

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

MINUTES OF THE MEETING OF JANUARY 16, 2024 – Open Session

The Audit Committee convened on Tuesday January 16, 2024, 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: Mia N. Pittman, Chairman
Michael J. Howard, Vice-Chairman
Linda Vaughn Allen
Jamaal R.A. Craddock
Richard E. Norman
Robert F. Sandlass, Jr.

MSRA attendees were: Martin Noven, Executive Director
Kimberly O’Keefe, Retirement Administrator
Megan Myers, Deputy Retirement Administrator
Derrick Johnson, 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
Cheryl Davis-Shaw, Executive Special Assistant
Lauren Smith, Internal Audit Contract Manager
Richa Sultana, Internal Audit Manager

AAG’s present were: Rachel Cohen, Principal Counsel
Emily J. Spiering, Assistant Attorney General

UHY LLP attendees were: Thomas Rey
Ty Coffee
Norman Comstock

1. Call Meeting to Order

Ms. Pittman called the meeting to order.

2. Minutes of the November 14, 2023 Audit Committee Meeting

On a motion made by Mr. Howard and seconded by Mr. Norman, the minutes of the November 14, 2023 Audit Committee (AC) meeting were approved.

3. Motion by the Audit Committee to meet in Closed Session

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

4. Motion by the Committee to adjourn closed session and return to open session

On a motion made Mr. Norman and seconded by Mr. Howard the AC adjourned closed session and returned to open session.

5. Handling/Disposition of Disputed Payments Issued Through Electronic Funds Transfer Policy

Mr. Johnson provided an overview of the transfer policy regarding handling/disposition of disputed payments issued through electronic funds. He continued by saying Administration consulted with Office of the Attorney General (OAG) and Internal Audit Division (IAD) as part of drafting the policy. The purpose of the policy is to ensure the Agency protects the payees of the system. The policy provides guidance on handling the disposition of fraudulent payments to ensure the Agency is executing its fiduciary duties. He then provided a few highlights of the policy mentioning that the scope of the policy is limited and specific to the payments made by the Agency via EFT. Upon being timely notified by the legitimate payee of a non-receipt of payment, the Agency will work expeditiously and thoroughly document and examine the claim to determine whether to re-issue the payment. He continued by saying that the AC should be notified of any re-payments below a set threshold and re-payment amounts that are in excess of the threshold should be adjudicated by the AC. Prior to issuing any re-payments, the Agency will require the payee to sign an acknowledgement of consent form regarding the Agency's right to recover all or partial payments should any new information arise from the parties involved in the investigation.

Ms. Pittman thanked Mr. Johnson for pointing out the threshold. She mentioned that within the policy, she did not see any kind of requirements regarding an aggregate reporting to the Board or AC. Mr. Johnson agreed by saying it is not included in the policy. He added that the Agency keeps a record and recently made a requirement to document as these circumstances are encountered. He then said the Agency will review the policy and discuss internally on presenting those logs to the AC. Mr. Howard said he supports getting feedback on these types of matters and Mr. Norman agreed on receiving a report as well. Ms. Pittman asked whether quarterly is an acceptable frequency, and both Mr. Sandlass and Mr. Norman agreed with that frequency.

Ms. Pittman added the AC will not have any oversight on the items that are under \$10,000 threshold since Mr. Noven has the authority to approve those items on his own although the policy indicates that a notice will be provided to the Board. Ms. Pittman wanted to see the report containing the detail of the transactions aggregated overtime. She provided an example by saying if there are 10 transactions for \$2,000 each, the amount quickly adds up and become material. She asked staff to make that edit to the policy and then move forward with recommending it to the Board.

Ms. Allen asked whether all payments are issued via EFT. Mr. Johnson answered by saying that although majority of them are EFT, in limited cases exemptions can be obtained to the EFT requirement.

Ms. Pittman requested recommending slightly modified version of the policy to the Board. On a motion made by Mr. Sandlass and seconded by Mr. Howard, the motion was passed.

6. FY24 Audit Plan – Revised

Mr. Rongione presented the revised FY24 Audit Plan. He mentioned that the original audit plan included three audits within the Finance Division. Based on current initiatives within that department, it would not be beneficial to perform these audits during the current fiscal year. He proposed replacing those audits with a Retiree Earnings Limitation audit, another Pen Test, and utilizing the remaining hours to develop training material and perform additional follow-up testing of open issues.

On a motion made by Mr. Howard and seconded by Mr. Sandlass, the revised FY24 Audit Plan was approved.

7. FY24 Audit Plan Status

Mr. Rongione reviewed the FY24 Audit Plan status noting that IAD is in a great position to complete all audits included in the plan. He continued by saying the System Transfer Processing audit report should be issued within a month. The Mandatory Distributions, Disaster Recovery, Network Security Controls and Investment Contractual Risk audits are all in progress. The remaining audits will start in March or April of the current fiscal year.

8. Data Analytic / Continuous Audit Dashboard

Mr. Rongione presented the Data Analytics dashboard highlighting the chart regarding the aging of remaining issues. He added that there are currently 29 open issues, 12 of which have been open longer than a year. Management should prioritize efforts on remediating these issues. Mr. Howard inquired whether there are any specific reasons for not remediating these issues. Mr. Rongione answered by saying to the best of his knowledge, there aren't any specific reasons. He added that majority of them are related to DOB verification for members where either the Proof of Birth (POB) didn't match with the DOB in the system or POB wasn't legible. The Administration should investigate the discrepancies between the DOB per the system and POB and obtain a new legible copy of the POB.

Ms. O'Keeffe added that they are investigating the issues and majority of them have been resolved. The other items are taking some time because of the way the database works. Her team uses LexisNexis to verify the DOB and it wasn't always helpful to obtain the date. The Agency had to reach out to those individuals to obtain legible POB. She emphasized that they are actively working on it.

9. Open Issues Log

Mr. Rongione reviewed the open issues dashboard noting that there are currently 48 open issues, 30 of which have been open longer than a year. IAD has closed 11 issues this fiscal year. He noted that IAD has added some new charts for each division that show the open issues by risk rating and aging. Management should prioritize efforts to remediate the items that are red in those charts because they are elevated in risk ranking based on the original risk rating and aging.

He also reviewed the full open issues log where IAD has added the risk rating and aging and applied a total risk score. Ms. Pittman commented that Mr. Rongione has evolved this chart to provide more insight to the AC as to the level of priority. She believes it is a good first step as it provided the AC an opportunity to readily identify finding where a greater level of focus is required.

10. Internal Quality Assurance Results

Mr. Rongione mentioned that the Internal Auditing Standards require that a Quality Assurance and Improvement Program are implemented by IAD. He directed the AC members to the memo that documents the results of the IAD's Quality Assurance and Improvement Program for calendar year 2023. He said that 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.

Mr. Rongione continued by saying that based on the review, there were no recommendations for improvement and IAD operated within standards.

Ms. Pittman asked who performs the review. Mr. Rongione answered by saying that it is Lauren Smith, Internal Audit Contract Manager, who performs this review annually. She works on the PGU audits; however, she does not directly perform any of the audits that are being reviewed as part of the quality assurance program. He emphasized that she is not reviewing her own work therefore there is a level of independence. He added that there is an external peer review performed by an independent firm every three years. Ms. Pittman asked whether the internal Quality Assurance Results (QAR) are reviewed as part of the independent review that is performed every three years. Mr. Rongione answered by saying the independent firm reviews the internal QAR reports as well as selects certain audits to ensure IAD is in compliance with the standards.

Mr. Howard asked whether the legislative audits are done periodically. Mr. Rongione answered by saying the legislative audits are performed every four years. Mr. Howard asked whether the issues identified as part of the most recent legislative audits were tracked. Mr. Rongione said the most recent report was issued in May of 2022 which covered the period through 2021. He said he will confirm where the Agency is with the remediation plan.

Mr. Howard made a comment that the AC should address the issues regarding staffing level and retention. Ms. Pittman asked whether it is for overall staffing or only IAD. Mr. Howard answered by saying it should be for overall staffing. He added that getting high quality people has been a challenge for the Agency. He believes the committee should track and monitor on how the Agency can motivate people to stay so it doesn't have to deal with high turnover issue.

11. Completed Audits

Mr. Rongione reviewed the Deceased Payment audit report noting that it was a green report, meaning a satisfactory or acceptable level of control or compliance. He added that the scope included the over 95 and 100 audits and the overseas audit performed during 2022. The scope also included the Maryland Death Match (MDM) and the National Death Match (NDM) during the period of July 1, 2022 through June 30, 2023. The audit identified two issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan.

12. Other Business

Mr. Rongione reviewed the two items listed below as part of other business items:

- a. External Quality Assurance Review Procurement:
 - i. The IAD obtains an external quality assurance review every three years as required by industry standards. Procurement should be posting an RFP during the week of 1/15/2024. Mr. Rongione expects to select a vendor within the next 45-60 days. He anticipates the review to be completed by June 30th, 2024.

- b. Whistleblower hotline information:
 - i. The Agency maintains various channels for employees and stakeholders to submit whistleblower or fraud allegations, which include:
 - Posters in common areas of the Agency;
 - A link on the Agency's internal Portal;
 - A link on the Agency's public website;
 - A dedicated phone number and email address;
 - Allegations are investigated by Office of Legislative Audits or IAD. IAD will turn investigations over to Office of Attorney Generals Criminal Division when necessary.

Mr. Sandlass asked how many tips generated by hotline turn into legitimate concerns. Mr. Rongione answered by saying not many, one or two a year. He added that most of them are related to EFT fraudulent changes, and the new policy and the aggregate report will provide more detail information to the committee members regarding those cases.

13. Motion by the Audit Committee to adjourn meeting

Mr. Rongione said the next meeting is in April 2024. On a motion made by Mr. Sandlass and seconded by Mr. Craddock, the meeting adjourned at 11:57 p.m.

Respectfully submitted,

David Rongione

David Rongione, Secretary