

Report Date: June 18, 2016



SOUTH CAROLINA RETIREMENT SYSTEM

INVESTMENT COMMISSION

2014-15 Ethics and Conflicts of Interest Review

Internal Audit Flash Report

As of March 31, 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 review of the internal controls and procedures encompassed in the RSIC Ethics and Conflicts of Interest (ECOI) process for the period April 1, 2014 – March 31, 2015. The following work was performed:

- Determined whether the current policies adequately reflect the statutory requirements as outlined in Title 8 and 9 of the South Carolina Code of Laws.
- Determined whether adequate controls exist to ensure compliance with the SC statutory requirements and if such controls are effective.
- Determined through testing, whether RSIC staff and Commissioners have been compliant with the SC statutory requirements and policies relative to Ethics and COI during the period of April 1, 2014 – March 31, 2015.

The main purpose of this review was to provide the Commission with independent assurance relative to proper and timely compliance with regulatory statutes and approved policies in the area of Ethics and Conflicts of Interest. The review was conducted by Matthew Hudson, Audit Intern.

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 overall system of internal controls relative to such.

As a result of our review, we conclude that overall the current policies and procedures are adequately designed and effectively utilized to mitigate the risks inherent in the Ethics and Conflicts of Interest process.

BACKGROUND

The Ethics and Conflicts of Interest (ECOI) process consists of a body of investment and governance related policies that provide guidance to the Retirement System Investment Commission (“RSIC”) staff and Commissioners, as well as monitor pertinent activity. The following policies contain pertinent requirements with which employees and Commissioners are expected to comply (as applicable) in addition to any professional standards of the authoritative body for their designated profession.

- RSIC Governance Policy – as amended May 2013, June 2014, August 2014, and February 2015
- RSIC Employee Handbook – as amended September 2013
- RSIC Personal Trading Policy – effective January 2014
- RSIC Conflict of Interest and Receipt of Gifts Policy – adopted November 2013
- Sourcing & Conflict Disclosure Form and Instructions

Additionally the following statutes are applicable to the ECOI process: SC Code §9-1-1340, 9-16-350, 8-13-410, 8-13-430, 8-13-440, 8-13-460, 8-13-500, 8-13-810 thru 840. The Director of ERM & Compliance with the assistance of Legal has the responsibility for the oversight and monitoring of the ECOI process. The timing of the oversight and monitoring varies by area but is no frequently than quarterly and at least annually.

SCOPE OF REVIEW AND APPROACH

Our review covered the internal controls and procedures performed in the Retirement System Investment Commission's ("RSIC") Ethics and Conflicts of Interest (ECOI) process for the period April 1, 2014 – March 31, 2015. However, such review was limited to those policies and procedures in effect for ECOI during the period of coverage. The main purpose of this review was to provide the Commission with independent assurance relative to proper and timely compliance with regulatory statutes and approved policies in the area of Ethics and Conflicts of Interest.

We performed the following procedures as part of our review:

- Testing of the sourcing and conflict disclosure process.
- Testing of the employee compliance orientation and onboarding process.
- Review of the annual compliance questionnaire policies
- Review and test documentation of the covered account process.
- Review and determination compliance with RSIC whistle blower and gift policy

RESULTS

Overall the current policies and procedures are adequately designed and effectively utilized to mitigate the risks inherent in the Ethics and Conflicts of Interest process.

OBSERVATIONS

None

RECOMMENDATIONS

None

SUBSEQUENT EVENTS

None