



ISSUE BRIEF

RSIC Makes Progress on Key Fiduciary Audit Recommendations

RSIC has made significant progress since the issuance of the Funston Advisory Services (FAS) fiduciary performance audit last April. The audit evaluated the fiduciary roles and responsibilities of the RSIC Commissioners and staff, the relationship with other fiduciaries of the Retirement System, and the operational policies and practices of the RSIC. RSIC staff has worked diligently since the release of the report to implement their recommendations in a timely fashion.

The FAS team is experienced and competent in the issues of governance, strategy, risk, investment operations, investment accounting, and stakeholder engagement. As part of their evaluation, FAS experts spent months in an exhaustive effort reviewing documents, interviewing Commissioners, staff, stakeholders, managers and others, and conducting peer surveys.

Two critical findings are:

- 1 There are no indications of malfeasance or misfeasance regarding the Commission's current policies and practices.
- 2 RSIC is a leader among public pension systems in disclosing external management fees.

After concluding its comprehensive evaluation from January 2014 to March 2014, FAS recommended 126 areas for improvement at RSIC. RSIC began addressing several of these critical items before the audit report was published, and continues to make progress with the implementation of the remaining recommendations.

Critical recommendations RSIC has recently completed:

- Developed a set of investment beliefs to provide a basis for strategic management of the investment portfolio.
- Included the investment beliefs into the Statement of Investment Objectives and Policies.
- Streamlined due diligence practices to reduce cycle time without compromising accuracy or efficiency.
- Established an organization-wide project management process to monitor progress on agency initiatives and ensure proper use of internal resources.

Key Facts

- As of March 1, 2015, 52 of the FAS recommendations have been completed. The remaining recommendations have been prioritized and assigned target completion dates.
- FAS will continue to partner with RSIC through its transformational process, providing expertise and benchmarking as appropriate.
- Of the 126 recommendations in the FAS report, 110 can be addressed by RSIC, 12 require action by the General Assembly, and 4 are tasked to the State Treasurer's Office.
- The full audit report can be found at www.ic.sc.gov.



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The Funston report noted a number of leadership opportunities the General Assembly should assume to improve RSIC operations. RSIC looks forward to collaborating with the General Assembly and stakeholders to implement these recommendations:

- ☾ Clarify any fiduciary responsibilities that remain with the Budget and Control Board, Department of Administration, and State Fiscal Accountability Authority.
- ☾ Establish a five-year cycle for legislators to review the statutorily-set actuarial assumed rate of return.
- ☾ Delegate authority to RSIC to control operational budget, establish appropriate staffing levels, and determine staff compensation and performance incentives.
- ☾ Develop a modified procurement process for obtaining investment management systems and tools.
- ☾ Expand qualification criteria for selection of Commissioners to allow for more diverse experience and expertise in managing investment operations.
- ☾ Add additional voting members to the Commission to increase diversity, increase beneficiary representation, and reduce the potential for tie votes - this could be satisfied by allowing the PEBA representative to become a voting member.