

**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 3, 2016 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 November 3, 2016: Betsy Burn, Andrew Chernick, Dori Ditty, Michael Hitchcock, John Farmer, Bryan Moore, and Tricia Miller from the South Carolina Retirement System Investment Commission, John Page from the South Carolina Public Employee Benefit Authority; Melinda Al-Hasan from the State Treasurer's Office; and Thomas Rey from CliftonLarsonAllen (via telephone).

- I. Call To Order and Adoption of Proposed Agenda:** Chairman Allen Gillespie called the meeting of the Audit Committee ("Committee") to order at 10:02 a.m. Mr. Edward Giobbe made a motion to adopt the Agenda as presented, and Ms. Peggy Boykin seconded the motion, which was unanimously approved.
- II. Approval of Minutes:** Mr. Giobbe made a motion to approve the draft minutes from the following meetings, which was seconded by Ms. Boykin, and unanimously approved: August 7, 2015; June 15, 2016; July 14, 2016; and August 24, 2016.
- III. Discussion of 2017 Audit Committee Schedule:** Mr. Giobbe made a motion to approve the proposed 2017 Audit Committee Schedule as posted and discussed, and Ms. Boykin seconded the motion, which was unanimously approved.
- IV. Compliance Update:** Mr. Andrew Chernick, Managing Director of Operations and Operational Due Diligence, as acting compliance staff, presented the Compliance Update. He reported that the quarterly compliance update through June 30, 2016, had been completed, including personal trading, securities lending and the completeness check and that there were no material findings to report. Mr. Chernick also gave an update on the annual investment manager and consultant questionnaire and certification process. The compliance department works with the legal department, operational due diligence, and investment staff to finalize and revise the questionnaire each year. The compliance department sent out the questionnaire in early July. We have received a 100% response rate on the questionnaires. All responses are input into the Tamale system and are reviewed by the applicable investment staff assigned to each manager. From that review a consolidated spreadsheet is produced and highlighted responses that potentially needed further review. Mr. Chernick;; Ms. Dori Ditty, Legal and Policy Counsel, and Scott Forrest, Director of Operations, reviewed the consolidated results and conducted follow up phone calls and emails to various managers on outstanding questions and to address any inconsistencies noted in responses. RSIC continues to revise the process and look

into technology processes to make the annual questionnaire a more automated process. Ms. Boykin commended Mr. Chernick and RSIC staff for their efforts in this process and the collaborative effort with PEBA.

- V. Internal Audit Update:** Mr. Chernick presented an update of the Interim Audit Plan for the 2016-17 Fiscal Year. He reminded the Committee that the Interim Audit Plan had been developed by Mr. Chernick and Mr. John Page, Director of Internal Audit of PEBA, and previously approved by the Audit Committee. The areas addressed by the Interim Audit Plan are (a) fixed income internal trading policies and procedures review; (b) human resources employee recruitment; and (c) investment due diligence (initial and ongoing) and investment valuations. He noted that the human resource employee recruitment review and the investment due diligence and investment valuations review had already been completed. The Division of State Human Resources (“DSHR”) conducted a Human Resources (“HR”) Process Review of RSIC. A copy of the report, dated August 26, 2016, was provided to the Committee and Mr. John Farmer, Director of Human Resources, provided an overview of it to the Committee. DSHR reviewed RSIC’s processes relating to employee recruitment and general HR practices, including the job posting process to ensure effective and consistent outreach for diversity, applicant tracking to ensure consistent in the method used to source candidates, the interview and selection process, and the process to establish new employees to ensure compliance with all State requirements. Mr. Farmer reminded the Committee that DSHR’s review was not an audit of the HR department. DSHR’s review found that RSIC’s processes adhered to state and federal recommendations and industry best practices. DSHR provided two recommendations for minor modifications to language in certain onboarding documents. The recommendations were immediately implemented by RSIC’s HR department.

Mr. Chernick then introduced Mr. Thomas Rey, the audit partner from CliftonLarsonAllen LLP (“CliftonLarsonAllen”) who oversaw this engagement, to discuss the 2016 agreed upon procedures review of due diligence processes and investment valuation conducted by CliftonLarsonAllen. He noted that there were no findings on investment valuation. He noted one finding on the ongoing due diligence review regarding reviews of three sets of financial year end documents were three days outside the required guideline. Mr. Bryan Moore, Director, explained that the delay in the review was due to a miscalculation in the deadline date. Typically, deadlines are calculated based on month-end rather than the exact number of days from the beginning of the review deadline. He explained that Staff will eliminate any confusion for calendaring reviews in the future. Mr. Moore advised the Committee that RSIC is implementing an automated system for review of audited financial statements, which should further increase efficiency in the future. Mr. Rey noted that no additional findings were noted. Mr. Rey also commented that RSIC is considered far ahead in terms of due diligence and valuation processes as compared to other U.S. public pension plans. He commended RSIC’s efforts in these areas and the improvements made during the last several years.

Mr. Chernick then turned to the remaining item on the Interim Audit Plan, the review of fixed income internal trading policies and procedures. He informed the Committee that we have a pre-approved vendor in place and have executed a master agreement and statement of work with Experis US, Inc. (“Experis”). They are expected to commence the review shortly and will have one consultant perform the front office review and a separate consultant perform the back office review. Experis would also review some of PEBA’s

complementary processes. Mr. Chernick stated that he anticipates presenting their report at the February Audit Committee meeting.

- VI. Executive Session:** Mr. Giobbe then moved 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). Ms. Boykin seconded the motion, which passed unanimously.
- VII. Potential Actions Resulting From Executive Session:** Chair Gillespie reported that no action had been taken during Executive Session; the Committee received legal advice and personnel updates.
- VIII. Adjournment:** There being no further business, Mr. Giobbe made a motion to adjourn the meeting. Ms. Boykin seconded the motion, which passed unanimously, and the meeting adjourned at 10:59 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 Wednesday, November 2, 2016 at 9:37 a.m.]