

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY- BOARD OF DIRECTORS

Finance, Administration, Audit & Compliance Committee- MINUTES Adopted 8/16/13

202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Tuesday, April 16, 2013 – 3:00 P.M.

Committee Members Present:

Mr. Steve Matthews, Chairman (in person)

Ms. Peggy Boykin (in person)

Mr. Art Bjontegard, ex-officio (in person)

Others present for all or a portion of the meeting:

David Avant, Stephen Van Camp, Travis Turner, Lil Hayes, from the South Carolina Public Employee Benefit Authority (PEBA); Brandi Scarboro from the State Treasurer's Office.

I. Call to order and Adoption of Proposed Agenda

Chairman Matthews called the meeting to order at 3:03 p.m. Ms. Hayes confirmed compliance with the Freedom of Information Act. Chairman Matthews asked those in attendance to introduce themselves. Upon motion by Mr. Bjontegard and second by Ms. Boykin, the agenda was adopted unanimously. Chairman Matthews made suggestions for amending the minutes of the previous meeting. Upon motion by Mr. Bjontegard and second by Ms. Boykin, the minutes were adopted as amended.

II. Update: Consolidation of Insurance & Retirement at Arbor Lake Drive

Mr. Turner gave an update to the Committee regarding the lack of adequate space and parking at the 202 Arbor Lake Dr. site for the remaining PEBA employees still currently located at the 1201 Main St. site. He advised the Committee that a request for space had been submitted through the Budget and Control Board—who oversee all property acquisition for state agencies—and the property owner of the building adjacent to the 202 Arbor Lake Dr. Site had responded.

Ms. Boykin added that the JBRC has taken a public stance in opposition to piecemeal property purchases. She agreed with Mr. Bjontegard that a long-term plan is necessary, but that a proposal for purchase would be easier to defend once all PEBA employees are located in the same place. There was other general discussion of the property and its attributes.

III. Update: Building Maintenance

Mr. Turner explained that the air handlers located on the roof of the building need replacing, as they are as old as the building. He added that a meeting is expected with the B&C Board's General Services Division concerning a timeline to get these units replaced and what the cost would be. Mr. Avant added that the B&C Board issued a solicitation to get bids on replacing these units on April 8 and it will close on April 22.

Mr. Turner continued, explaining that three of the 98 existing air conditioning units need to be replaced. He added that PEBA would like to acquire a few additional units to have on hand if others go, since it can take a long time to get new ones once the need arises.

PEBA also needs to reflash leaking windows. Half of the windows had been done fairly recently, but the remaining windows still need re flashing. The expense of this process is largely based upon the need to remove the bricks immediately surrounding the windows.

Mr. Bjontegard asked whether after this list of needs is met, are there other major repairs or maintenance requirements that will become necessary in the near future. Mr. Van Camp

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responded that management is developing a maintenance and repair plan to establish timelines and deadlines for certain major repairs and/or maintenance issues.

Chairman Matthews asked for clarification of whether operating expenses for PEBA are general funds. Mr. Avant responded that they come out of the trust fund. He added that any expenses that do not come out of the operating budget would be paid by the SCRSIC. He continued by noting that if the SCRSIC were to make purchases of resources being used by PEBA, any returns on these investments would go to the SCRSIC, instead of an outside entity. He suggested discussion be made with the SCRSIC regarding purchasing property for use by PEBA, which would then provide revenue to the SCRSIC. Mr. Avant noted that care should be taken to avoid giving the impression that PEBA is using investments to circumvent the General Assembly's budgeting process. Mr. Bjontegard asked what choice management would make if they were able to lease the adjacent property, buy the adjacent property, or buying the vacant property. Mr. Avant responded that it would be ideal to get everyone in the 202 Arbor Lake Dr. building if the parking were available. Mr. Bjontegard agreed. Chairman Matthews then suggested consideration could be made to having the SCRSIC invest in the vacant property. Mr. Avant again cautioned against any action that the legislature might construe as an effort to avoid the constraints of the budgeting process. Ms. Boykin explained that the SCRSIC would have to use the same standards for investing in the property as any other investment. Chairman Matthews asked management to have the discussion with the SCRSIC regarding any possibility of doing this.

Chairman Matthews asked whether the possibility exists to rent the needed parking spaces needed. Mr. Turner responded that this is possible, but if any new tenants enter the building, the spaces would go to them.

IV. Update: Replacement of Computers

Mr. Turner explained that the retirement employee computer terminals have not been upgraded for at least five years and are still running Windows XP. As of 2015, Microsoft will not support it anymore. He explained that a deal was negotiated to obtain 160 computer terminals, but in phases of about 50 at a time. The total cost was about \$144,000. Chairman Matthews asked whether these computers would be able to interface with existing systems. Mr. Turner responded it would. Mr. Bjontegard asked what happens to the surplus equipment. Mr. Turner responded it goes to State Surplus to be auctioned. Chairman Matthews asked what happens to the hard drives. Mr. Turner responded they are destroyed.

V. Discussion: Internal Auditor

Chairman Matthews began by reading the existing position description. He expressed concern whether PEBA could find an individual who possesses all the various skills required in the PD. He added that clarification should be sought as to how deep these skills should run. Mr. Avant explained that a designation of Certified Information Systems Auditor would likely satisfy the needs with regard to information systems. Mr. Turner explained that the existing internal auditor has this certification. Ms. Boykin explained that the IS auditing skillset is critical to ensure quality control when systems are modified. This would entail developing scripts for testing of systems anytime programming is done on those systems. Chairman Matthews asked whether the decision to program internally is a one-time decision or whether it can be revisited as needs change. Mr. Turner responded that it can be revisited. He added that when the general ledger software previously used by SC

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Retirement Systems became obsolete, they purchased an “off-the-shelf” system to replace it. Ms. Boykin added that certain aspects of the systems lend themselves better to using purchased products than others. She stated she was not aware of any state pension plan that uses pre-developed software for the rule-applying functions of their systems.

Mr. Bjontegard suggest that the decision needs to be made whether to even fill this position, and if so, is this PD the right one. He asked whether an existing employee could serve this purpose. Mr. Avant responded there is an internal auditor who is capable of doing the work required, but that there were other discussions that led to creating the proposed PD.

Chairman Matthews cautioned against getting too deep into personnel issues in open session. Mr. Bjontegard stated that this position should report to the FAAC Committee with dotted line to David for personnel matters. Ms. Boykin explained that this is the way most pension plans do it, though they don't have a B&C Board. Mr. Bjontegard suggested tabling this discussion for now and Mr. Avant and Mr. Turner can advise the Committee—either now or during executive session—what this position should look like, if it is even needed.

Chairman Matthews suggested going into ES if the Committee needs to discuss specific personnel issues. Mr. Avant explained that this can be done with a motion. Mr. Bjontegard asked whether this issue is time-sensitive. Mr. Avant responded that someone is performing the functions right now, but the questions were whether the person would report to the FAAC Committee or the full Board. Chairman Matthews interjected that, between now and the next Committee meeting, Committee members and staff can discuss what questions need to be addressed regarding individuals who might be suitable for this PD and possibly call an ES meeting to discuss those questions further and at that point make a recommendation to the full Board that this position be created and that it report to the FAAC Committee. Mr. Bjontegard suggested bringing the last part of this to the next Board meeting. Ms. Boykin asked whether there is just one internal auditor. Mr. Avant explained that before PEBA, there was an audit supervisor and two reports. The two reports were moved to employer audits so there is just one internal auditor. Chairman Matthews suggested making this report at the next Board meeting.

VI. Information: Agency Head Salary Commission

Ms. Hayes explained that appointed bodies of state agencies are required to approve a PD for the Executive Director and annually conduct an assessment of the ED's success. This is not required this year for Mr. Avant, because he is acting as the interim director. She continued by explaining that the Board would need to submit an evaluation of Mr. Avant by August 2014, if he is hired for 2014. If they hire someone else, it would be due by September 2014. Chairman Matthews asked whether the review process is done by the Board or by a separate Committee. Ms. Hayes responded that the all the Board members would submit it to her or Human Resources according to the tabulation requirements of the Agency Head Salary Commission. Mr. Bjontegard explained that at the June Board meeting, all the Board members would conduct an interim review of Mr. Avant, so he would not go nearly two years without an evaluation. Ms. Hayes explained that at the May Board meeting, Ms. Donna Foster of the Agency Head Salary Commission would be providing details of the Board's responsibilities.

The discussion moved to the organizational structure of PEBA. The information given to the Committee shows six employees directly reporting to Mr. Avant, including two Business Transformation Directors. Mr. Avant explained that he is the Director of Operations, Mr. Turner is the Director of Business Transformation for Health Policy and Actuarial Analysis. Mr. David Burgis is the Director of Business Transformation for Information Systems. Mr.

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Van Camp is the Director of Administration and General Counsel. Gwen Bynoe is the legislative liaison. Geneva McIntosh is the Executive Assistant. He explained that he and Mr. Turner are still in the positions they held prior to his becoming the interim Executive Director. Mr. Bjontegard asked whether their salaries were adjusted with the new assignments. Mr. Avant explained they were. Mr. Bjontegard asked whether it would be helpful for the Board to get training on the state's classification and compensation system. Ms. Hayes explained an overview could be arranged to be given by Ms. Kim Brown, the Director of HR for PEBA.

VII. FAAC Committee Charter discussion and Strategic Planning Update

Chairman Matthews asked whether there was a resolution to the existing case between the SCRSIC and the Treasurer. Mr. Van Camp explained that the question asked in the hearing was whether the Treasurer's argument was moot. Chairman Matthews asked how long each side was given to argue. Mr. Avant responded that it was about 30 minutes, 30 minutes, and 10 minutes.

Chairman Matthews then began the discussion of the Committee Charter by explaining his recommendation regarding the Committee's purpose is to "make recommendations and reports to the PEBA Board concerning matters of PEBA's governance, administration, and operations; financial reporting, audits, and budgets; regulatory compliance; and technology platforms, privacy, and data security. Ms. Boykin added that Deferred Compensation will come under the authority of the PEBA Board. She explained that the offering of institutional funds the Deferred Compensation Commission would come under the authority of the PEBA Board as of January 1, 2014. She asked whether any thought has been given to bringing these responsibilities under the FAAC Committee. Mr. Avant responded that the Retirement Policy Committee (RPC) discussed assuming these responsibilities. He added that the defined contribution programs available through PEBA would be presented in the May Retirement Policy Committee meeting. Mr. Bjontegard asked whether the Deferred Compensation Commission members could be brought in as consultants or members of the RPC. Mr. Avant responded that this is a possibility under the Board's Bylaws. The Committee concluded by agreeing that the most appropriate place to put responsibility for Deferred Compensation is under the authority of the RPC. Any issues regarding procurement in general would be directed to the FAAC Committee or the full Board. Otherwise, issues regarding retirement-specific matters would go through the RPC. The Committee also agreed that any matters of advocacy would go through the relevant committee to the full Board. Chairman Matthews also recommended removing the phrase "on behalf of the Board," allowing the Board to act as a whole rather than defer to the Committee any responsibilities. He likewise suggested removing the phrase "and ministerial acts" for the same reason. The consensus of staff and the Committee was to change the language of the charter to include specific duties, but not to limit the Committee's responsibilities to those enumerated in the charter.

Mr. Bjontegard suggested adding oversight of communications. Mr. Avant suggested this could include communications of policy considerations. He added that a group consisting of Frank Fusco, Stacy Kubu, Sheriff Lott, and Ms. Boykin to evaluate communications sent to members and employers. This group would also develop methods to survey recipients of these communications to determine the value of these communications. Ms. Boykin expressed her belief that neither the Committee nor the Board should be involved in such low-level issues regarding communications. Chairman Matthews agreed, noting that the

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volume and frequency of communications make it difficult for the Committee to have any advance input or approval responsibility.

Ms. Boykin also added the need for the FAAC Committee to evaluate external auditors in addition to the internal auditor.

Chairman Matthews asked about the status of the Indemnification Bill. Ms. Hayes responded that it was on the Senate calendar, but Senate Finance was working on their budget.

Mr. Bjontegard asked Mr. Avant about the status of the long-range plan. Mr. Avant explained that PEBA had entered into a Memo of Understanding with the USC Institute of Public Service and Policy Research to help develop the institutional strategic plan, led by Bill Tomes. The group will have weekly meetings and will ultimately develop a concrete action plan, rather than a soft document which carries very little authority. Mr. Bjontegard stated his objective to have the strategic plan completed by June 30, 2013.

VIII. Adjournment

There being no further business, Chairman Matthews adjourned the Committee meeting at 5:15 p.m.