

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

MINUTES OF THE MEETING OF January 19, 2021

The Audit Committee convened on Tuesday January 19, 2021 at 11:30 a.m. via video conference call with the host site at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: David B. Hamilton, Chairman
Richard E. Norman, Vice-Chairman
Thomas M. Brandt
Kenneth B. Haines
James P. Daley, Jr.

MSRA attendees were: R. Dean Kenderdine, Executive Director
Kenneth Reott, Retirement Administrator
David Rongione, Chief Internal Auditor
Rachel Cohen, Principal Counsel
Andrew Palmer, Chief Investment Officer
Robert Burd, Deputy Chief Investment Officer
Toni Voglino, Senior Compliance Officer
Ira Greenstein, Chief Information Systems Officer
Robert Diehl, Deputy Chief Information Systems Officer
Melody Countess, Chief Operating Officer
Patricia Fitzhugh, Deputy Chief Operating Officer
Lauren Smith, Internal Audit Contract Manager
Gregory Busch, IT Audit Manager

BD&Co. attendees were: Jeff Binford, Engagement Partner
Michael Bengston, Engagement Manager

A. Minutes of the November 13, 2020 Audit Committee Meeting

On a motion made by Mr. Norman and seconded by Mr. Brandt, the minutes of the November 13, 2020 Audit Committee meeting were approved.

B. Partnership and Fund Management Selection Audit – Results presented by BD&Co

Mr. Bengston of BD&Co gave an overview of the audit report by giving an executive summary of the report, discussing the background information, as well as the scope of the audit. Mr. Bengston advised that the control environment is effective as processes and procedures are in compliance with MSRA guidelines and applicable laws and regulations.

Mr. Brandt inquired how the audit was selected and if there were similar audits performed. Mr. Bengston advised that some of the activities of this audit were covered in other audits but the process of partnership and fund management selection has not been covered. Mr. Rongione explained that previously, investment audits were performed based on asset class. This approach

was changed roughly four years ago. A risk assessment was performed to identify the business processes in the Investment Division, and to rank the risks associated with these processes based on likelihood and impact. The result, was a listing of audits based on risk.

Mr. Brandt inquired further about the Partnership and Fund Management Selection audit report, specifically the forms submitted by external managers. Mr. Bengston of BD&Co elaborated on the forms, and agreed that the format can be improved; however, BD&Co ensured the proper information was included on the forms.

Mr. Daley inquired whether the policies and procedures from this audit were compared to that of other public funds. Mr. Bengston explained that they were and are in line with industry best practices.

C. Repeat PGU Audits

Mr. Hamilton explained that this topic was discussed during the Board of Trustees meeting, and if there were no additional comments to advance to the next agenda topic.

D. Internal Quality Assurance Results

Mr. Rongione explained that Internal Auditing Standards require that a quality assurance and improvement program are implemented. The memo beginning on page 27 of the agenda packet documents the results of the Internal Audit Division Quality Assurance and Improvement program for calendar year 2020. 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.

E. Audit Plan Status

Mr. Rongione reviewed the status of the FY2021 audit plan noting that the Network Security audit is wrapping up, and there is an exit meeting scheduled for January 29th. The next General Controls audit, which covers the period of FY20 Q4 and FY21 Q1 has kicked off. For the continuous audits, Mr. Rongione mentioned that progress is being made, and that it will be discuss in further detail with Agenda item 7. For the internal PGU Audits, Mr. Rongione mentioned that the planning phase is complete for all 8, and fieldwork is complete for 3 of the PGU's. For the outsourced audits, Mr. Rongione mentioned that the audit of investment operations has kicked off. The Cybersecurity audit RFP is with procurement, and we are waiting for it to be issued. For the participating employer audits: 46% are in-progress and 54% have not started.

Mr. Brandt inquired as to how the audit plan is developed and if it is approved by the Audit Committee. Mr. Rongione explained that Internal Audit performs an annual risk assessment, with input from management and the committee members. Risks are evaluated on likelihood and impact. Based on the results of the risk assessment, an annual audit plan is developed, and is presented during the July Audit Committee for approval.

Mr. Brandt inquired if internal audits are conducted in connection with the financial statement audit. Mr. Rongione explained that the financial statement audit is conducted independently from internal audits; however, internal audit reports and work papers are shared with the financial statement auditor.

F. Open Issues Log

Mr. Rongione presented the listing of open issues noting that Internal Audit was able to close out three issues since the November meeting. Internal audit plans to devote more time and resources before the next audit committee meeting, to address the issues.

Mr. Brandt inquired if any of the open issues should concern the committee. Mr. Rongione expressed concern for the last issue, related to the timely review of SOC 2 Type 2 reports. This issue was identified by the Legislative Auditors during their last review. Internal Audit has retested this issue with similar findings. Mr. Brandt inquired about a solution. Mr. Rongione advised that Internal Audit assisted in developing a tracking log and a review template spreadsheet, for Agency employees to utilize. Mr. Hamilton requested an update on the status of the finding be presented at the next meeting.

G. Data Analytics

Mr. Rongione explained that the FY 21 approved audit plan includes developing a data analytics / continuous auditing program. This project includes writing scripts in an auditing software called ACL. The scripts will analyze information in the database, and provide the auditors with a sample that meets the scripts definition. Once the scripts are written, Internal Audits can continuously audit certain transactions on a monthly basis. Internal Audit has written eight scripts, and performed the audits from July through November 2020. Findings from these audits are included in summary reports that are issued to management. Internal Audit will also prepare a dashboard report for the committee members, summarizing the program and findings.

H. Evaluations

Mr. Rongione mentioned the Audit Committee Charter requires that a self-evaluation occur every two years. The last evaluation occurred in April 2018. Mr. Rongione explained that the self-evaluation was sent in January 2020; however, it was deferred for an additional year. Mr. Rongione said he would be sending out the evaluation in the near future so that the results of the evaluation can be presented at the next Audit Committee meeting.

He also mentioned that an IAD performance survey would be sent. He requested the Committee members to complete this survey. The results of the survey will also be presented at the next Audit Committee meeting.

Mr. Hamilton acknowledged the importance of these evaluations and requested committee members complete the evaluations once they are received.

I. Other Business

Mr. Rongione explained that Internal Audit is subject to an external quality assurance review every three years. An RFP was issued, and two proposals were received. Internal Audit is currently evaluating the technical proposals.

Mr. Rongione explained that the Cybersecurity Audit RFP was submitted to Procurement in October 2020 and that it has not been issued. Mr. Rongione is hopeful that this will be issued in the coming weeks, as this audit is on the FY 21 audit plan. Mr. Norman inquired about the timing, and if a contract will be in place before the fiscal year end. Mr. Rongione explained that Procurement advised him that they have been working on other priorities. Mr. Kenderdine added that one of those priorities included an RFP for the Executive Director Search firm. He further explained that staff are working hard and trying to get it done as fast as possible.

Mr. Rongione explained that Internal Audit will be reviewing the Investment Division

incentive compensation calculations. He explained that salary and basis point detail will be validated and calculations assessed.

Mr. Rongione explained that Internal Audit will need to perform a SWIFT assessment. SWIFT is a global financial messaging service for financial transactions. In order for the Investment Division to automate the internal trading function through the Bloomberg order management system, they need a BIC (bank identification code) which is issued by SWIFT. SWIFT has their own IT framework that the assessment needs to be conducted, and the attestation made by 12/31/2021

Next meeting is scheduled for April 20, 2021.

J. Motion to Adjourn

On a motion by Mr. Norman and seconded by Mr. Brandt, the Committee approved to adjourn the meeting at 12:02 p.m.

Respectfully submitted,

David Rongione, Secretary