**THE AUDIT COMMITTEE**

**of the**

**BOARD OF TRUSTEES**

**MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**MINUTES OF THE MEETING OF July 20, 2021**

The Audit Committee convened on Tuesday July 20, 2021 at 11:15 a.m. via video conference call with the host site at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: David Hamilton, Chairman

Richard E. Norman, Vice-Chairman

Thomas M. Brandt

Kenneth B. Haines

James P. Daly, Jr.

MSRA attendees were: Martin Noven, Executive Director

 Kenneth Reott, Director of Benefits Administration

 Kimberly O’Keefe, Deputy Retirement Administrator

 David Rongione, Chief Internal Auditor

 Rachel Cohen, Principal Counsel

 Toni Voglino, Senior Compliance Officer

 Robert Diehl, Chief Information Systems Officer

 Melody Countess, Chief Operating Officer

 Patricia Fitzhugh, Deputy Chief Operating Officer

 Scott Bolander, Computer Network Specialist II

 Lauren Smith, Internal Audit Contract Manager

 Gregory Busch, IT Audit Manager

 Richa Sultana, Internal Audit Manager

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

 Matthew Oliver, Senior Consultant

1. **Minutes of the April 20, 2021 Audit Committee Meeting**

On a motion made by Mr. Norman and seconded by Mr. Brandt, the minutes of the April 20, 2021 Audit Committee meeting were approved.

1. **Status of FY2021 Audit Plan**

Mr. Hamilton asked Mr. Rongione to take the lead to go over the agenda items. Mr. Rongione reviewed the status of the FY2021 Audit Plan indicating that it has been completed, and the completed items are highlighted in green. Mr. Rongione mentioned that one of the outsourced audits, Cybersecurity, has been moved to FY2022 due to the timing of the procurement. There is a signed contract in place with a vendor and work will begin shortly.

1. **Data Analytic / Continuous Audit Dashboard**

Mr. Rongione directed the Audit Committee to the dashboard for the data analytics performed by Internal Audit. He mentioned that the first graph shows the number of exceptions compared to the total number of samples tested, and the second graph gives the number of remediated items to the number of exceptions identified. He also reviewed the last section of the data analytics report that gives an overview of each data analytic performed by Internal Audit.

1. **FY2021 Internal Audit Performance Report**

Mr. Rongione presented the results of the internal audit performance measures, which is assessed on an annual basis. He mentioned that out of nine performance measures, Internal Audit met all but one. Internal Audit’s goal is to keep the total of actual hours for all completed audits at no more than 5% over the budgeted hours. This year the total of actual hours was 14% over the budgeted hours. Mr. Rongione explained that the discrepancy is due to the IT audits performed as this was Internal Audit’s first year of performing IT audits for which the budgeted hours were underestimated.

1. **FY2021 Time Report**

Mr. Rongione presented the time report for FY2021 that compares the number of hours for the current fiscal year to previous fiscal years. Internal Audit keeps track of its hours to monitor the administrative time. Internal Audit’s goal is to keep the administrative hours under 20%, and this year’s administrative hours were at 12.73% compared to total hours.

1. **Status of Open Issues Log**

Mr. Rongione directed the Audit Committee to the open issues log. He mentioned that the log currently has 21 issues. During the fiscal year there were 11 new issues added to the log and 13 closed and removed from the log. Internal Audit follows up with the appropriate division each quarter to determine if an issue has been properly remediated. If the division indicates that proper corrective actions have been taken, Internal Audit performs testing to ensure the issues are remediated.

Mr. Brandt inquired about the old items on the open issues log. Mr. Rongione explained that the two old items are related to SOC2 reporting and eligibility service. The issue related to the eligibility service requires a review of COMAR which is currently under review by the Benefits Administration office with assistance from the Office of Attorney General (OAG) office, and it is expected to be corrected within the next fiscal year.

Regarding the SOC2 issue, Mr. Rongione explained that during the latest testing the SOC2 reports are not being reviewed timely. He added that a process has been put into place where the Procurement department will keep track of contracts with SOC2 requirements. Each contract monitor will be responsible for obtaining the SOC2 report on an annual basis. They must add the date to obtain the reports to their Outlook calendar with a CC: to Janet Sirkis, Executive Associate to the Office of the Executive Director. This is to ensure that the reports are received timely to facilitate a timely review. Mr. Rongione also mentioned that Internal Audit developed a review template that includes ensuring an unqualified opinion was given by a CPA firm, whether there are any exceptions to any internal controls, and management’s response to the exceptions. The review template also includes user entity control consideration where the Agency details the internal controls in place at the Agency level.

Mr. Brandt mentioned that he wanted to draw attention to the old open items to re-emphasize the significance of SOC2 reports. Mr. Rongione clarified the subject matter by saying that it is the Agency’s responsibility to obtain and review the SOC2 reports in a timely fashion with due diligence, and Internal Audit’s role is to provide independent assurance that reports are being obtained and reviewed timely.

1. **External Quality Assurance Review**

Mr. Rongione presented the external quality assurance report issued by UHY Advisors. The report details that Internal Audit conformed to IIA standards and received a “pass” rating for GAGAS standards. The report also shows that Internal Audit conforms to several specific standards. There were 4 opportunities for improvement suggested, and Internal Audit has agreed to all and will begin implementing them in FY2022.

1. **Annual Risk Assessment**

Mr. Hamilton requested Mr. Rongione to share his view in terms of the Agency’s risk. Mr. Rongione explained that the Agency does well in managing risk. The Agency has well developed business processes and identified controls to mitigate risk within those processes. Specifically, the Agency has identified inherent risk and put controls in place as required. Mr. Rongione believes the residual risk is low to medium.

Mr. Rongione believes the high risks reside in the area of Cybersecurity and the revised MPAS plus processes. When revisions are being made to business processes due to the MPAS plus project, controls may need to be reevaluated or updated. Mr. Rongione advised that there is a pending RFP for Audit Services. Once the contract is awarded, Internal Audit will have additional staff available to assist with auditing revised business processes. Internal Audit will present a revised audit plan once the contract is awarded and service is put in place.

Mr. Hamilton inquired about specific cybersecurity protections of the Agency. He asked whether the Agency has its independent security or conforms to the State’s. Mr. Rongione advised that the former Chief Information Systems Officer, Ira Greenstein, provided an overview of cyber security controls in place during the closed session of last Board meeting. Mr. Rongione explained that to discuss specific controls, the Committee would need to go into Closed session. Mr. Rongione added that the Agency has a separate network from the State and the controls are in line with the security manual issued by DoIT. Mr. Rongione added that to his knowledge there are no lagging controls that need updating.

Mr. Hamilton explained that when they have conversation with the Board and Governor, they need to be aware of the latest cybersecurity protections. Therefore, this topic should be added as an educational session. Mr. Rongione mentioned that he will start performing research and gather information on this matter. Mr. Brandt added by saying that the topic of costs for staffing should also be added.

Mr. Daly inquired if other pension funds share the current risks that they are faced with. Mr. Rongione advised that Internal Audit is part of the Association of Public Pension Fund Auditors (APPFA). This organization meets twice a year with its members but was not able to meet last year due to the pandemic. APPFA members get together and discuss current challenges and issues faced by each pension plan. Mr. Rongione hopes to regain contact with the organization in May 2022. Mr. Rongione added that the organization has a website that has a community discussion board where topics/questions can be posted for other members to answer.

1. **FY2022 Audit Plan**

Mr. Rongione presented the audit plan for FY2022. He mentioned that the top section of the audit plan are audits performed internally; this also includes data analytics. The next sections include IT audits performed internally and the outsourced audits. Following the outsourced items are immaterial hours that Internal Audit staff spend on various audit tasks throughout the year.

On a motion made by Mr. Brandt and seconded by Mr. Norman, the FY2022 Audit Plan was approved.

1. **Completed Audits**

Mr. Rongione reviewed the completed audits with the Audit Committee noting that the IT General Security Audit with a scope period of October 1, 2020 through March 31, 2021 was completed with a rating of green and no significant issues were identified during this audit. He reviewed the report for the Network Security Audit with a scope period of July 1, 2020 through December 31, 2020 noting that the report has one issue that management has agreed with and responded with an acceptable remediation plan.

Mr. Rongione directed the Committee to the report issued by BD & Co. Inc. for the Investment Contractual Risk audit. This report was rated green and no issues were included in the report. Mr. Rongione mentioned that BD & Co. Inc. is on the call, and the Audit Committee members are welcome to ask any questions they may have. No questions were raised by the Committee members.

Mr. Hamilton commented that the topic of steps taken to ensure safe and secure “working from home” environment should be added to the educational session. He mentioned that recently a law firm was hacked by accessing an employee’s home printer. Mr. Rongione commented that he will discuss with the Chief Information Systems Officer about an educational topic.

1. **Automatic Enrollment Update**

Mr. Rongione turned the discussion over to Mr. Noven to provide an update on Automatic Enrollment. Mr. Noven said that Mr. Kenderdine, former Executive Director had sent out compliance letters with a notice of 30 days. The Agency will continue sending this notice every 30 days until it is turned over to a collection unit. Mr. Noven added that the benefit of taking this approach is the Agency will be able to continue serving its members. Mr. Noven mentioned that the Agency had initially asked the Comptrollers Office to handle this issue; however, they did not seem interested due to the small dollar amount. Mr. Noven said that the Agency will have to use its own resources to try and collect. Mr. Noven assured the Audit Committee that he will keep the Committee posted on the progress of this collection effort and an update will be given following the deadline of the compliance letters. Mr. Noven added by saying that he believes that it is not worthwhile to reject a report due to one or two errors and turn it over to collection prior to exhausting all efforts. He believes the Agency needs to find a balanced way to work with the employers. Mr. Noven suggested having personal conversations with employers to see if progress could be made. Mr. Hamilton inquired about Mr. Noven’s time in Illinois and how it compared in relation to this issue. Mr. Noven explained that similar issues were experienced in Illinois and it was not anymore perfect than the State of Maryland.

Mr. Daly inquired with Mr. Noven on why there is a persistent delay with certain employers. Mr. Noven requested Mr. Reott to share his insight on this matter. Mr. Reott explained that the problem largely resides with the School System. The HR office for the School System is centralized which causes difficulties for employers to gather the completed forms and employees to respond. Mr. Reott added by saying that there has been a dramatic decrease in exceptions since the addition of $100 fees, and improvements have been noticed in enrolling employees in a timely fashion. Mr. Reott also mentioned that some School Systems are willing to pay the $100 fees rather than making the effort to collect the data. He also added that when there is payment data but no enrollment data, the actuary must make assumptions based on incorrect/missing data.

1. **Other Business**

Mr. Hamilton said that he didn’t have any other business to discuss and inquired with Mr. Rongione whether he had additional items to discuss with the Audit Committee. Mr. Rongione confirmed that he did not have any further topics to present to the Committee.

1. **Motion by the Audit Committee to meet in Closed Session:**

On a motion made by Mr. Daily and seconded by Mr. Norman, the meeting was moved to closed session.

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

On a motion made by Mr. Norman and seconded by Mr. Brandt, the meeting adjourned at 12:05 p.m.

Respectfully submitted,

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David Rongione, Secretary