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

MINUTES OF THE MEETING OF July 18, 2023

The Audit Committee convened on Tuesday July 18, 2023 at 11:00 a.m. via video conference call with the host on site at 120 East Baltimore Street, Baltimore, Maryland.

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

MSRA attendees were: Martin Noven, Executive Director
Kimberly O'Keefe, Deputy Retirement Administrator
Megan Myers, Deputy Retirement Administrator
David Rongione, Chief Internal Auditor
Melody Countess, Chief Operating Officer
Robert Diehl, Chief Information Systems Officer
Thomas Montanye, Deputy Chief Information Systems Officer
Angie Jenkins, Executive Assistant
Derrick Johnson, Deputy Director of Member Services
Lauren Smith, Internal Audit Contract Manager
Richa Sultana, Internal Audit Manager

Assistant Attorneys General present were: Rachel Cohen, Principal Counsel
Emily J. Spiering, Assistant Attorney General

UHY LLP attendee was: Thomas Rey

1. **Call Meeting to Order**
   Mr. Norman called the meeting to order.

2. **Minutes of the July 18, 2023 Audit Committee Meeting**
   On a motion made by Mr. Brandt and seconded by Mr. Howard, the minutes of the July 18, 2023 Audit Committee meeting were approved.

3. **Status of FY 2023 Audit Plan**
   Mr. Rongione provided the status of FY 2023 audit plan noting that all internal audits are complete except for the two IT audits that were moved to FY 2024 due to staffing turnover. He added that the outsourced audits are lagging slightly due to the delayed start date of the

contract with the new vendor. He continued by saying all these open audits are in the reporting phase, and he expects them to be completed within a month.

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

   Mr. Rongione reviewed the continuous audit dashboard noting that the overall trend has been positive for FY 2023. He provided additional detail on the items listed below:

   - The Bank Account Verification produced less findings from the previous year with relatively the same number of samples being tested;
   - The DOB Verification for retirees had less samples to test in FY 2023 meaning that there was less of a population to choose from, and the number of exceptions dropped from the prior fiscal year; and
   - The DOB Verification for members trended nicely with less exceptions from the prior fiscal year.

   He mentioned that the overall controls are improving within the Agency.

5. **FY 2023 Internal Audit Performance Report**

   Mr. Rongione presented the FY 2023 Internal Audit Division (IAD) Performance Report. He mentioned IAD has met all its performance goals except for the percentage of annual audit plan completion. The three audits that remained open are outsourced audits and should be complete within a month. He added that all these audits are in the reporting phase.

   Mr. Norman complemented the Average Reporting Time being well below the goal of 30 days. Mr. Rongione explained that this measure is calculated by taking the difference between the date of the exit meeting and the issuance of the draft report.

6. **FY 2023 Time Report**

   Mr. Rongione reviewed the FY 2023 time report noting that it is an informational type report to show how IAD hours were spent and to ensure admin time is under 20%. This report details the IAD hours and compares them to prior fiscal years.

   Mr. Brandt asked about whether recruiting has been a challenge for IAD as it is getting more and more difficult for everyone. He mentioned that the value of DB and DC plans should be communicated to the younger candidates. Mr. Rongione answered by saying his division is currently fully staffed. He had some issues in prior fiscal years in fulfilling the IS Auditor position as it is a tough position to recruit mainly due to salary constraints. He added that the trend with IS Auditors is that they tend to change employment frequently. Mr. Rongione said that he was at a conference recently where this issue was discussed. The conference speaker said it is important to "sell" the Agency and all the benefits that can be offered including the pension, work from home etc. Mr. Rongione said the conference speaker emphasized on not just focusing on salary, instead sell the position and the benefits. Mr. Brandt agreed with his comments.

Mr. Norman added that he has experienced the same where he noticed there is a lack of accountants. He added that IS Auditors are getting tougher to recruit as everything is getting more digital and electronic. It is a competitive field because other firms are offering more. He added that specialized positions are even tougher to recruit. This issue has been an ongoing discussion during the Board meeting. As a result of that, Investment Division employees are now in special funds. He mentioned the same topic was discussed for the Benefits Division employees as well. Mr. Norman said he knows Mr. Rongione could use 2/3 more auditors however, it is difficult for State Agencies as the Agency is dedicated only a certain number of PINs.

Mr. Noven mentioned that Mr. Rongione had to go to Department of Budget and Management (DBM) to reclass the position of the IS auditor. Mr. Noven agrees with all previous comments on how to better sell the position where the benefits are shown along with the salary component. He added that he discussed the importance of better marketing the position with DBM Secretary Ms. Grady. He believes that it must come from DBM, and the Agency will need to work better with DBM on marketing the open positions. Mr. Norman agreed by saying that DBM is working for all different State Agencies and they should consider revamping their package.

Mr. Howard asked if there is anything that the Audit Committee (AC) could assist with. He added that the committee could send the job descriptions out to their network. Mr. Brandt mentioned that he served on the DC plan Board. He added that when explaining the employment package, it should be emphasized that DB and DC plans are Tax deferred making them as valuable as gold. The younger candidates may not understand that these plans ensure comfortable retirement, and he believes this topic is relevant to the future agenda of the team in attracting good candidates.

7. **Status of Open Issues Log**
   Mr. Rongione reviewed the open issues dashboard which gives an overview of the number of open and closed issues per division. He continued by saying there are currently 51 issues that remain open. During the fiscal year, 12 new findings were added, and 31 findings were closed. Management has indicated that there are currently 6 issues that have been remediated, and IAD will begin testing to ensure the items have been corrected.

   Mr. Norman inquired about the older items included in the Administrative open issues, whether they were waiting on legislation update. Mr. Rongione said those older items are related to the MPAS project and waiting on being elevated on the priority list. Mr. Norman asked about the third item where staff misunderstood the directive. Mr. Rongione commented that IAD tested this item three times during the fiscal year noting that the issue has not been remediated. Ms. Sultana confirmed Mr. Rongione's comment. He also mentioned that items A-7 through A-14 are new issues that were recently added.

Mr. Norman next inquired about the Finance open issues. Mr. Rongione mentioned that the revised remediation date of one of the items is 12/31/2022. He added that the second open issue was tested in March 2023 noting that the issue has not been remediated.

The next item discussed was the Information Systems open issues. Mr. Rongione mentioned the bulk of the open issues are with Information Systems. There is a total of 51 open issues and 32 of them belong to Information Systems. Majority of them are from the Cyber Security audit completed in FY 2022. Mr. Rongione added that Information Systems has taken a project-based approach to remediate these issues.

Mr. Brandt inquired about the recent breach that happened with other pension plans and whether MD was lucky to not to be a victim of the breach. Mr. Rongione said he believes Mr. Brandt's query is regarding the PBI Research and Berwyn Group. He continued by saying the Agency did not have a contract with the vendor at the time of breach. Mr. Rongione requested Mr. Diehl to talk more about the MoveIt application.

Mr. Diehl said the Agency has been very responsive to all patch notifications that came out from the vendor, MoveIt. The patch notifications came through the beginning of June as well as mid-way through. The Agency had made a conscious decision to take the application offline. The Agency identified some potential items that were picked up and services were put in place to protect mySRPS and the Employer Portal. He continued by saying these safeguards gave the Agency an extra layer of protection. Mr. Noven added that the Agency was more diligent compared to the peers in terms of taking the application down other than just relying on the patches. He continued by saying it wasn't that the Agency's system wasn't tested. He believes that it wasn't just being lucky, it was both luck and good work from Bob's team.

Mr. Howard commented that overall, the audits are going well. Although there is an increase in exceptions, those errors are low to moderate risk. He added that the moderate findings are being worked on, and the Agency is in a good situation based on the audits that were performed. Mr. Rongione agreed, and added that he would like to see the open issues log cut in half by closing them out in a timely fashion.

Mr. Rongione next reviewed the Investments open issues log. He mentioned all three open issues are related to review of invoices and fees from the Private Equity side. He added that the Chief Investment Officer has supplied a proposal however, Mr. Rongione didn't have a change to dig into it due to the AC meeting preparation. He will review the proposed plan to ensure it meets the criteria.

8. **Annual Risk Assessment**
   Mr. Rongione presented the memo that details the annual risk assessment process. The purpose of this memo is to give the AC members an overview of the risk assessment process. He continued by saying the key takeaways from the memo are:

- The approach to the risk assessment follows internal auditing standards;
- Internal audit performs a risk assessment to develop a risk-based audit plan to audit the higher risk areas; and
- The risk assessment process includes the following summarized steps:
  - Firstly, obtaining an understanding of the Agency
  - Next, identify, assess, and prioritize risks
  - Then, estimate resources
  - As the last step, propose annual audit plan

Mr. Norman complemented the heat map included in the risk assessment memo noting that the IS audits are riskier. Mr. Howard inquired whether the Agency has a document that lays out the approach and steps to implement a remediation process in case of an IT breach. He also wanted to know whether it is public knowledge meaning whether the document is available on the public website. Mr. Rongione answered by saying he believes there is an incident response plan in place. He also mentioned the agenda for this year is to update it, test it and perform a table-top exercise. He deferred the discussion over to Mr. Noven to provide additional detail. Mr. Noven agreed by saying the Agency has a plan however, it is older. This topic was discussed during senior staff meeting as part of discussing the MoveIt application data breach. He continued by saying everyone has a vague recollection of the document which means it has gotten stale. He reviewed the document noting that the document is very good however, it needs updating and the Agency should continue to keep it current. Mr. Howard requested to keep the AC posted on the status. Mr. Noven said the document can certainly be shared with the Board.

Mr. Norman said there used to be presentation to the Board by the Chief Information Systems Officer on the recent breaches. He provided an example of the Baltimore City ransomware. During that time a question came from the Board asking whether the Agency is prepared for similar kind of attack. The Chief Information Systems Officer used to provide an overview to the Board and answer some questions. Mr. Noven said it might be beneficial to add this topic to education session as this might be a subject of interest of the trustees. He added that the Agency might have someone external to present it to the Board. He said he will look more into this topic and determine the best way to keep the Board posted.

9. **FY 2024 Audit Plan**
   Mr. Rongione reviewed the proposed FY 2024 audit plan. He said this plan is based on the results of the annual risk assessment and available audit hours. Mr. Norman said the plan is outlined in the agenda packet, and he asked whether any specific item requires attention. Mr. Rongione ran through the topics noted below:
   - There are four audits listed under Retirement Administration Audits, as well as the continuous audits which are performed on a monthly basis;
   - There are three audits within the Finance Division;
   - There are four IT Audits;

- Two Investment audits which are outsourced;
- The participating employer audits of 80 locations; and
- The ad hoc hours for smaller projects that come up throughout the year

On a motion made by Mr. Brandt and seconded by Mr. Howard the FY 2024 Audit Plan was approved.

10. Completed Audits
Mr. Rongione reviewed the status of the completed audits:

a. CRM Cases Audit – The CRM Cases audit was a yellow report, meaning improvement is needed. The scope included the process of creating and resolving CRM cases during the period of January 1, 2023 through April 30, 2023. The audit identified 4 issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan. Mr. Norman commented that 3 of 4 issues are low risk.

b. Daily Payments – The Daily Payments audit report was a green report, meaning a satisfactory or acceptable level of control or compliance. The scope included the process of initiating a check cancellation and replacement in CRM during the period of January 1, 2022 through December 31, 2022. The audit identified 3 issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan. Mr. Norman commented that all 3 issues are low risk.

c. Employer Portal – The Employer Portal audit report was a green report, meaning a satisfactory or acceptable level of control or compliance. The scope included the process of importing and adjusting payroll documents, calculation of late fees, and the upload of documents to MDS (Member Document Storage) during the period of April 1, 2022 through April 30, 2023. The audit identified one issue which is detailed in the report. Management has agreed with the issue and responded with an acceptable remediation plan.

d. IT General controls – The IT General Controls Audit was a Yellow report, meaning improvement is needed. The scope included general security, database security, and server security controls during July 1, 2022 through February 28, 2023. The audit identified 4 issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan.

11. Other Business
Mr. Norman mentioned the next AC meeting will be on November 14, 2023. He added that AC Self Evaluation and Internal Audit Evaluation will have to completed by the AC members.

Mr. Norman said the AC is losing Mr. Brandt and he is sorry to see him go as he always provides good insight. Mr. Brandt praised Mr. Rongione's hard work and preparation for the meeting.

Mr. Rongione said the evaluations are required by the AC charter every two years. The AC will have a few new members in August 2023. He plans on sending the evaluations at the end of July 2023, and he requested Mr. Brand to complete the evaluations prior to disengaging himself from the committee.

12. Motion by the Audit Committee to adjourn meeting
On a motion made by Mr. Brandt and seconded by Mr. Howard, the meeting adjourned at 11:37 p.m.

Respectfully submitted,

David Rongione
_____

David Rongione, Secretary