

FAAC Committee Members Present:

Mr. Steve Matthews, Chairman (via telephone)
Ms. Stacy Kubu (via telephone)
Mr. Leon Lott (via telephone)
Mr. Art Bjontegard
Mr. Frank Fusco

Others present for all or a portion of the meeting:

Peggy Boykin, Phyllis Buie, Sarah Corbett, Ariail Kirk, Megan Lightle, Heather Muller, Tammy Nichols, John Page, Breta Rheney, Travis Turner, Stephen Van Camp, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt with the State Retirees Association of South Carolina; and Chris Kessler and Thomas Ray from CliftonLarsonAllen.

1. CALL TO ORDER

Chairman Steve Matthews called the PEBA Finance, Administration, Audit and Compliance (FAAC) Committee meeting to order at 4:30 p.m.

2. ADOPTION OF PROPOSED AGENDA

Mr. Leon Lott made a motion, which was seconded by Mr. Art Bjontegard and passed unanimously, to adopt the proposed meeting agenda.

3. APPROVAL OF MEETING MINUTES – DECEMBER 3, 2014

Chairman Matthews referred to the draft minutes from the December 3, 2014, Committee meeting, and asked for a motion to approve. Mr. Bjontegard made a motion, which was seconded by Mr. Lott, and passed unanimously, to approve the minutes from the December 3, 2014, Committee meeting.

4. FY 13/14 HEALTH FINANCIAL STATEMENTS AUDIT

Mr. Thomas Ray, CPA, with CliftonLarsonAllen, PEBA's external auditor, presented an overview of the Insurance Benefits Audited Financial Statements for fiscal year 2013-2014. Mr. Ray stated that this audit report is an unmodified "clean" opinion, which indicates the financial statements are presented fairly, and in conformity with the U.S. General Accepted Accounting Principles (GAAP).

Mr. Ray advised the FAAC Committee that several internal control deficiencies were noted as a result of the audit, and the completion of the audit was delayed due to difficulties in obtaining requested documentation in regards to securities lending activities. Mr. Ray reported that both the South Carolina Retiree Health Insurance Trust Fund, and the South Carolina Long-Term Disability Insurance Trust Fund required extensive auditing due to the difficulty of obtaining required information from the State Treasurer's Office (STO), and/or the Bank of New York Mellon (BONY) regarding the securities lending program. Mr. Ray reminded the FAAC Committee that the SC Code of Laws prohibits securities lending portfolio assets from being commingled with general funds or other state assets. Mr. Ray stated that both the South Carolina Retiree Health Insurance Trust Fund, and the South Carolina Long-Term Disability Insurance Trust Fund showed net unrealized

losses in invested cash collateral from securities lending activities. Mr. Ray pointed out that these losses are immaterial, and do not impact the financial statements.

Mr. Ray stated that the STO serves as the custodian for the Trust, and is responsible for all investment activities related to the Trust. Mr. Ray advised that PEBA relies on the STO to provide documentation and records used in financial reporting. It was noted that despite repeated requests, the STO did not provide documentation regarding certain securities lending transactions impacting the Trust.

Ms. Peggy Boykin, PEBA's Executive Director, stated that the STO is working with BONY to segregate the securities lending assets, and they will be sending PEBA revised statements to resolve this matter as quickly as possible.

Ms. Sarah Corbett, PEBA's Chief Operating Officer, advised that PEBA has made several organizational changes including obtaining a Chief Financial Officer to oversee and maintain consistency of the South Carolina Retirement System (SCRS) investment portfolio, and the health insurance investment portfolio. Ms. Corbett stated that this organizational change should address the noted internal control issues.

Chairman Matthews thanked Mr. Ray for his presentation, and stated that the FAAC Committee has received the Health Financial Statements as information.

5. REVIEW OF FUNSTON RECOMMENDATIONS

Chairman Matthews referred to the review of recommendations from Funston Advisory Services related to the recently completed Funston Fiduciary Audit. Ms. Boykin stated that most of the Funston recommendations that requires action from the Board will be addressed through the FAAC Committee, and the broader implementation plans will be addressed at the upcoming Board retreat in March. The FAAC Committee reviewed each Funston recommendation as it relates to the Board.

Chairman Matthews asked for a motion to recommend the suggested changes regarding the PEBA Board of Directors Bylaws to the full Board for approval. Mr. Bjontegard made a motion, which was seconded by Ms. Stacy Kubu, to recommend the suggested changes regarding the PEBA Board of Directors Bylaws to the full Board for approval.

Further discussion ensued regarding each recommendation, and additional revisions were suggested to several areas of the Bylaws. Ms. Kubu made a motion, which was seconded by Mr. Bjontegard, and passed unanimously, to amend the pending motion regarding the initial suggested changes to the PEBA Board of Directors Bylaws.

Ms. Kubu made a motion, which was seconded by Mr. Bjontegard, and passed unanimously, to recommend the revised suggested changes regarding the PEBA Board of Directors Bylaws to the full Board for approval.

Discussion ensued regarding a recommended change to the PEBA Board of Directors Travel Policy. Mr. Frank Fusco made a motion, which was seconded by Mr. Bjontegard, and passed unanimously, to amend the PEBA Board of Directors Travel Policy by adding the language in bold: **“Reimbursement for travel expenses incurred by the Chairman of the Board shall be subject to review and approval by the Vice Chairman of the Board.”**

Discussion ensued regarding a recommended change to the PEBA Board of Directors Continuing Education Policy. Mr. Bjontegard made a motion, which was seconded by Ms. Kubu, and passed unanimously, to amend the PEBA Board of Directors Continuing Education Policy by adding the language in bold: **“Records of educational credits earned, and reimbursement for educational expenses incurred by the Chairman shall be subject to review and approval by the Vice Chairman of the Board.”**

6. OLD BUSINESS/DIRECTOR’S REPORT

Ms. Boykin stated that the General Assembly is back in session, and PEBA presented the State Health Plan budget report to the House Ways and Means Committee Healthcare Subcommittee on February 4, 2015. Ms. Boykin added that the budget report to the Senate Finance Health and Human Services Subcommittee will be presented on February 25, 2015.

7. ADJOURNMENT

There being no further business, the Committee meeting adjourned at 5:45 p.m.