

FAAC Committee Members Present:

Mr. Steve Matthews, Chairman
Mr. Steve Osborne
Mr. Art Bjontegard
Ms. Stacy Kubu (via telephone)

Others present for all or a portion of the meeting:

Edith Ashcraft, Peggy Boykin, Kim Brown, Sarah Corbett, Doug Hislop, Megan Lightle, Heather Muller, Lisa Phipps, John Page, Sue Sadik, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); and Donald Tudor with the State Retirees Association of South Carolina.

1. CALL TO ORDER

Chairman Steve Matthews called the PEBA Finance, Administration, Audit and Compliance (FAAC) Committee meeting to order at 2:00 p.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

2. ADOPTION OF PROPOSED AGENDA

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

3. APPROVAL OF MEETING MINUTES – MARCH 4, 2015

Chairman Matthews referred to the draft minutes from the March 4, 2015, Committee meeting, and asked for a motion to approve. Mr. Bjontegard made a motion, which was seconded by Mr. Osborne and passed unanimously, to approve the minutes from the March 4, 2015, Committee meeting.

4. PEBA BOARD CONTINUING EDUCATION POLICY REVISIONS

Chairman Matthews referred to additional modifications to the PEBA Board Continuing Education Policy which was amended to include requiring at least two hours of fiduciary education and at least two hours of ethics education within the required eighteen hours of qualifying educational training for each reporting period. The revision also commits the legal department to arranging for the fiduciary and ethics training. Following additional discussion, the Committee purposed to further revise the Education Policy by adding the language in bold: **“For the purposes of this policy, fifty minutes of educational training is equal to one hour of educational credit.”**

Mr. Bjontegard made a motion, which was seconded by Mr. Osborne, and passed unanimously, to recommend the amended the PEBA Board Continuing Education Policy to the full Board for approval.

5. COMMITTEE CHARTER REVIEW

Chairman Matthews stated that the Committee Charter should be reviewed annually, and upon review discovered an error in the first sentence of the Charter. Section (A) Purpose should read: To preserve and *improve* (not approve) the operational integrity of PEBA by making 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. Stacy Kubu made a motion, which was seconded by Mr. Osborne, and passed unanimously, to reapprove the Committee Charter with the noted correction, and submit the Charter to the full Board for approval at the June 17, 2015, meeting.

6. WEBSITE SELF-SERVICE CAPABILITIES PRESENTATION

Ms. Lisa Phipps, PEBA's Director of Operational and Research Development, provided an overview of self service business features available to members and employers. Ms. Phipps reviewed PEBA's four self-service systems including: Electronic Employer Services; Employee Benefits Services; MyBenefits; and Member Access. Ms. Phipps also discussed business features of PEBA's three public websites, and concluded her presentation by reviewing current initiatives of enhancing self service features.

7. DATA SECURITY

Mr. Robbie Brown, PEBA's Information Technology Systems Manager, presented a report on data security related to the detection and prevention of vulnerabilities and attacks. Mr. Brown discussed various aspects of data security including:

- A. Employee Security Awareness;
- B. IT Staff Specialized Security Training;
- C. User Account Control;
- D. Network Infrastructure Configuration and Monitoring;
- E. Data Protection;
- F. Web Traffic and Email Filtering and Analysis;
- G. Employee Workstation and Server Vulnerability Awareness;
- H. Mobile Device Management; and
- I. System Event Logging.

Mr. Brown also reviewed future improvements for 2015-2016 including: next generation firewalls; upgrading the web filtering system; utilizing multiple Intrusion Prevention System (IPS) devices throughout the PEBA Network; and Data Loss Prevention (DLP).

8. INTERNAL AUDIT REPORTS

Ms. Edith Ashcraft, Internal Auditor, presented the Internal Audit report on IT Software Licenses, and reported that in fiscal year 2014, PEBA spent \$975,629 on software licenses and maintenance. Ms. Ashcraft stated that the Information Technology (IT) Department has controls in place to help mitigate the risk of inappropriate software installations and licensing/maintenance non-compliance.

These controls include:

- A. Restricted ability for agency personnel to perform software installations;

- B. Purchase of sophisticated software asset management tool; and
- C. IT maintained software inventory spreadsheet by fiscal year.

Ms. Ashcraft reported that very few exceptions were found after testing 20 of the 38 software license and maintenance expenditures and comparing to the IT software asset inventory and desktop installation documentation. Ms. Ashcraft concluded that the internal controls over software licensing and maintenance are very effective.

Mr. John Page, Director of Internal Audit, presented the Internal Audit Report on Data Security, and stated that the audit focused on how the IT department prevents, detects, and responds to unauthorized network intrusions and malware. Mr. Page stated that the preventative and detective controls were present and operating in every test conducted. Mr. Page advised that he reviewed the preventive and detective controls that the IT Department utilizes, performed test procedures, and compared the results to the National Institute of Standards and Technology (NIST) information security and privacy controls. Mr. Page concluded that if the preventive and detective controls tested continue to perform satisfactorily, PEBA should be able to either prevent or detect and respond to most intrusions into its information network.

Mr. Page also presented the Internal Audit Plan Status Report which details the description of each audit; start date; end date; planned hours; and actual hours used.

9. STRATEGIC PLANNING STATUS REPORT

Ms. Sarah Corbett, PEBA's Chief Operating Officer, reviewed the PEBA Board Strategic Plan-Staff Action Plans related to the FAAC Committee, and provided a progress report on each action item that will be completed by the end of 2015.

10. HUMAN RESOURCES UPDATE

Ms. Peggy Boykin, PEBA's Executive Director, provided an update regarding the number of Full-Time Equivalent (FTE) positions available at PEBA. Ms. Boykin reported that within the last ten months there have been 60 positions that have required action from the human resources department resulting from previously vacant positions, promotions, reassignments, retirements and separations. Ms. Boykin stated that 49 positions have been filled, and 11 vacant positions are remaining. Four of the vacant positions are currently posted, and seven vacancies are uncommitted at this time. Ms. Boykin is working diligently to determine how to best utilize the seven additional vacancies, and will update the Committee as these positions are filled. Ms. Boykin added that it is important for PEBA to dedicate the necessary resources to maintain critical IT and data security staff.

11. OLD BUSINESS/DIRECTOR'S REPORT

Ms. Boykin reported that the dollar amount of PEBA's budget is the same in both House and Senate versions of the budget.

Ms. Boykin advised the Committee that PEBA is preparing several Request for Proposals (RFP's), including:

1. A consultant that will cover healthcare, communications, human resources, and retirement readiness;
2. An investment consultant contract so investment consulting services can be consolidated for both the South Carolina Deferred Compensation Program and the Optional Retirement Program (ORP);
3. An administrative Services Only (ASO) contract for 2016.

Ms. Boykin advised that PEBA received notice from the Government Finance Officers Association (GFOA) that the June 30, 2015, (Comprehensive Annual Financial Report (CAFR) qualified for the Certificate of Achievement for Excellence in Financial Reporting. Ms. Boykin congratulated the accounting and finance staff. Ms. Boykin stated that currently PEBA has multiple insurance financial statements, and the goal for the upcoming year is to consolidate the insurance financial statements into one comprehensive insurance financial statement, and the following year develop one CAFR that will consolidate all of the financial reports.

Ms. Boykin reported that PEBA is continuing to work with the Legislative Audit Council, which is an oversight agency of the General Assembly that performs objective performance audits of state operations. Currently, the Council is conducting an audit of the state's pension funds which includes the SC Retirement System Investment Commission and PEBA. Ms. Boykin added that the audit which focuses solely on retirement, should be completed by the end of July and a report provided by the end of September.

Ms. Boykin reminded the Committee that there is not a securities lending deficit of \$4.9 million in the Other Post Employment Benefits (OPEB) trust funds as originally reported in PEBA's Insurance Financial Statements. Ms. Boykin advised that next year's financial statements will include a restatement and a note disclosure explaining the restatement.

Ms. Boykin advised that PEBA has received confirmation from the Bank of New York Mellon (BONY) that the securities lending portfolio assets in the OPEB trust funds have been properly segregated as of February 17, 2015, and added that BONY has also verbally confirmed that they have adjusted the reported income of the securities lending portfolio assets in the OPEB trust funds. Ms. Boykin stated that PEBA should be receiving written documentation of the adjustment in the near future.

Ms. Boykin concluded her report by stating that PEBA will be presenting a quarterly update on the progress towards the implementation of the Funston Fiduciary Audit recommendations to the Senate Finance Special Subcommittee to Review the Investment of State Retirement Funds.

12. ADJOURNMENT

There being no further business, and upon motion by Mr. Osborne, which was seconded by Mr. Bjontegard, and passed unanimously, the Committee meeting adjourned at 4:00 p.m.