

**SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION
AUDIT AND ENTERPRISE RISK MANAGEMENT COMMITTEE MEETING**

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

**Meeting Location: Presentation Center
Thursday, February 9, 2017 at 10:00 a.m.**

Committee Members Present:

Mr. Allen Gillespie, Chairman (via telephone)
Ms. Peggy Boykin (via telephone)
Mr. Edward Giobbe (via telephone)

Others present for all or a portion of the meeting on February 9, 2017: Mike Addy, Betsy Burn, Andrew Chernick, Dori Ditty, John Farmer, Brenda Gadson, Michael Hitchcock, Tricia Miller, Nicole Waites from the South Carolina Retirement System Investment Commission, John Page from the South Carolina Public Employee Benefit Authority; Melinda Al-Hasan and Allen Townsend from the State Treasurer's Office; and Jeff Creech and Dean Doolittle (via telephone) from Experis.

- I. Call To Order and Adoption of Proposed Agenda:** Chair Allen Gillespie relinquished the Chair to Ms. Peggy Boykin. Ms. Boykin called the meeting of the Audit and Enterprise Risk Management Committee ("Committee") to order at 10:13 a.m. Mr. Edward Giobbe made a motion to adopt the Agenda as presented, and Mr. Gillespie seconded the motion, which was unanimously approved.
- II. Approval of Minutes:** Mr. Gillespie made a motion to approve the draft minutes from the following meetings, which was seconded by Mr. Giobbe, and unanimously approved: September 3, 2015; September 25, 2015; November 12, 2015; and November 3, 2016.
- III. Compliance Update:** Ms. Boykin introduced Mr. Andrew Chernick to provide an update for the compliance function for the Committee. Mr. Chernick reminded the Committee that the Annual Compliance Questionnaire review process had been completed for the FYE June 2016. Mr. Chernick informed the committee that there were no exceptions during the compliance review for the quarter ending September 30, 2016. He explained that the compliance review for the quarter ending December 31, 2016, was under way and he would update the Committee on that quarter during the next meeting.
- IV. Internal Audit Update:** Following his Compliance Update, Mr. Chernick, was asked to provide an update regarding the Internal Audit function. Mr. Chernick referred to the approved Interim Audit Plan and reminded the Committee that two of the items were already completed and the results of each had been shared with the Committee during the previous meeting. The two closed items from the Interim Audit Plan included the Agreed Upon Procedures review of investment due diligence processes and investment valuation and the review of human resources and employment recruitment. Mr. Chernick explained Experis had been engaged to complete the third item on the Interim Audit Plan for the review of internally traded fixed income and cash procedures. Mr. Chernick stated

that Experis representatives were available to present their report on the fixed income and cash procedures. Mr. Chernick noted that the budget allocated for the three items on the Interim Audit Plan was \$100,000, and all items had been completed for less than the budget amount. Following a brief discussion, the Committee expressed its gratitude to the staff who assisted with completion of the Interim Audit Plan and to the Office of State Auditor's approval for engaging the three firms that allowed the audit program to continue in the absence of audit staff.

Mr. Chernick introduced Mr. Jeff Creech, National Director, of Experis to provide information about Experis and present the report on the fixed income and cash procedures review. Mr. Creech provided background information about Experis and explained the firm is an arm of the Manpower Group. He added that Experis is focused on professional services and is similar to a public accounting firm, but does not render external audit opinions or perform valuations. He stated that the engagement for the Committee involved risk advisory services and financial and accounting functions of Experis. He introduced Mr. Dean Doolittle, Business Development Director, of Experis, who provided information on his background, explained the services offered by Experis, and his role in Experis related to business development in the Carolinas' market. Following Mr. Doolittle's comments, he asked Mr. Creech to present the report for the Committee.

Mr. Creech noted that he had provided oversight for the fixed income and cash procedures review, which was process-focused rather than transaction testing. He stated that the engagement was geared toward providing suggestions on how procedures could be enhanced or supplemented for improvement. He explained the review also included looking at processes in place and reporting any instances when the procedures in place did not include regulatory requirements or did not follow written procedures. He provided a summary of the report, stating that the organization's processes reviewed in the engagement were well-managed and well-controlled, and the recommendations made in its report were for improvements. There were two items noted that may be a slight concern for the agency, one related to key person risk and the other was that in certain instances additional documentation may be desirable. After discussion with staff regarding documentation processes currently in place, Mr. Chernick explained that of the 18 recommendations noted in the report, he has already met with appropriate staff members and developed a plan to implement these recommendations. He added that some recommendations would require cooperation with the State Treasurer's Office related to the QED system. Mr. Chernick offered to provide periodic updates on the implementation of the plan to address the recommendations. After additional discussion and questions from the Committee, Ms. Boykin requested that an update for the status of Funston Fiduciary Audit recommendations be sent to all Commissioners. Mr. Chernick confirmed that updates to the recommendations for the Funston Fiduciary Audit were posted and updated on the RSIC website.

- V. Executive Session:** Mr. Gillespie made a motion to recede to executive session for the purposes of obtaining legal advice and to discuss personnel matters pursuant to S.C. Code Ann. Sections 30-4-70(a)(1) and (2). Mr. Giobbe seconded the motion, which passed unanimously.

VI. Potential Actions Resulting from Executive Session: The Committee reconvened in open session at 10:59 a.m. and Ms. Boykin reported that no action had been taken during executive session.

Mr. Gillespie inquired about whether a new interim audit plan should be discussed, in light of the completion of all items on the prior plan. Based on discussion among the Committee and staff, it was decided that staff would review the prior risk assessment to determine if any areas rated as high risk, which have not previously been reviewed, are conducive to being audited by an external service provider prior to the April Committee meeting.

VII. Adjournment: There being no further business, Mr. Giobbe made a motion to adjourn the meeting. Mr. Gillespie seconded the motion, which passed unanimously, and the meeting adjourned at 11:01 a.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 the parties who requested notice and were posted in the entrance, in the lobbies, and near the 15th Floor Conference Room at 1201 Main Street, Columbia, SC, on Friday, February 3, 2017 at 4:30 p.m.]