIC Audit Committee (“Committee”) to order at 10:04 a.m. Chairman Gillespie made a motion to approve the proposed agenda which passed unanimously.
- II. **Approval of Minutes:** The minutes from the April 30, 2013 Audit Committee meeting had not yet been reviewed by the Committee. After sufficient time was allotted for review, Chairman Gillespie requested a motion to approve the minutes. Mr. David Avant made a motion to approve the minutes from April 30, 2013. The motion was seconded by Chairman Gillespie and passed unanimously.
- III. **Audit & Compliance Update:** Mr. Andrew Chernick, Director of Audit and Compliance stated the sole purpose of today’s meeting was for administrative purposes, with the main objective being to discuss fiscal year 2014 audit plan. Mr. Chernick noted the next Audit Committee meeting was scheduled for September 10, 2013 and the main topics would be in regards to the internal audit reports and the fiduciary audit. Mr. Chernick notified the committee that the Inspector General was moving forward with the requisite fiduciary audit and of the new decision to include PEBA in the scope. A discussion followed with Mr. Avant providing additional information relative to PEBA’s inclusion. At the request of Mr. Ed Giobbe, Mr. Chernick, Chairman Gillespie, Ms. Monica Houston, Internal Audit and Compliance Officer, and Ms. Nancy Shealy, General Counsel briefly explained and discussed the fiduciary audit process to date. The Audit & Compliance update concluded with Ms. Houston and Mr. Chernick referencing the fiduciary audit presentation provided at the February 2013 Audit Committee meeting.

**IV. Review of Audit Committee Charter:** Chairman Gillespie reminded the Committee that a yearly review is required of the Audit Committee Charter to ensure the primary responsibilities of the Audit Committee are being met. The primary responsibilities within the Audit Committee Charter were referenced by Chairman Gillespie and he noted an item not completed was the requirement for the Audit Committees to evaluate itself. It was further noted by Chairman Gillespie that the reason such was not completed was due to the changing composition of the Committee which made it impractical to complete at the current time. A discussion of Charter item VII (5) ensued as Chairman Gillespie sought clarification as to what “management letters” were being referenced; of particular concern was the concept of RSIC issuing management letters such as that to PEBA. Per Ms. Houston and Ms. Shealy, the Audit Committee should receive and be aware of the management letters being issued as it relates to the Trust Fund not letters to fund managers. Mr. Chernick noted another open item were the evaluations of the Internal Audit & Compliance staff which would be completed in meeting’s Executive Session. Chairman Gillespie asked Mr. Chernick that any recently drafted compliance policies and procedures be presented in a future meeting. Ms. Houston emphasized to the Audit Committee that the Charter is what governs their actions. Chairman Gillespie concluded by stating the responsibilities of the charter have been met, with the exception of a self-evaluation of the Committee (which would be completed at a later date) and that of the Internal Audit staff evaluation (which would be completed later that day).

**V. FY 2014 Risk Assessment:** Prior to discussing the FY 2014 Risk Assessment, Ms. Monica Houston provided a summary of the work results for the FY 2013 Audit Plan. Ms. Houston made note that FY 2013 was an abbreviated work year given the timing upon when she and Mr. Chernick joined the organization. She stated that for FY 2013 a total of 4 Audit and Compliance projects were completed and significant management support was provided in the establishment of organizational processes, procedures, and controls. Approximately 2,225 service hours were recorded for FY 2013 including 900 management support hours. Due to resource constraints and responsiveness to management and stakeholder needs, approximately 900 project hours were rolled forward to FY 2014 and it was noted that only one approved project was not completed; the reason for non-completion was the substantial support and required focus of the Internal Audit and Compliance staff on an unscheduled Inspector General investigation. Ms. Houston concluded the discussion on FY 2013 results by referencing the FY 2013 Audit Plan Update included in the materials and responding to inquiries by Mr. Giobbe. Noting the meeting materials that were given to the Committee, Ms. Houston emphasized that risk levels vary over time due to varying internal and external factors. Due to these varying factors, Ms. Houston stated that the project hours within the audit plan needed to be reviewed and adjusted accordingly throughout the year. Ms. Houston provided an overview of the approach used to perform the risk assessment. Referencing the Risk Map included in the meeting materials, Ms. Houston discussed the results of the risk assessment for FY 2014. Chairman Gillespie made specific inquiry as to the auditable area of Internal Management (i.e. cash management and rebalancing). Mr. Chernick responded that hours related to such are included in the hours allocated to management requests. Ms. Houston also responded

emphasizing that the risk assessment is as of a point in time and that such assessment indicated that the current risk level of the specific item being discussed was not at a risk level that was material. She further noted that as the activity in that area changes its place on the risk continuum would change as well. Ms. Houston made further note that the risk rating for the specific item was moderate and thus not included in the current plan due to limited resources; however such could be included at the request of the Audit Committee. The Audit Committee requested that Audit and Compliance review the issue of concern and present a recommendation to the Audit Committee as to inclusion of such in the plan. The discussion concluded with a brief response to inquiry by Mr. Avant relevant to the risk map and its use in developing the audit plan.

**VI. Review and approval of FY 2014 Audit Plan:** Ms. Monica Houston explained to the Committee that the risk assessment was ultimately the outline for the audit plan. Ms. Houston stated that the audit plan is completed each year and monitored throughout the year. Again referring to the meeting materials, the levels of risk ratings were discussed. Ms. Houston outlined in detail the components of the risk management process, how the components were cyclical and how those components formed the audit plan. The risk management process components are:

- 1) To identify risk;
- 2) Mitigate those risks – consulting with management team may be needed;
- 3) Communicate and educate the necessary parties about the policies, procedures and internal controls;
- 4) Monitor the compliance; and
- 5) Perform an audit to determine the effectiveness of the policies, procedures and internal controls.

In response to a question, Ms. Houston explained the Internal Audit and Compliance service model detailing the types of services provided which were broken down into:

- 1) Internal audits which provide a historical perspective;
- 2) Compliance reviews that review the current state and are less formal than the internal audit; and
- 3) Consulting projects which give a futuristic view and are for management purposes.

Ms. Houston noted that delineating the service types provides better communication and transparency, thus resulting in a higher level of effectiveness by preserving audit integrity. Ms. Houston summarized that the goal of the audit plan was to provide coverage for all high and high/moderate processes for the current year which were outlined within the plan.

A brief discussion ensued as the Committee members made inquiry into items on the FY 2014 Audit Plan. Ms. Houston reviewed the proposed Resource Plan prepared in support of the FY 2014 Audit Plan which prompted an inquiry from Chairman Gillespie as to the level of state-wide or inter-agency support provided in the area of Information Technology (IT). Mr. Avant indicated that based upon his knowledge of what was being provided such would not provide any relief to

RSIC in this area. Ms. Houston provided additional information relative to the IT risk for the organization and briefly discussed the recommended plan for addressing the risk.

Chairman Gillespie requested a motion to approve the FY 2014 audit plan. Mr. Giobbe made the motion which was seconded by Mr. Avant. The motion to approve the Audit Plan and the supporting Resource Plan for FY 2014 passed unanimously.

Mr. Giobbe made inquiry as to the responsibility of the Audit Committee to formally respond or act relative to the recently issued Inspector General report. Ms. Houston indicated that the Committee's responsibility would be limited to those issues that were incumbent upon RSIC management to address and deferred to Mr. Darry Oliver, Chief Operating Officer for detail on how RSIC management is responding. Mr. Darry Oliver briefly discussed management's efforts in addressing one item of concern from the report. Upon specific inquiry from Chairman Gillespie it was affirmed by Mr. Oliver and Ms. Houston that no action was need on the part of the Committee at this time.

Chairman Gillespie made inquiry to Mr. Oliver regarding any concerns on the budget impact of the FY 2014 Audit Plan to which Mr. Oliver indicated he had no immediate concern although he hoped it would come in significantly less than budgeted so as to provide budget to other organizational initiatives.

**VII. Executive Session to discuss personnel matters pursuant to S.C. Code Ann. Section 30-4-70(a)(1):** Chairman Gillespie requested a motion to recede into executive session to discuss the Internal Audit & Compliance staff performance reviews. Ed Giobbe made the motion which passed unanimously. Chairman Gillespie announced the Committee would meet in executive session and the Committee receded into executive session at 4:15 p.m.

**VIII. Adjournment:** The Committee reconvened in open session at 5:02 p.m. There being no further business, on motion duly made and seconded, the meeting was adjourned at 5:04 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 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, at 8:34 a.m. on August 8, 2013.]