

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

**MINUTES OF THE MEETING OF April 18, 2023**

The Audit Committee convened on Tuesday April 18, 2023 at 11:30 a.m. via video conference call with the host site at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: Richard E. Norman, Chairman  
Thomas M. Brandt, Vice-Chairman  
Michael Howard  
Robert Sandlass  
Kenneth B. Haines  
Jamaal R.A. Craddock

MSRA attendees were: Martin Noven, Executive Director  
Kenneth Reott, Retirement Administrator  
Kimberly O’Keefe, Deputy Retirement Administrator  
Megan Myers, Deputy Retirement Administrator  
David Rongione, Chief Internal Auditor  
Melody Countess, Chief Operating Officer  
Rachel Cohen, Principal Counsel  
Emily J. Spiering, Assistant Attorney General  
Robert Diehl, Chief Information Systems Officer  
Thomas Montanye, Deputy Chief Information Systems  
Officer  
Angie Jenkins, Executive Assistant  
Lauren Smith, Internal Audit Contract Manager  
Richa Sultana, Internal Audit Manager

UHY LLP attendee was: Thomas Rey

Maryland Department of Budget and Management attendee was: Kate Kemmerer

**1. Minutes of the November 10, 2022 Audit Committee Meeting**

On a motion made by Mr. Brandt and seconded by Mr. Howard, the minutes of the November 10, 2022 Audit Committee meeting were approved.

**2. Audit Plan – Revised**

Mr. Rongione said as risks within the Maryland State Retirement Agency (the Agency) change throughout the year, Internal Audit Division (IAD) needs to adjust the audit plan in order to utilize the available resources on evolving risks. He continued by saying the revised audit plan removes an Investment audit, changes a Cyber Security audit to an IT Pen Test, and adds a Finance Consulting Project. The consulting project will focus on

reviewing business process flows and internal controls, looking for enhancements as well as analyzing volume of transactions compared to staffing resources.

Mr. Brandt mentioned that KPMG issues a Nationwide SOC1 report for supplemental retirement plans. He inquired whether there is a multitude of SOC1 that goes into IAD's setting scope. He believes that it is important to be mindful of the sophisticated internal control tests included in the KPMG's report as technology has evolved so much. IAD needs to roll up a perspective on what measures in place to prevent fraud or mistake. Mr. Rongione answered by saying the Agency reviews the SOC1 report mainly for the State Street account. He continued by saying the Agency has several vendors that issue a SOC2 report such as the Death Match vendor or any vendor that receives PII data. He added that the contract manager reviews the SOC2 report. An Excel sheet is used to document the review. During the review, the reviewer mainly focuses on the auditor's opinion to ensure it's an unqualified opinion and user control consideration to map that with the Agency's controls to ensure there is enough coverage. The Agency also focuses on the testing section of the SOC2 report to ensure there are no exceptions. If there are any exceptions, then the Agency evaluates the reasonableness of the exceptions and whether it has any impact on the Agency. He summarized by saying that the review is performed at three levels – first one being the contract manager's review, then Information Systems performs a review from an IT perspective, and then it comes to IAD as the third level of review.

Mr. Brandt suggested developing a communication with the Audit Committee (AC) about the reviews being performed on SOC1 and SOC2 reports. He said he receives more assurance from KPMG's Nationwide SOC1 report than the audited financial statements. Mr. Rongione said IAD can certainly have further discussion with the AC members to see if they would like to review documentation of the SOC reports. He added by saying that there is a difference between the supplemental retirement plan vs the Agency's retirement plan. The supplemental retirement plans outsource a lot of their functionalities where the Agency performs majority of it internally.

Mr. Howard said he understands the revision of the audit plan is due to delays in payments and duplicate payments. He inquired whether there are any procedures in place on how to mitigate these. Mr. Rongione answered by saying in order to determine any action plan, IAD must perform some analysis first. He continued by saying so far only one or two duplicate payments have been identified. IAD uses a data analytics software called ACL which will be used to factor in the full population on invoice number, dollar amounts and vendors to identify any other duplicate payments. IAD will also review the business processes to assess the control environment and the staffing issues. As part of the process, IAD will ensure there are enough controls in place. Mr. Howard added by saying we must keep an eye on the staffing level as this issue has come up multiple times.

Mr. Noven added that the duplicate payment was to an existing vendor and not to a retiree. He said there is a flaw in the process and it's not a collection issue. The issue is mainly due to staffing challenges. Mr. Noven continued by saying when the person responsible for

handling the payments left the Agency, we didn't have enough back up support. The Finance Division is struggling to keep up with the volume of work. He mentioned that the Agency needs an analysis done prior to approaching the Department of Budget and Management (DBM) asking to create additional positions. It's important to be specific with the needs in order to convince DBM. He believes this is an important analysis and should be prioritized more than anything else. He thanked Mr. Rongione for including this analysis as part of FY23 revised audit plan.

On a motion made by Mr. Howard and seconded by Mr. Brandt, the revised audit plan was approved.

### **3. Audit Plan Status**

Mr. Rongione said the ABBYY Scanning and ICR audit as well as the Employee Portal – Prepare Service Retirement Estimates audit have been completed since the last AC meeting. The ITGC audit is nearing completion. The CRM Cases audit, the Daily Payments audit and the Network and IT Security audits are all in progress. All audits are expected to be completed by fiscal year end.

He then reviewed the next category which is the PGU audits. He said all of them have been started and a big percentage of them are in progress. He expects a large number of these audits to move to the next category which is “Audit is complete – waiting on management’s response”.

### **4. Data Analytics / Continuous Audit Dashboard**

Mr. Rongione reviewed the Data Analytics dashboard saying that all the charts in the left-hand column represent different data analytics performed, and the applicable number of samples and exceptions by quarter and fiscal year. The number of exceptions seem to be trending downward compared to last year, especially for the DOB verification for both members and retirees. The right-hand column charts show the number of exceptions per test per fiscal year, as well as the number of remediated and remaining open issues. There are 33 open issues from FY23 and 14 open issues from FY22.

Mr. Rongione added that IAD is developing some new analytics and expects them to present during the next AC meeting.

### **5. Open Issues Log**

Mr. Rongione reviewed the new and revised open issues dashboard. He mentioned that there are currently 43 issues that remain open. 27 issues have been closed since the last AC meeting. Additionally, there is a chart by division which details the current remediation status.

Mr. Rongione summarized the dashboard by saying there are currently 4 findings that are ready for internal audit to test, 29 findings that management has indicated are in progress of remediation, and there are 6 that are listed as not started. Mr. Rongione provided more

information on the “not started” open issues as Trustee Howard requested more information on these during the last AC meeting. Mr. Rongione said three of the issues listed as “not started” are within the Administration division, and these are part of the MPAS+ initiative and are on the list of items to be completed. He added that these issues are on the roadmap however, they are a little further down the road. As of now the expected date of implementing the action plan is towards the end of FY23. The other three issues listed as “not started” are within the Information Systems Division, of which two would require an agency wide implementation of a better third party or vendor security monitoring, specifically a tool. Information Systems Division is looking for that tool to further evaluate these risks. The third issue would also require Information Systems Division to implement a tool for monitoring cloud activity. Information Systems Division has indicated that they will research the options for the monitoring tool, however the cost of that tool might prohibit them from implementing.

Mr. Norman inquired about the open issues that were related to 2019. Mr. Rongione answered by saying the remediation of the 2019 issues are on the roadmap of the MPAS+ project that are further down the list.

#### **6. Internal Quality Assurance Results**

Mr. Rongione mentioned Internal Auditing Standards require that a quality assurance and improvement program are implemented. The results of the Internal Audit Division Quality Assurance and Improvement program for calendar year 2022 are documented in a memo in the AC agenda packet. There are two components of the quality assurance program:

- Review of selected audits after their completion; and
- Annual review of internal audit operations for compliance with general standards.

Based on the review, there were no recommendations for improvement, and Internal Audit operated within standards. He added that this assessment is performed internally on an annual basis. There is also an external assessment done which is performed every three years.

#### **7. Investment Risk Assessment – FY23**

Mr. Rongione turned the discussion over to Mr. Rey, Managing Partner at UHY LLP to review the details of the investment risk assessment. Mr. Rey said UHY LLP was hired to perform an investment risk assessment. He said the purpose of the risk assessment was to find the processes in the Investment Division with the most significant risks and select the corresponding investment areas for future audits. He continued by saying the approach and foundation of this risk assessment is to determine the future audits. The approach of this risk assessment was:

- Reviews of any prior year risk assessment report, investment policy, and operation manuals
- Interviews with the Agency’s Investment Division’s executives
- Conducting survey with selected investment division personnel

- Analyzing survey results and ranking risks by investment
- Providing recommendation for areas of audit

Mr. Rey continued by saying there are eight auditable areas within the Investment Division:

- Administrative and Human Resources
- Contractual Risk
- Environmental, Social, Governance
- Investment Operations, Investment Accounting, and Administration
- Management & Incentive Fees
- Partnership/Fund Manager Selection
- Portfolio Management & Ongoing Due Diligence

Mr. Rey said there are risks throughout the Investment Division but there are also compensating controls. The highest risky area is valuation of private market and hedge funds. Chiming in on Mr. Brandt's comment on SOC1, Mr. Rey mentioned that he works with various state defined contribution plan and the SOC1 report includes a review of the whole investment portfolio. He added that regardless how clean the report is, not every investment is held in custody such as private equity and real estate, and they are not subject to KPMG's testing which makes it more high risk.

Mr. Rey continued by saying they created a risk matrix analyzing the survey results. Each auditable area was given an impact score and a likelihood score. The overall score was determined by multiplying the impact and likelihood score.

Mr. Rey added that they interviewed several individuals from Investment Division to identify risks. A few takeaways from the interviews are included in his report. Those risks were then measured by analyzing the interviews and survey results. He emphasized that the highest risk area is the valuation, and right behind that is portfolio management and due diligence. He said due diligence goes hand in hand with valuation. These are the recommended audit areas.

Mr. Brandt agreed with the results and said that the private equity evaluate themselves which makes it high risk. Mr. Rey added that he is not surprised by the risk assessment result. The Agency invests in larger private equity funds and 99% of them are audited by big four firms. He agrees that the general partner is doing the valuation however, the valuation is audited. Audit firms look for any available comparable to compare against the general partner's valuation – but there is a lot of subjectivity.

Mr. Rey summarized the discussion by saying there are risks throughout the Investment Division, but valuation and due diligence should be audited first as they are the riskiest.

Mr. Sandlass commented on the high likelihood of ESG. He said it's his understanding that the likelihood of having any ESG issue is almost 100% without having any types of lack of controls on the Agency's part. Mr. Rey confirmed his understanding.

Mr. Howard inquired about how this risk assessment compares against the assessment performed by IAD. Mr. Rongione mentioned that IAD performs an annual risk assessment however, IAD typically leaves out the investment risk assessment and outsources that to an external vendor. Previously BD & Company performed that assessment. The results between BD & Company and UHY LLP are similar. In addition, the approach taken by both vendors is very similar to the internal risk assessment. Mr. Howard complemented UHY LLP's report saying that the report is very good.

#### **8. Agency Wide Risk Assessment**

Mr. Rongione advised that IAD will begin the annual risk assessment process during the month of May 2023. This includes sending a questionnaire to AC members, Executive staff, Unit directors, as well as interviews of staff. He continued by saying IAD will utilize the results of these interviews and questionnaires to evaluate risks based on likelihood and impact. The results of the risk assessment will be factored into the FY24 audit plan which will be presented at the next AC meeting in July 2023 for approval.

#### **9. Completed Audits**

Mr. Rongione mentioned that the ABBYY Scanning and ICR audit was a green report, meaning there was an acceptable state of control and compliance. The audit scope included the process of scanning the documents using ABBYY and storing the documents into the Member Document Storage system during the period of 10/1/2022 to 12/31/2022. The audit identified one issue which is detailed in the report. Management has agreed to the issue and responded with an acceptable remediation plan. He added by saying IAD tested the open issue and the remediation is halfway complete. There is one more item that needs to be fixed in order to completely remediate the issue.

Mr. Rongione continued the discussion by saying the Employee Portal – Prepare Service Retirement Estimates audit was a green report, meaning there was an acceptable state of control and compliance. The audit scope included the process of generating a retirement allowance estimate using the Employee Portal (mySRPS) and ensuring the estimate documents are properly stored in Member Document Storage during the period of 10/1/2022 to 2/1/2023. No issues were identified during that audit.

Mr. Howard inquired on the status of the financial statements audit. Mr. Rongione answered by saying the preliminary procedures haven't started yet. They usually start around end of April / early May. He added that GASB 67 & 68 (the liability for the different participating unit) is being wrapped up at this moment.

Mr. Sandlass added that he is also waiting on GASB 67 & 68 for his county. Mr. Rongione said those reports should be coming out around end of April / early May.

**10. Other Business**

Mr. Norman mentioned the next AC meeting will be on July 18, 2023.

**11. Motion by the Audit Committee to adjourn meeting**

On a motion made by Mr. Brandt and seconded by Mr. Howard, the meeting adjourned at 12:11 p.m.

Respectfully submitted,

*David Rongione*

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David Rongione, Secretary