

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

**MINUTES OF THE MEETING OF JULY 17, 2018**

The Audit Committee met on Tuesday July 17, 2018 at 11:10 a.m., in the Board Room of the Maryland State Retirement Agency at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: Richard E. Norman, Chairman

F. Patrick Hughes (by phone)  
David B. Hamilton (by phone)  
Theresa Lochte (by phone)

MSRA attendees were: R. Dean Kenderdine, Executive Director  
David Rongione, Chief Internal Auditor  
Harvey Raitzyk, Retirement Administrator  
Kim O'Keefe, Deputy Retirement Administrator  
Ken Reott, Deputy Retirement Administrator  
Rachel Cohen, Principal Counsel  
Kathleen Wherthey, Deputy Counsel  
Melody Countess, Chief Operating Officer  
Patricia Fitzhugh, Deputy Chief Operating Officer  
Patricia Wild, Managing Dir. Investment Admin. & Accounting  
Lauren Smith, Internal Audit Supervisor  
Richa Sultana, Internal Auditor

**A. Minutes of the April 17, 2018 Audit Committee Meeting**

On a motion made by Mr. Hughes, and seconded by Mr. Hamilton, the minutes of the April 17, 2018 Audit Committee meeting were ratified.

**B. Staffing Update**

Mr. Rongione advised the Audit Committee that the Internal Audit Contract Manager, Brian Feilinger, officially retired on July 1, 2018 with approximately 39 years of service. The Committee thanked Mr. Feilinger for his years of service. The Internal Audit Contract Manager position is responsible for managing and monitoring all of the audits that internal audit outsources, which include the audits in investments as well as the PGU audits. Treasurer, Nancy Kopp, inquired about any difficulties the audit department is experiencing in relation to the hiring process. Mr. Rongione advised Treasurer Kopp that there would be some internal promotions and the new hire will be for an entry-level position; therefore, they do not foresee any issues.

**C. Status of FY 2018 Audit Plan**

Mr. Rongione advised that the Disability Claims audit was not complete as of fiscal year end. The audit is currently in the reporting phase and is expected to be presented at the next audit committee meeting.

Mr. Rongione advised that for the Participating Employer Audits, 58% are complete, 35% are complete pending management responses, and 7% are in progress. All are expected to be complete by the end of the contract term, which is August 31, 2018. Internal Audit is currently in the process of renewing their contract with CliftonLarsonAllen (CLA) for a 3-year term.

Mr. Rongione advised that Internal Audit closed 16 issues in FY18 as reported in the issues log, added 12 new issues in FY18, and 12 remain open as of fiscal year end.

**D. FY 2018 Internal Audit Performance Report**

Mr. Rongione presented the Internal Audit Division Performance Report for FY 2018. With the exception of #2 of the report, 'Percentage of Annual Audit Plan', Internal Audit has met all of its performance goals; 96% of the audit plan is complete and Internal Audit is currently in the reporting phase of the last FY18 audit, Disability Claims audit. IAD expects the final report to be issued in the next few weeks.

**E. FY 2018 Time Report**

Mr. Rongione presented the Time Report to the Committee, which summarizes the Internal Audit Division hours for FY18 and compares them to prior fiscal years (i.e. FY16 & FY17).

**F. FY 2018 Annual Financial Audit**

Mr. Rongione advised the Committee that SB & Company held the entrance conference for the financial statement audit with MSRA staff on June 6, 2018. Mr. Rongione discussed highlights from the entrance meeting material, which include:

- a. Page 11, same engagement team as prior years
- b. Page 12, a list of the deliverables
- c. Page 13, details the planning items discussed
- d. Page 14, audit timing
- e. Page 15, update on standards

**G. Status of Open Issues Log**

Mr. Rongione provided a listing of open audit issues. He told the Committee that Internal Audit has been working with Agency management to resolve these. Most of the issues are expected to be remediated by the next Audit Committee meeting.

Executive Director, Mr. Kenderdine, advised the Committee that in relation to the Earnings Limitation Audit, he has been in conversation with Towson on the correct appointing authority to sign off on the notice. Mr. Kenderdine expects the notice to be submitted to the Agency by the end of week.

#### **H. Internal Audit Quality Assessment Review**

Mr. Rongione presented the results of the external quality assurance review. Internal Audit generally conformed to IIA standards and received a 'Pass' rating for GAGAS standards.

Mr. Hughes asked whether any conflict of interest exist since CLA performed the QAR who is also responsible for assisting the Agency with the PGU audits. Mr. Rongione informed Mr. Hughes that the QAR and PGU audits are performed by two different CLA offices. In addition, the QAR team does not review the work of the PGU auditors, but instead Internal Audits review of the PGU workpapers.

#### **I. FY 2019 Audit Plan**

Mr. Rongione advised the Committee that Internal Audit has completed the Agency Wide Risk assessment. Mr. Rongione noted that the process included:

- a. Sending risk questionnaires to the AC members, the Executive Director, department heads and operational managers;
- b. Utilizing the results of the questionnaires to evaluate the business process risks based on likelihood and impact, as well as considering inherent and residual risks; and
- c. Sorting the business processes by risk in descending order to determine the high risk processes.

Another component of developing the Annual Audit Plan involves available audit hours, which includes taking total available time, then removing State Benefit Hours and Administrative time, and then assigning available audit hours to specific functions.

On a motion made by Pat Hughes, and seconded by Theresa Lochte, the FY19 Audit Plan was approved.

#### **J. Completed Audits**

Mr. Rongione presented the results of the Service Buyback Audit. He noted that it received an overall rating of "Green", indicating that there was an acceptable state of control and compliance. The scope of the audit included service credit purchase requests processed during the period of June 1, 2016 through December 5, 2017. Two (2) low risk findings were identified that the Agency has already begun to remediate through the submission of notices to the affected retirees.

#### **K. Other Business**

The next Audit Committee meeting will be held on November 13, 2018.

**L. Motion to Adjourn**

On a motion by Ms. Lochte, and seconded by Mr. Hamilton, the Committee adjourned the meeting at 11:30 a.m.

Respectfully submitted,

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David Rongione, Secretary