

**SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION
AUDIT COMMITTEE MEETING**

**SC Retirement System Investment Commission
1201 Main Street, 15th Floor
Columbia, SC 29201**

**Meeting Location: Presentation Center
Thursday, November 12, 2015 at 2:30 p.m.**

Committee Members Present:

Mr. Allen Gillespie, Chairman (via telephone)

Ms. Peggy Boykin

Mr. Edward Giobbe (via telephone)

Others present for all or a portion of the meeting on November 12, 2015: Betsy Burn, Andrew Chernick, Dori Ditty, John Farmer, Michael Hitchcock, Monica Houston (via telephone), Tricia Miller and Eric Nelson from the South Carolina Retirement System Investment Commission; Melinda Al-Hasan from the State Treasurer's Office; John Page and Tammy Nichols from PEBA; Wayne Bell and Wayne Pruitt from the State Retirees Association of South Carolina; Jonathan Rank from the South Carolina Association of School Administrators, and Gavin Jackson from The Post and Courier.

- I. CALL TO ORDER AND CONSENT TO AGENDA:** Chairman Allen Gillespie called the meeting of the Audit Committee ("Committee") to order at 2:30 p.m. Ms. Peggy Boykin made a motion to adopt the Agenda as presented, and Mr. Gillespie seconded the motion, which was unanimously approved.
- II. APPROVAL OF MINUTES (September 3, and 25, 2015):** Chairman Gillespie noted that the minutes would be carried over.
- III. APPROVAL OF 2016 AUDIT COMMITTEE SCHEDULE:** Mr. Edward Giobbe made a motion to approve the 2016 Audit Committee Schedule, and Ms. Boykin seconded the motion, which was unanimously approved.
- IV. ERM AND COMPLIANCE UPDATE:** Mr. Eric Nelson, Director of Enterprise Risk Management and Compliance, provided a summary on the Annual Compliance Questionnaire process. Mr. Nelson noted that all of the questionnaires had been completed by the investment managers as well as the investment consultant. He noted that the memo he had provided to the Committee included highlights of information that he believed the Committee may want to be apprised of, and attached a copy of the blank questionnaire form for reference. He explained that the process required cooperation among several teams in the agency and was very thorough. Chairman Gillespie inquired about whether investment managers with different strategies responded to the same questionnaire and if the goal was to have one version of the questionnaire for all types of investment managers. Mr. Nelson confirmed that the goal was to have one questionnaire and to avoid having to tailor the questionnaire for various types of investment managers. He noted that he believed there was more efficiency in using a questionnaire that applies to all investment managers. Mr. Giobbe asked if there was any negative, material findings in the completed questionnaires. Mr. Nelson confirmed that there were not any substantive issues, though the Operational Due Diligence and Legal staff had followed up with a couple of the investment managers for clarification to their responses.

Mr. Nelson provided an update on a variety of policies that he had been updating related to compliance functions and which had been approved by the Executive Director. Mr. Nelson provided an overview of updates to the Personal Trading Policy, Internal Controls and Fraud Policy, and Insider Trading Policy. Mr. Nelson noted that these policies were being provided to the Committee for informational purposes. He noted that he had removed from the Personal Trading Policy the content related to insider trading and developed a separate Insider Trading Policy. He added that the Internal Controls and Fraud Policy was now inclusive of the former Whistleblower Policy and added policy elements of controls that he believed were important to codify related to the agency's development of internal controls and fraud. In response to a question from Chairman Gillespie, Mr. Nelson explained that the previous notification contained within the Whistleblower Policy remained the same in the Internal Controls and Fraud Policy. Chairman Gillespie then inquired about whether the standards applicable to staff with CFA designations was taken into consideration during the development of the policies. Mr. Nelson confirmed that he had worked with Dori Ditty, Legal and Policy Counsel, to ensure standards for professional designations were not challenged by the policy language, including CFAs, CPAs, and other standards for professional responsibility to which staff members may be subject. Mr. Nelson also noted that the policy is intended as general guidance and he believes the staff is responsible for complying with more specific requirements of any designation he or she may have. Mr. Nelson noted that one change to the Personal Trading Policy was that activist strategies were added to the restricted list.

Mr. Nelson noted that he had also worked to improve and/or standardize other policies including the human resources handbook, the Internet Policy, the Electronic Communications and Device Policy, and the Internal Staff Policy Development. Mr. Nelson noted that for each policy he had worked on, he had tried to standardize and improve the policy, then meet with the Legal team to review the changes, and finally meet with Legal and the Executive Director to review the policy updates or additions. Mr. Nelson also introduced the ERM Policy, which he noted had been reviewed internally with Legal and the Executive Director, but ultimately the approval of the policy was under the purview of the Committee's authority pursuant to its charter. Chairman Gillespie asked that formal implementation of the ERM Policy be delayed to allow the Committee additional time to review. Mr. Gillespie noted that he did not anticipate any substantive changes to the ERM Policy from the Committee, and thanked Mr. Nelson for his work on all of the policies.

Mr. Nelson indicated that the Enterprise Risk Grid had been refreshed to include some staff changes. He indicated that he planned to update the grid in March 2016 for any appropriate changes that will need to be included at that time.

- V. **INTERNAL AUDIT UPDATE:** Ms. Monica Houston, Chief Audit Officer, updated the Committee on the progress of the 2014-2015 Audit Plan. She first thanked the Audit Committee and Senior Management for supporting Internal Audit in its hosting of the APPFA Conference in Hilton Head. Ms. Houston noted that the conference was very successful and they got very good feedback. Ms. Houston noted that four items from 2014-2015 Audit Plan remained open. She said that she had no issues or concerns at this time with two of the items, Annual Investment Plan ("AIP") and Statement of Investment Objectives and Policies ("SIOP") Compliance and Agency Relationships, and expected to close those out in the next few weeks. She explained that the other two items, the Annual Investment Report ("AIR") and Ethics/Conflict of Interest, would require a bit more work and should be closed out by December 31. Mr. Andrew Chernick, Managing Director of

Operations & Operational Due Diligence, agreed with Ms. Houston to catch up on the AIR audit work currently in progress given work had already begun on drafting FY15 AIR.

Ms. Peggy Boykin expressed concern that the staff time spent on the Audit Plan continued to increase, but open items on the progress report did not reflect that the additional work had reduced the hours of work remaining on those open items. Ms. Houston noted that the time log provided to the Committee indicated how her hours were spent. Ms. Boykin stated that it would be helpful to the Committee for Ms. Houston to reconcile the hours billed and the progress toward completion of open items. Ms. Boykin asked Ms. Houston to (1) determine how many hours of work would be needed to complete the 2014-2015 Audit Plan and whether Ms. Houston's belief that completing the plan as stated by December 31, 2015 is reasonable; (2) calculate how many hours had been expended on the Audit Plan work between the temporary audit staff and the CAO for the Committee. Ms. Boykin noted that she had been provided with information from staff indicating that the temporary audit staff had been paid for approximately 1,200 to 1,300 hours in the last year. Ms. Boykin asked for a reconciliation of the temporary audit staff hours combined with the CAO's budgeted 1,200 hours during the period to identify where the variances were with the 1,576 hours reported to date on the 2014-2015 Audit Plan. Ms. Houston noted that the temporary employee was required to attend to administrative items and that there are differentials in the actual time used and estimated time planned. Ms. Boykin noted that the Committee could not approve the Resource Plan until the Committee could understand how the more than 2,000 hours were used during the prior Audit Plan and whether the resources deployed were the most efficient and effective means to accomplish the Audit Plan.

In response to Ms. Boykin, Ms. Houston confirmed that the progress report for the Audit Plan included the temporary employee's and Ms. Houston's hours. Ms. Boykin and the Committee asked Ms. Houston to make the reconciliation and information on how the resources were used in the prior year a priority for Ms. Houston to complete. Ms. Houston noted adding this request would likely cause the timing of items on the Audit Plan to be delayed, but confirmed that she would provide the information if the Committee believed it to be helpful. Chairman Gillespie indicated that Mr. Hitchcock had been having weekly calls with Ms. Houston in an effort to assist with conveying the priority items for which Ms. Houston should focus. Chairman Gillespie noted that Ms. Boykin's request was important, but noted the competing needs for Ms. Houston's available time. Mr. Hitchcock offered that he would work with Ms. Houston to try to best allocate her available time and provide as much information to assist the Committee in making future resource decisions in light of how resources had been most effective in the last year.

Ms. Boykin inquired about how the progress report is updated and Ms. Houston explained that she updates the report after gathering information by emailing resources and requesting hours that were used to complete a certain project during a certain timeframe. Ms. Houston also noted that the hours left for the Ethics/Conflicts of Interest Audit is an estimate.

Ms. Houston provided information about the proposal for the 2015-2016 Audit Plan which included three options for consideration. She provided details about the resources that would be required under each of the proposed options. Ms. Houston walked through each of the options at length and explained that she had considered which option she would recommend. She stated that she believed that the Option 2, using Elliott Davis as the

preferred resource, would be the best choice for the Committee to select. Chairman Gillespie stated that Ms. Houston had provided a fair amount of information and the Committee would need to consider additional information during Executive Session.

VI. EXECUTIVE SESSION

Ms. Boykin made a motion to go into Executive Session to obtain advice from legal counsel and to discuss personnel matters pursuant to S.C. Code Ann. Sections 30-4-70(a)(1) and (a)(2). Mr. Giobbe seconded the motion, which passed unanimously.

The Committee reconvened in open session. Chairman Gillespie reported that no action had been taken during Executive Session; the Committee received legal advice and personnel updates.

VII. ADJOURNMENT

There being no further business, Ms. Boykin moved to adjourn and Mr. Giobbe seconded the motion, which passed unanimously, and the meeting was 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 15th Floor Conference Room at 1201 Main Street, Columbia, SC, on November 10, 2015 at 11:25 a.m.]