

**THE AUDIT COMMITTEE
of the
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

MINUTES OF THE MEETING OF May 16, 2017

The Audit Committee met on Tuesday, May 16, 2017 at 2:25 p.m., in Conference Room 1654 of the Maryland State Retirement Agency at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: James A. Bush, Jr., Chairman
David B. Hamilton (by phone)
Theresa Lochte
Richard E. Norman

MSRA attendees were: David Rongione, Chief Internal Auditor
Harvey Raitzyk, Retirement Administrator
Ken Reott, Deputy Retirement Administrator
Kim O'Keefe, Deputy Retirement Administrator
Rachel Cohen, Principal Counsel
Kathleen Wherthey, Deputy Counsel
Melody Countess, Chief Operating Officer
Michelle Lowery, Deputy Chief Operating Officer
Ira Greenstein, Chief Information System Officer
Brian Feilinger, Internal Audit Contract Manager
Lauren Smith, Internal Audit Supervisor
Delores White-Rose, Internal Auditor

Office of Legislative Audits Attendees were: Michael Merczak, Audit Manager
Ed Welsh, Senior Auditor

A. Minutes of the February 21, 2017 Audit Committee Meeting

On a motion made by Ms. Lochte, and seconded by Mr. Norman, the minutes of the February 21, 2017 Audit Committee meeting were ratified.

B. Contractual Audits Update

Mr. Rongione provided an update on the status of contractual audits. He noted that Internal Audit has selected a CPA firm to perform investment risk assessment and audit services. Award of a contract is pending approval from the Board of Public Works on May 24, 2017.

C. Status of FY 2017 Audit Plan

Mr. Rongione provided the Committee with a status update for the FY 2017 audit plan. Full-scope audits of Power of Attorney, EFT Processing, and Network and Server Maintenance have been completed. Audits of Payroll Data &

Contributions and System Transfer Processing are currently in progress. Both should be completed by the end of FY 2017. The outsourced audit of Private Equity Investments is expected to start in FY 2017, pending approval of the contract by the Board of Public Works.

Audits of participating employers for FY 2017 are expected to be completed on schedule. Mr. Rongione noted that audits of the Maryland Department of Transportation have been added, which were not originally on the FY 2017 audit plan.

D. Status of Open Issues Log

Mr. Rongione provided a summary of open audit issues. For FY 2017, a total of 28 issues were closed and 16 new issues were added. There is a current balance of 11 open issues. Details of the open issues were provided to the Committee.

The Committee discussed the status of open issues for audits of Capital Equipment, Network/Server Maintenance, and Software Security Patching. Ms. Countess told the Committee that Finance is in the process of implementing new inventory management software for capital equipment. She believes that the open issues related to Capital Equipment Audit findings have been addressed.

Mr. Greenstein provided an update on open issues related to the Network/Server Maintenance Audit. There is currently a process in place to disable the network accounts of terminated employees in a timely manner. Human Resources notifies the Help Desk and Finance when an employee leaves. He also believes that alerts have been activated for Solar Winds software.

For the Software Security Patching Audit issue, Mr. Greenstein advised the Committee that Information Systems is currently working with the Treasurer's Office to resolve an issue related to a single instance of unsupported software. They have identified a solution that should be implemented shortly.

Mr. Rongione noted that some items listed on the Open Issues Log may have been addressed by management, but are awaiting verification by Internal Audit. Ms. Lochte asked that Internal Audit check and update the statuses of open issues just prior to the next Audit Committee meeting.

E. Completed Audits

Mr. Rongione discussed the Electronic Funds Transfer audit, which was issued on May 12, 2017. He noted that there were four findings, with one being high-risk. This finding relates to instances where a number of retirees that have their benefits deposited to a single bank account. He noted that one group of 35 payments was sent to a single PNC Bank account. PNC Bank then transferred the deposits to a credit union. Among these were four retirees, who indicated that they received incorrect payment amounts for December 2016. Because of the potential for fraud, Internal Audit consulted with the Attorney General's Office on this issue.

Mr. Raitzyk informed the Committee that Retirement Administration sent letters to the 35 affected retirees, as well as a group of six who had payments directed to another account, asking if they received their retirement payments correctly and timely over the past two years. So far, four to five responses have been received, with no discrepancies identified. These retirees were also provided with EFT change forms, allowing them to change bank accounts, if they wished.

Mr. Raitzyk also told the Committee that controls have been implemented to prevent deposits to a single bank account from more than five retirement accounts. He stated that Internal Audit's recommendation to notify members whenever their EFT deposit accounts change might not be possible due to cost and staffing considerations.

Mr. Bush asked that the Committee be updated on the status of this issue.

F. Annual Risk Assessment

Mr. Rongione told the Committee that he will soon be sending out annual risk assessment questionnaires to the Executive Director, unit directors, and Audit Committee members. The risk assessment helps to determine next year's audit plan.

G. Other Business

Mr. Rongione told the Committee that the Maryland Department of General Services recently completed an audit of the Agency's inventory. Their audit report will be provided at the next meeting.

The Office of Legislative Audits has begun their regular audit of the Agency, which occurs every three years.

The next Audit Committee meeting is scheduled for July 18, 2017.

The Committee adjourned the meeting at 2:48 p.m.

Respectfully submitted,



David Rongione, Secretary