

Report Date: June 18, 2016



SOUTH CAROLINA RETIREMENT SYSTEM

INVESTMENT COMMISSION

2014-15 Annual Investment Report Audit Follow Up

Internal Audit Flash Report

As of June 30, 2015

TO: Allen Gillespie, Audit Committee Chair

**C: Mike Hitchcock, Chief Executive Officer
Andrew Chernick, Managing Director
Ed Giobbe, Investment Commission Chair**

EXECUTIVE SUMMARY

As approved by the SC Retirement System Investment Commission (“RSIC”) Audit Committee, we recently completed a follow up review of the internal controls and procedures related to the preparation and compliance of the Retirement System Investment Commission’s (“RSIC”) Annual Investment Report (AIR) for the period June 1, 2014 – May 31, 2015. The following work was performed:

- Reviewed the AIR Audit Report for FYE June 30, 2013 and issued July 31, 2014.
- Discussed, obtained and/or reviewed support of action taken during the June 1, 2014 – May 31, 2015 period to address observations noted in the July 31, 2014 report.
- Determined if action taken adequately mitigated the risk identified in the July 31, 2014 report.

The main purpose of this review was to provide the Commission with independent assurance relative to the proper and timely remediation of observational items included in the AIR Audit Report for FYE June 30, 2013 issued April 21, 2014. The review was conducted by Gail Cassar, Senior Audit Consultant and Monica Houston, Chief Audit Officer.

A review differs from an audit in that substantive testing is not performed at a level consistent with generally accepted auditing standards. The intent of this flash report is to detail the results of the work performed in accordance with the aforementioned scope and not to opine on the management’s compliance with the AIP and SIOP or the overall system of internal controls relative to such.

As a result of our review, we conclude that overall the actions taken by management in remediation of the observations identified in the AIR Audit Report for Period Ending June 30, 2013 issued July 31, 2014 were adequate in nature and timing. No additional items were noted and no further work was deemed necessary.

BACKGROUND

South Carolina law requires the Retirement System Investment Commission (RSIC) to provide an annual report to the State Budget and Control Board, the Speaker of the House of Representatives, the President Pro tempore of the Senate, and other appropriate officials and entities. The report is called the Annual Investment Report (AIR). It reports as of fiscal year end the total investment portfolio value, portfolio asset allocation, the value and investment returns for each investment in the portfolio for the most recent one, three, and five year periods, the investment and administrative expense related to investing and managing the portfolio, and management's overview of the portfolio. The Report also provides detailed appendices by asset category listing relevant valuation information for each investment in the category. The statutes do not specify a distribution date, however RSIC strives to issue the report in the November/December timeframe each year.

In accordance with the approved 2013-14 Audit plan, Internal Audit performed an audit of the AIR process and issued a report detailing the results of the work on July 31, 2015; a copy of the report is attached. The report contained two observations relative to the improvement of controls as noted below:

	<u>Observation</u>	<u>Risk Rating</u>	<u>Recommendation</u>
1.	Several internal controls were determined to not be designed appropriately and thus were deemed ineffective in mitigating their relative risks.	Medium (M)	<ol style="list-style-type: none">1. Revision of policies and procedures to include details that would ensure consistent preparation of AIR on an annual basis.2. Establishment of policy and procedures relative to the updating, review, and approval of reporting policies and procedures.3. Development of a procedure or process that would appropriately validate and document the distribution of the annual report.
2.	IA was not able to determine the existence and effectiveness of several internal controls due to lack of evidence. Additionally, IA testing found errors that would suggest that the internal control was not operating effectively	Medium (M)	Revision of policies and procedures to include details that would ensure consistent performance of internal controls and detail the appropriate documentation for evidence of performance.

SCOPE OF REVIEW AND APPROACH

Our review covered the internal controls and procedures performed in the preparation and compliance of the Retirement System Investment Commission's ("RSIC") Annual Investment Plan (AIP) and Statement of Investment Objectives and Policies (SIOP) for the period June 1, 2014 – May 31, 2015. However, such review was limited to those areas wherein an Observation was noted in the AIP/SIOP Audit Report for Period Ending December 31, 2013 issued April 21, 2014. The main purpose of this

review was to provide the Commission with independent assurance relative to the proper and timely remediation of observational items included in the AIP/SIOP Audit Report issued April 21, 2014.

We performed the following procedures as part of our review:

- Reviewed the AIP/SIOP Audit Report for Period Ending December 31, 2013 issued April 21, 2014.
- Discussed, obtained and/or reviewed support of action taken during the June 1, 2014 – May 31, 2015 period to address observations noted in the April 21, 2014 report.
- Determined if action taken adequately mitigated the risk identified in the April 21, 2014 report.

RESULTS

Internal Audit found that the management action taken in all of the observations identified, adequately mitigated the risk identified during the audit in a timely manner.

	<u>Observation</u>	<u>Action Taken</u>	<u>Remediation</u>
1.	Several internal controls were determined to not be designed appropriately and thus were deemed ineffective in mitigating their relative risks.	Controls were formalized, documented, and implemented as per the Policy and Procedures for Annual Investment Report document dated 9/18/2014.	Adequate, No Further Action Deemed Necessary
2.	IA was not able to determine the existence and effectiveness of several internal controls due to lack of evidence. Additionally, IA testing found errors that would suggest that the internal control was not operating effectively	Controls were formalized, documented, and implemented as per the Policy and Procedures for Annual Investment Report document dated 9/18/2014. IA will test the effectiveness of these controls during the next regularly scheduled audit.	Adequate, No Further Action Deemed Necessary

OBSERVATIONS

None

RECOMMENDATIONS

None

SUBSEQUENT EVENTS

None