

**South Carolina Public Employee Benefit Authority
Finance, Administration, Audit, and Compliance (FAAC) Committee
Meeting Minutes (Adopted as amended April 16, 2013)**

Wednesday, November 07, 2012, 10:00 a.m.

2nd Floor Conference Room
202 Arbor Lake Drive
Columbia, South Carolina 29223

Committee Members Present:

Mr. Steve Matthews, Chairman (in person)
Sheriff Leon Lott (in person)
Ms. Peggy Boykin (via phone)
Mr. Art Bjontegard, ex-officio (in person)

Others present for all or a portion of the meeting:

Bill Blume, David Avant, Susan Brownlee, Stephen Van Camp, Lil Hayes, Lisa Phipps and Greg Meetze from the South Carolina Public Employee Benefit Authority (PEBA); Sarah Corbett from the South Carolina Retirement Systems Investment Commission; Dale Rhodes from the South Carolina Deferred Compensation Commission; Craig King from Palmetto State Teachers Association

I. Call to order and Adoption of Proposed Agenda

Chairman Matthews called the meeting to order at 10:03 a.m. Ms. Brownlee confirmed compliance with the Freedom of Information Act. Chairman Matthews noted those in attendance. Upon motion by Mr. Bjontegard and second by Sheriff Lott, the agenda was adopted unanimously. Chairman Matthews and Mr. Blume proposed two changes to the draft minutes. Upon motion by Mr. Bjontegard and second by Sheriff Lott, the minutes were adopted as amended.

II. Review and Discussion of Draft Bylaws

III. Report on Similarly-Structured State Plans

IV. Discussion of Committee Structure

V. PEBA Indemnification and Insurance

Chairman Matthews noted that agenda items III, IV and V (Report on Similarly-Structured State Plans, Discussion of Committee Structure, Indemnification and Insurance), would come up during discussion of the bylaws. He noted several statutory recitations, included in the original draft of the bylaws, were removed, but would be included in a new Board member handbook to be developed. Mr. Van Camp suggested referencing the Code of Laws, along with Act 278 throughout the draft to eliminate need to amend for future statutory changes. Chairman Matthews asked PEBA legal counsel to make those changes. Ms. Boykin noted she received a best practices document from the Government Finance Officers Association (GFOA) that recommends adopting a governance manual that outlines the authority and specific roles/responsibilities for staff, board, the administrator, policies

and committees. This document would have more detail than the bylaws. Chairman Matthews concurred such a document will be needed.

Chairman Matthews referred to Article IV of the draft bylaws regarding Board meetings. Upon question by Mr. Bjontegard, Chairman Matthews confirmed that, under FOIA, there are provisions for emergency meetings. As to a quorum, Chairman Matthews confirmed a majority would apply. A majority vote of a quorum as defined is required to take action. Chairman Matthews mentioned that Board members serve at the pleasure of their appointers, noting attendance will be transmitted to appointers on a semi-annual basis.

Chairman Matthews reviewed briefly Article V, relating to committees. Ms. Boykin pointed out some other boards allow other people to serve on committees. These people are not board members themselves, but who bring some level of expertise to the committees on which they serve. Matthews noted the draft provides that committees may bring in consultants, such as the Pre-retirement Advisory Board. Mr. Bjontegard clarified Ms. Boykin's suggestion, noting more committees could be formed later, and the 11-member Board may need this support so they are not spread too thinly. The PEBA legal team was asked to include this language to the draft bylaws. Upon question, it was confirmed that such committee members be given voting rights on the committee level, but not the Board level.

Chairman Matthews referred to Article VI of the draft bylaws (item V on the agenda), confirming an endorsement has been received by the insurer to cover the PEBA board for all of their official conduct. He then referred to the draft indemnification bill. If the Board obtains such statutory indemnification, then additional insurance may not be necessary if the indemnification is considered adequate. Mr. Van Camp summarized the draft indemnification bill's purpose and scope, covering staff and PEBA board members, and the immunity provision while acting in good faith and relying on the expertise of others. There was additional discussion, and Mr. Van Camp clarified that indemnification language in the bylaws may be revised to refer to statute if the indemnification bill passes. Mr. Blume noted personal, out-of-pocket costs may be incurred before reimbursement in the event of a suit. There was additional discussion of this and that the Attorney General approves outside counsel. Mr. Avant added that, even with the allegation that a board member acted improperly, outside his authority, if PEBA determines the board member was, in fact, acting within his authority, the Attorney General would approve counsel. Mr. Bjontegard asked PEBA legal staff to look into this, and Chairman Matthews asked Mr. Van Camp to confirm that the bylaws and bill drafts use the same language with regard to the reliance on outside expertise.

Chairman Matthews referred next to Article VII, noting the Vice Chairman would act in absence of the Chairman. The Secretary would be someone from PEBA staff to maintain records. The Executive Director would eventually be appointed by the Board. He asked for suggestions for additional officers. It was noted a Treasurer would not be needed, and PEBA staff includes the equivalent of a Chief Financial Officer. Upon question by Mr. Bjontegard, Chairman Matthews asked Mr. Van Camp to draft suggestions for replacement of the Chair during the term.

Chairman Matthews also briefly reviewed Articles VIII, IX, and X. A motion to present the bylaws, with the changes discussed and recommended, to the Board of Directors at its November 21, 2012, meeting was made by Sheriff Lott, seconded by Mr. Bjontegard and approved unanimously.

VI. Review of “Fiduciary Audit” Requirement

Matthews stated that the State Inspector General was tasked to conduct this audit in the statute, and the General Assembly would appropriate funds. The PEBA Board’s task is to cooperate with this process, and Mr. Blume confirmed his recommendation that the first audit coincide with the January 15, 2014, deadline.

VII. Executive Session to Discuss Development of Security Personnel/Devices Pursuant to § 30-4-70(a) (3)

A motion was made by Mr. Bjontegard to enter into executive session, which was seconded by Sheriff Lott and carried unanimously. The Board entered into executive session at approximately 10:40 a.m. and returned to regular session at 11:20 a.m. Chairman Matthews confirmed the briefing was about security issues related to data protection, and no action was taken or needs to be taken.

VIII. Old Business

Chairman Matthews recalled the draft operational budget presented at the October 16, 2012, meeting was approved to be presented to the Board, and that additional information was requested for review. He noted the role of the committee with regard to future budget development. He asked for comment on the additional information, and Ms. Boykin questioned whether the internal auditor should report directly to the Board, vs. the Executive Director. Mr. Blume concurred, noting a position vacancy. When another auditor is hired, that position will report directly to the Board, and the organizational chart will then be updated. Ms. Boykin advised that the internal auditor should provide assistance to the Board to ensure they are receiving information from the Investment Commission and are comfortable with the process and following the Board’s responsibilities associated with it. Mr. Blume added that the internal audit functions relating to investment are being strengthened and that ideas and resources are being shared. There was general agreement the internal audit function would report to the FAAC committee until the audit function is broken out (if the Board agrees), with Mr. Van Camp noting Human Resources approval of the line of reporting authority. Mr. Blume added the audit committee would need to agree to the internal audit functions.

Mr. Blume then explained information technology upgrades are needed. The Board needs to know the reasons to move forward in this area. The programming language is old and outdated, and it is hard to find programmers for it anymore. Mr. Bjontegard asked whether PEBA needs to initiate the budget process for it. There was brief discussion regarding timing of such a request. Ms. Boykin asked Mr. Blume to look into the timing of when this budget request needs to be provided to the House Ways and Means committee to meet that deadline. Upon question from Mr. Bjontegard, Mr. Blume estimated \$20-30 million for the project, the entire process lasting 8-9 years, briefly summarizing the analysis and request process. Mr. Bjontegard suggested this project might be on the program for the retreat in January. There was additional discussion about the process to obtain authorization to spend the funds for the project.

I. New Business

Chairman Matthews noted several new items discussed earlier: the Board member handbook; the governance manual, budget preparation, audit procedures and interaction with the Investment Commission. He noted that Ms. Corbett mentioned at the last meeting a possible Investment Commission endorsement of the financial statements that are sent to the auditor. How the committee works with that process and the understanding of the assets will be an issue, he explained, noting the internal audit position and Mr. Blume's participation on the Investment Commission. Chairman Matthews asked the Executive Director's report include updates of Investment Commission meetings and activities.

There was some discussion regarding the regular FAAC committee meetings. Following discussion, it was agreed the FAAC meetings for 2013 be changed to the Tuesday morning, two weeks before the full Board meetings.

Chairman Bjontegard suggested a more formal process for addressing the technical amendments needed for Act 278, as these changes would come before this committee. Also, he noted this committee might be integral in working with the Budget and Control Board (BCB) principals and key staff to accomplish PEBA Board goals.

Ms. Boykin recommended a workshop on governance best practices and the governance manual at the retreat in January 2013. She noted a number of issues to decide, including the funds of the Deferred Compensation Program and the Optional Retirement Program. She proposed uploading to the extranet site sample documents from other states for board members to review before the retreat (states mentioned: Minnesota, Missouri, Washington State, Colorado, and Wisconsin).

Upon question by Chairman Matthews, Mr. Van Camp confirmed two of four committee members would not constitute a quorum.

II. Adjournment

There being no further business, upon motion by Mr. Bjontegard and second by Sheriff Lott, the meeting adjourned at 11:56 a.m.