



STATE BOARD OF ADMINISTRATION OF FLORIDA (SBA)

**Agenda
Investment Advisory Council (IAC)**

Friday, January 20, 2012, 9:00 A.M.

**Conference Call
Hermitage Room, First Floor
1801 Hermitage Blvd., Tallahassee, FL 32308**

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1. **Welcome/Call to Order** *Rob Gidel, Chair*

 2. **Opening Remarks** *Ash Williams
Executive Director & CIO*

 3. **Discussion of proposed Investment Policy
Statement changes resulting from
recommendations in Crowe Horwath audit** *Rob Gidel, Chair*

(See Attachment 3a)

(Action Required)

 4. **Audience Comments/
Closing Remarks/Adjourn** *Rob Gidel, Chair*



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OF FLORIDA**

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MEMORANDUM

To: SBA Investment Advisory Council, SBA Audit Committee

From: Ash Williams

Date: 1/13/12

Subject: Crowe Horwath report follow-up

CC: SBA Trustees, Kevin SigRist, Kathy Whitehead, Eric Nelson, Florida Rivera-Alsing

Background

At the December 2011 IAC and Trustees meetings, there was discussion of the Crowe Horwath October 21, 2011 report to the SBA, "Evaluation and Recommendations Related to the Compliance Program." By memo dated November 4, 2011, SBA staff accepted or partially accepted 58 of 63 of Crowe's recommendations. The remaining five recommendations were directed to the Audit Committee, Investment Advisory Council or Trustees because they addressed governance matters such as potentially separating the Executive Director and Chief Investment Officer duties or changing the reporting relationship of the Chief Risk and Compliance Officer (CRCO). The IAC chair reported to the Trustees regarding the IAC's review of Crowe's report; the IAC took a view that SBA's current risk management and compliance governance structure is functioning effectively, properly establishes accountability and mitigates any potential conflict issues through the practice of having the CRCO provide written and oral reports to the Audit Committee, Trustees and IAC. The Trustees agreed that IAC Chair Robert Gidel would work with CFO Atwater and the SBA Executive Director/CIO to identify any changes that could be made to bring closure to issues identified by Crowe, especially with regard to the independence of the CRCO.

Current status / Action items

In a series of separate follow-up conversations, the CFO, IAC Chair Gidel and Audit Committee member Rolf Engmann and I identified several steps that could be taken to further ensure the independence of the CRCO and advance the risk management effort. These were discussed in the January 10 Audit Committee meeting. Following is a summary of these initiatives that are responsive to the Crowe report, together with a draft amendment proposed for inclusion in the

investment policy statements of the FRS Pension and Investment Plans, Lawton Chiles Endowment Fund, Florida PRIME, Investment Pool B and non-FRS Defined Contribution Plan to adopt the recommended changes. The Trustees will be briefed on these proposals at their January 18 meeting. Investment Policy Statement changes are subject to prior IAC review, which is the purpose of the IAC's meeting January 20. Should the IAC approve these changes, the Trustees may act on them at their February 9 meeting.

Initiative Summary

- Amend SBA's Investment Policy Statement(s) to explicitly require CRCO to provide written and oral reports to the IAC, Audit Committee and Trustees no less than quarterly and authorize the CRCO to directly access these or other bodies as appropriate to ensure the integrity and effectiveness of CRCO functions.
- Selection, compensation and termination of the CRCO will be affirmed by the Trustees. For day-to-day executive and administrative purposes, the CRCO will continue to work with the Executive Director/CIO and SBA management so that issues are promptly and thoroughly addressed.

Proposed Investment Policy Statement Addition

"The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board and is authorized to directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions."

Conclusion

The proposed actions and related Investment Policy changes will bring closure to the governance issue raised in the Crowe report. Other Crowe related issues are being addressed by SBA staff and are subject to normal progress reporting to the Audit Committee, Trustees and IAC. SBA's independent risk management and compliance unit is relatively young and will continue to evolve with a goal of embracing best practice to the greatest practical extent.