

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

**MINUTES OF THE MEETING OF November 9, 2021**

The Audit Committee convened on Tuesday November 9, 2021 at 10:00 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  
Linda Vaughn Allen  
Thomas M. Brandt  
Kenneth B. Haines

MSRA attendees were: Martin Noven, Executive Director  
Kenneth Reott, Director of Benefits Administration  
Kimberly O'Keefe, Deputy Retirement Administrator  
Megan Myers, Deputy Retirement Administrator  
David Rongione, Chief Internal Auditor  
Rachel Cohen, Principal Counsel  
Andrew Palmer, Chief Investment Officer  
Toni Voglino, Senior Compliance Officer  
Melody Countess, Chief Operating Officer  
Patricia Fitzhugh, Deputy Chief Operating Officer  
Robert Diehl, Chief Information Systems Officer  
Angie Jenkins, Executive Assistant  
Lauren Smith, Internal Audit Contract Manager  
Gregory Busch, IT Audit Manager  
Richa Sultana, Internal Audit Manager

CLA attendees were: Thomas Rey, Principal  
Stephen Maranto, Director  
Ivana Ritz, Manager

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

Mr. Hamilton opened the meeting by welcoming the new Audit Committee member, Ms. Linda V. Allen. Then, on a motion made by Mr. Norman and seconded by Mr. Brandt, the minutes of the July 20, 2021 Audit Committee meeting were approved.

**2. Presentation of FY2021 Financial Statement Audit Results by CliftonLarsonAllen**

Mr. Rey from CliftonLarsonAllen (CLA) started by saying that he will provide a brief overview of the FY2021 financial statements audit results and then PGU audits. His team members Ivana Ritz who is primarily responsible for the financial statements audit, and

Stephen Maranto, responsible for the PGU audits were also present at the meeting. Mr. Rey said he will review the scope of the audit, define what is a financial statements audit, summarize the audit results, and various other items. He began by defining what is a financial statements audit. He mentioned it is not an internal control or operational audit. Financial statements audits are conducted to express an opinion on whether the financial statements are presented in accordance with GAAP. He added by saying that they do not express an opinion on internal control. They provide a report on internal control identifying whether there are any material weaknesses or significant deficiencies.

Mr. Rey said the financial statements audits are performed in two phases. The first one is the preliminary phase which was performed during August 2021, and included risk assessment, walkthroughs and internal control evaluation. The second phase is the final/substantive fieldwork phase which was performed during September, October, and November 2021. This phase included reviewing and testing the general ledger, identifying key risk areas, investment portfolios, contributions, and distributions. Mr. Rey added by saying that another key risk area reviewed by CLA is the actuarial valuation.

Mr. Rey reviewed the significant risks considered during the audit which includes management override of controls, improper revenue recognition, valuation of alternative and real estate investments, and valuation of pension liability and related amounts. Mr. Rey clarified that management is the owner of the financial statements, and the only thing that CLA owns is the opinion issued on the financial statements. He mentioned that the draft financial statements were issued on Monday, November 8, 2021, and they plan to issue an unmodified opinion on the final version of the financial statements meaning the financial statements are presented fairly and in accordance with GAAP. He said that limited procedures were performed, and no opinions will be issued on management's discussion and analysis, required supplemental information, and the Introductory, Investment, Actuarial, and Statistical sections. Limited procedures were also performed on the additional supplemental information in the ACFR, and CLA will opine on whether that information is consistent with the information presented in the audited financial statements.

Mr. Rey provided a summary of the net position indicating that in June 30, 2021 financial statements the net position increased, and part of the increase is due to increase in investment income. He mentioned that the funding ratio is 81.8% meaning the total net position of \$67.6 billion represents 81.8% of the total pension liability of \$82.6 billion. He added by saying that the accounting equivalent of funding ratio jumped to 81.8% despite the fact that the discount rate went down to 6.8%.

He also presented a sensitivity analysis of the net pension liability showing what net pension liability would be if the discount rate changes by 1% in either direction - decrease will result in \$25.6 billion in net pension liability and increase will result in \$6.3 billion in net pension liability.

Mr. Rey reviewed the balance sheet showing the major components and what derives the \$67.6 billion in net position. He also reviewed the income statement showing the inflows

and deductions. He indicated that the deductions are mainly the benefit payments, and the net income is derived mainly from the investment return.

For required communication regarding accounting policies and significant accounting estimates, Mr. Rey mentioned that there were no significant changes in GAAP or GASB therefore, that section of the financial statements look similar to previous years. He mentioned there are two significant accounting estimates - 1) census data rolled up to actuarial valuation which is tested for reasonableness; 2) investment valuation which is tested by performing recalculation of the audited financial statements and obtaining confirmation. Other required communication regarding significant disclosures, Mr. Rey said there weren't any significant changes compared to prior years. Another part of requirement communication is whether there were any significant journal entries proposed by the auditors (corrected misstatements) and whether any of those journal entries were passed by the management (uncorrected misstatements). Mr. Rey confirmed that no such instances were encountered during FY2021 financial statements audit which is a testament to the completeness and accuracy of the financial statements. He also added that there were no disagreements with the management.

Mr. Brandt made an inquiry regarding the audit procedures for testing private equity investment, applicable audit standards and AICPA guidance for this area. Mr. Rey answered by saying that they carve out non-custodial assets and review investment office's initial due diligence, ongoing due diligence, and what investment staff are doing around stress testing. He added by saying that CLA selects samples to test based on significance of the non-custodial assets. CLA also reviews the audited financial statements of the underlying private equity companies and confirms any capital calls and distributions with the general partners. Mr. Rey mentioned that the "squishy" areas are the unrealized gains and losses which is reviewed and tested by CLA for reasonableness and benchmarked based on strategies. Mr. Rey emphasized on the fact that the NAV is assumed based on an estimate of the fair market value of that particular fund.

### **3. Acceptance of the FY2021 MSRPS Draft Financial Statements**

On a motion made by Mr. Norman and seconded by Mr. Haines, the draft financial statements were approved.

### **4. Presentation of FY2021 Results of Participating Employer Audits by CliftonLarsonAllen**

Mr. Rey mentioned that GASB 67 requires to test the census date for completeness and accuracy. In order to comply with that standard, CLA tests the enrollment data of the PGUs every year by rotating them every three years. Mr. Rey thanked the trustees for starting the review of the PGU data even before GASB made it a requirement. He then turned the discussion over to Mr. Maranto to review the results of the PGU audits and the analysis of the year to year findings. Mr. Maranto mentioned that CLA tests about 1/3 of the PGUs every year and during FY2021, CLA audited 69 employers who were last tested in FY2018. Mr. Maranto presented a chart comparing the number of employers who had findings in current audit with the number of employers with findings in previous audit. He noted that the number of employers who failed to enroll eligible employees went down to 3 employers

from 22 employers. He added by saying that this is the trend CLA expects to see from year to year. Mr. Maranto presented another chart that compared total volume of findings by objective. He noted that the finding related to misreported payroll data increased to 213 from 170. Mr. Maranto explained that his team drilled down on this issue and identified that approximately 80% of the misreported payroll data is related to four specific employers. He added by saying that their prior experience on these audits shows that only five/ten specific employers always have the highest number of findings. Mr. Brandt said that this is probably due to government employees not having the right tool to perform the job or honest mistakes made by employees. He believes that this is not related to any types of negligence and the results of these issues cannot be monetized. He advised that the Agency must find a way to constructively communicate with the employers with repeat findings.

Mr. Hamilton mentioned that the Agency was going to work with the Comptroller on the repeat offenders, and asked Mr. Rongione to provide more detail on this matter.

Mr. Rongione explained how the Agency is handling the issues related to automatic enrollment and the past due penalty invoices for not enrolling an eligible employee. The Agency was going to ask the Comptroller's Office to offset the fees however, the Agency decided to take more of a responsive approach. The Executive Director of the Agency is performing a follow-up on the unpaid invoices every 30 days. Mr. Rongione added that reports are sent to the PGUs with findings other than the automatic enrollment issues, and Benefit Processing Division works with those locations to resolve the issues.

Mr. Rongione mentioned that the Agency started performing the PGU audits 12 years ago, and CLA was contracted to perform these audits. The contract with CLA has expired, therefore Mr. Rongione believes this is the perfect time to revamp the audit procedures in order to have more compliance with the prescribed standards. He mentioned that the audit procedures will be revised mainly for two items – 1) Include State agencies. Currently there are 177 PGU locations that are audited by CLA. 148 State agencies will be included in these audits which will result in 325 locations in total. The reason for this inclusion is to comply with the AICPA White Paper which requires greater coverage of the payroll data; 2) Risk based approach. The repeat offenders will be included as they possess higher risk. As a result, the same location could be audited every year instead of having them audited every three years. Also, the dollar value of contributions will be considered. The higher the contribution amount the higher the risk factor. He also mentioned that the goal will be to have each of the 325 locations audited at least once every five years.

Mr. Hamilton asked whether the new contract will be presented to the Audit Committee or the Board for approval. Mr. Rongione answered by saying that the Procurement Division has received proposals for this contract which has not been shared with Internal Audit Division (IAD). IAD has already identified the locations that will be included for testing in next fiscal year. IAD expects to receive copies of the proposals in December 2021. As soon as the contract is finalized, it will be presented to the Audit Committee and the audit work will commence.

Mr. Norman inquired about how much time the Member Services Division is spending on communicating and rectifying the misreported payroll data. Mr. Rongione requested Mr. Reott to comment on this matter. Mr. Reott mentioned that the Agency has a designated employee who is responsible to communicate the issues identified in the CLA report and take corrective actions on the member and retiree accounts. He added by saying that the Agency has good partnership with the employers, and they are prompt in providing the correct and required data to the Agency. Mr. Reott added that Mr. Noven sends out a letter to the employers with the repeat findings. He indicated that sometimes employers will not cooperate in providing correct payroll data. In that instance, Mr. Noven intervenes and reaches out to the Executive Directors of those locations to resolve the matter. Mr. Reott clarified that it is not Member Services Division who handles this matter. The Agency has one dedicated employee in Data Control Unit who is responsible to educate the employers on how to properly report the payroll data, why the data was incorrect and how it should be corrected. He also said that it is mainly the small employers who have failed to properly report their payroll data because they sometimes forget about the raise given to their employees or they don't have a good computer system to track the data properly. He emphasized that for the most part the Agency receives cooperation from the employers.

Mr. Norman suggested that management should consider performing the PGU audits internally. Mr. Rongione mentioned that IAD currently does not have staff to take on these audits. Mr. Norman answered by saying that he is aware that IAD currently does not have the resources however, the number of hours and the volume of the audit should be considered to bring in additional staff since it appears that these audits are repetitive steps. Mr. Hamilton thanked CLA for their presentation.

##### **5. CY2022 Audit Committee Meeting Dates**

On a motion by Mr. Brandt and seconded by Mr. Norman, the Audit Committee moved to approve the following Audit Committee meeting dates:

- January 18, 2022
- April 19, 2022
- July 19, 2022
- November 8, 2022

##### **6. Status of FY2022 Audit Plan**

Mr. Rongione stated the Q1 2022 continuous audits have been completed. He added by saying that the Enrollments audit and Management Reporting audit are 90% complete. The audit reports for these audits will be issued in next few weeks. He added that the SWIFT Assessment audit is on track to be finalized by the December 2021.

He continued by saying the participating audits will now be performed on a calendar year basis instead of a fiscal year basis. There is a pending RFP for these audits, and IAD is anticipating an award in December 2021. Mr. Rongione clarified that the total number of locations is 76 and not 70 as indicated in the Agenda packet. This is because originally the MDOT was included as one location but later it was broken down in specific MDOT locations.

**7. Status of Open Issues Log**

Mr. Rongione reviewed the open issues log stating that there are currently 21 issues that remain open. Since the last Audit Committee meeting, no issues have been removed. This is primarily due to other agency priorities, including the Office of Legislative (OLA) audit, the financial statements audit, and the MPAS plus project. Mr. Rongione mentioned that now that OLA and the financial statement auditors have completed their fieldwork, IAD expects the Agency will have some time to dedicate to remediating some of these issues. He added by saying that this past Friday, November 5<sup>th</sup>, Information Systems sent a listing of items that are ready for IAD to perform remediation testing, which will be performed prior to the next Audit Committee meeting.

**8. Dashboard – Continuous Audits**

Mr. Rongione directed the Audit Committee to the dashboard for the data analytics performed by IAD. He mentioned that the first graph shows the number of exceptions per quarter for the applicable audit. The graph shows the number of exceptions relative to the samples audited. He stated that IAD added a table and a graph to provide a statistics of current vs prior year samples tested and findings. Mr. Rongione clarified by saying that last year IAD performed these audits monthly where in current year IAD is performing the audits on a quarterly basis. He mentioned that the second graph shows the number of YTD exceptions identified in each fiscal year and the YTD remaining open issues. Mr. Rongione believes that the Agency has been very responsive at remediating these items as IAD brought them to their attention.

**9. Other Business**

Mr. Hamilton stated that the next Audit Committee meeting date is January 18, 2022.

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

On a motion made by Mr. Haines and seconded by Mr. Norman, the meeting adjourned at 10:48 a.m.

Respectfully submitted,

*David Rongione*

---

David Rongione, Secretary