

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

**MINUTES OF THE MEETING OF November 14, 2023**

The Audit Committee convened on Tuesday November 14, 2023 at 09:30 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, Deputy Retirement Administrator  
Megan Myers, Deputy Retirement Administrator  
Derrick Johnson, Deputy Retirement Administrator  
David Rongione, Chief Internal Auditor  
Melody Countess, Chief Operating Officer  
Patricia Fitzhugh, Deputy Chief Operating Officer  
Robert Diehl, Chief Information Systems Officer  
Thomas Montanye, Deputy Chief Information Systems Officer  
Toni Voglino, Senior Compliance Officer  
Cheryl Davis-Shaw, Executive Special Assistant  
Janet Sirkis, Executive Associate  
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  
Steve Maranto

CliftonLarsonAllen (CLA) attendees were: Remi Omisore  
Tonia Shultz

**1. Call Meeting to Order**

Ms. Pittman called the meeting to order.

## **2. Minutes of the July 18, 2023 Audit Committee Meeting**

Mr. Rongione requested an amendment to the minutes. The second item on the July 18, 2023 meeting minutes had an incorrect date reference. It had a date reference of July 18, 2023 where it should have had April 18, 2023. On a motion made by Mr. Howard and seconded by Mr. Norman, the amended minutes of the July 18, 2023 Audit Committee meeting were approved.

## **3. Presentation of FY 2023 Financial Statement Audit Results by CLA**

Mr. Rongione introduced Mr. Omisore from CLA who presented the draft financial statements for June 30, 2023. He mentioned that CLA is currently in the process of completing the audit. They are going through quality control procedures which includes an independent review as well as internal review. He reviewed the scope of the engagement mentioning that CLA will issue an opinion on the June 30<sup>th</sup>, 2023 financial statements, June 30<sup>th</sup>, 2023 Annual Comprehensive Financial Report (ACFR) which includes investment information, and the schedule of employer allocations. He clarified that the financial statements are management's responsibility, and CLA's responsibility is to express an opinion on the financial statements.

Mr. Omisore said there are three inputs to the audit – management, financial statements and risk assessment. CLA annually looks at what is going on in the environment, both from a regulation standpoint as well as the numbers in the financial statements to come up with the risk assessment. For the risk assessment, there are two most talked about items other than federal grants for COVID fund, and they are talent and IT. The industry is experiencing a shortage of staff as more professionals are retiring and there are not many recent graduates in the accounting field. Also, the CPA exam used to include a section for governmental accounting which has been removed. As a result, students are not being exposed to governmental accounting. The second item is cyber security risk which is on an uptick because not a great amount emphasis is placed on the recovery plan from a breach standpoint. Mr. Omisore continued by saying there was money available from federal government to strengthen cyber security and response plan.

Mr. Omisore reviewed the financial reporting risk assessment summary by noting that from a financial statements standpoint, some risks that are always looked at are management override of controls, improper revenue recognition, valuation of alternative and real estate investments, valuation of pension liability and related amounts, and new accounting pronouncements and financial reporting. For valuation, the Agency has its own actuary and CLA uses their own.

He then reviewed the new Governmental Accounting Standards Board (GASB) standards noting that GASB's biggest concern is off balancing financing. Last year there were new standards on leases, this year there were new standards on subscription-based IT arrangements. In 2025, there will be new standards on compensated absences. Currently, only the paid leave balances are included as a liability. The new standard will require any

other types of benefits including educational, maternity, paternity etc. to be picked up as liability. This item should be the last one on the GASB's search for unrecorded liability.

He then reviewed the required communication mentioning that a test-based approach is used for numbers and disclosures of financial statements. Therefore, there is a sampling risk. He noted that there were no changes to the policy compared to last year. He mentioned that the significant liability on the financial statements is the net pension liability. As part of the "other items" on the required communication list, he mentioned that him and his team had no difficulties in performing the audit or obtaining information from management.

Mr. Omisore said he expects to issue an unmodified opinion which is the highest level of assurance meaning there were no uncorrected misstatements, no material weaknesses and no significant deficiencies noted during the audit. He added that in the final report, there will be a recommendation on an uncorrected misstatement based upon the investment valuation. The investment team uses a quarter lag in the investment valuation. CLA compared the September 30<sup>th</sup> valuation with the June 30<sup>th</sup> valuation noting that there was a variance. He emphasized that the variance was not significant. CLA recommends the investment team to perform the comparison on their own and adjust the financial statements as needed if the variance is material.

The next item reviewed by Mr. Omisore was the System Performance where they perform a 10 years lookback. The benchmark used for this analysis is a 7% rate of return. They look at the financial statement's contributions, benefit payments and change in net position as well as the investment balance and investment income related to those items. He does not have a huge concern on the performance of the system.

Then he reviewed the key assumptions in the financial statements that are determined by an actuary. CLA performs an analysis to show what would happen if the returns were to change 1% up or down as it has a significant impact on the pension liability amount. These numbers depend on the investments and the ultimate valuation of those investments.

Ms. Pittman asked about how common it is to have an uncorrected misstatement and what will be considered a corrected misstatement. Mr. Omisore answered by saying it is very common to have that whenever there is an alternative investment that are hard to value. The valuation is done as of June 30<sup>th</sup> which then changes overtime. In practice, there will be an update to the number however, it's never usually material. If its multi-million (20/30 million), then the auditors will ask management to make that adjustment. Mr. Sandlass added the numbers will be adjusted in next year's ACFR and there will be a footnote in next year's statements as well.

Ms. Pittman asked whether there is a need to zoom in on any aspect of the financial statements. Mr. Omisore said the investment portfolio and the outflow that is coming out

of the trust are the largest numbers. He said he does not have any huge commentary to provide additional insight. He added that from an Audit Committee (AC) standpoint, there is nothing that doesn't look accurate. If anything changes, it will be communicated to the AC although he does not expect any changes to the final version of the statements other than wording and formatting. Mr. Sandlass inquired about whether there were any issues in getting information from State employees, actuary or outside parties. Mr. Omisore said there was some back and forth but nothing out of the ordinary.

**4. Acceptance of the FY 2023 MSRPS Draft Financial Statements**

Ms. Pittman asked whether the AC is approving the recommendation of the financial statements to the Board or approving the financial statements. Mr. Rongione answered by saying AC is approving the recommendation of the financial statements to the Board. On a motion made by Mr. Sandlass and seconded by Mr. Norman, the financial statements were approved to be presented to the Board.

**5. CY 2024 Audit Committee Meeting Dates**

Ms. Pittman asked for guidance on how the meeting dates are determined. Mr. Rongione answered by saying the AC dates follow Board of Trustees (BOT) meeting dates except for the November meeting. November meeting is usually held a week before BOT meeting. The meeting dates for the CY2024 are as follows:

January 16, 2024  
April 16, 2024  
July 16, 2024  
November 12, 2024

On a motion made by Mr. Norman and seconded by Mr. Howard, the CY2024 AC meeting dates were approved.

**6. Participating Employer Audits - FY 2023 Results Presented by UHY**

Mr. Rongione introduced Mr. Rey and Mr. Maranto from UHY LLP to present the results of Participating Employer audits. Mr. Rey turned the conversation over to Mr. Maranto who reviewed the seven objectives of the Participating Employer audits noting that they remained unchanged from prior year. One major change noted this year is the addition of State agencies who have never been audited before. He continued by saying there were 74 employers audited during FY2023. He said at the end of testing, the results are presented to management along with the recommendation to correct the findings. 72 of 74 employers have already responded to audit findings and 2 are still pending. He directed the AC members to the executive summary of the report (page 4, 5) which provides the nature and cause of the finding. He then reviewed the procedures included in the report (page 6) by mentioning that these procedures are drafted by the Agency staff and performed by UHY LLP. There were no changes to report in the procedures.

Mr. Maranto then reviewed the findings table by employers and objective (page 9).

Mr. Maranto noted that misreported unused sick leave, misreported payroll data and misreported wage file data are the most common issues. He added that the testing of wage file data is a new test and it is very common to have findings whenever a new test is implemented. He added the corrective actions are very simple. The Agency must coach employers and provide recommendation.

Ms. Pittman wanted to know what do these findings tell us. In order to provide more insight, Mr. Maranto summarized the results of the findings. He said 9 employers reported hours over standard hours (i.e. anything over 80). The recommendation offered by UHY LLP was to implement data validation that compares the actual data to the reported data. This one simple change would reduce to findings from 1,749 to 275.

He continued by saying 7 employers reported hours below standard hours (i.e. anything below 60 for teachers). Agency should program a feature that checks anything that is reported under that minimum threshold. That way the errors will be identified and corrected timely.

The last item was the review of misreport sick leave. He mentioned that 44 employers had findings for misreported sick leave. This is because it is a manual process from start to finish. Initial certification is written on a piece of paper a few months before the individual retires. Thirty days after retirement, the final update should be submitted by the employer. The primary cause of this error is the employers forget to submit the final re-certification. He believes the process should be automated such as an automatic message should be sent to employers reminding them to send the final re-certification. Mr. Sandlass asked whether the initial certification of the sick leave is also audited. Mr. Maranto replied by saying only the final balance is audited which is used to calculate additional service credit. In instances where the final balance was never submitted, the audit is performed to verify retiree's actual balance against the initially reported balance. Mr. Sandlass also inquired whether the balances are verified on an individual basis or on an aggregate (i.e. county as a whole). Mr. Maranto replied by saying the sample is selected from a pool of retirees who has been retired for three years leading up to the audit period. Then the actual sick leave balance per the respective payroll system is verified against the HR's certification. Mr. Sandlass commented that from a funding/actuary standpoint, it can have a significant amount of funding or cost implication. Mr. Sandlass asked whether these are all clerical errors or if there are any chances of fraud. Mr. Maranto replied by saying he does not believe there is any fraud. In a couple of instances, the balance was reported in hours instead of days which caused the balance to be overstated. In some other instances, the final update to the Agency never got applied to the retiree's account. He believes the root cause of the errors is the manual process.

Mr. Howard asked whether the employers are receptive to the recommendation of automating the system. He believes these errors have an extrapolated financial impact. Mr. Maranto said the employers were very receptive to their recommendation and they did not receive much push back. He added that this recommendation is not just the auditor's

observation, it is also the employer's observation. Mr. Howard asked whether the Agency performs follow-up to verify that changes were made, and the errors were corrected. Mr. Maranto replied by saying one of the testing steps is to ensure the prior audit findings have been corrected and the recommendations were implemented. Mr. Rey added that the audit report doesn't always go to the decision makers. In the past, AC had helped to get the reports to the decision makers. Mr. Howard also asked whether the software that's needed to automate the processes is independent or State approved. Mr. Maranto replied that the recommendation is mainly for the Agency. He believes the number of errors could be significantly reduced by automating the process on the Agency's end i.e. enhancing the features on the Employer Portal. Ms. Pittman commented that the recommendation applies for Agency's IT improvement. Mr. Maranto agreed and said that he believes this automation will present a notable difference in these findings. Ms. Pittman said AC should follow up with Mr. Noven to have a perspective on the dollar materiality on these findings to compare against IT spent.

Ms. Allen inquired whether the employers are going back and correcting the information that is being reported incorrectly. Mr. Maranto mentioned that the recommendations are included in the report and it is management's responsibility to provide a detail response mentioning the errors have been corrected and processes have been updated. Also, the findings are tested in future as part of the next round of audit.

Ms. Pittman requested if the errors can be quantified, it will be enlightening for the AC. This will provide some perspective to the Board on the cost benefit. Then Ms. Pittman asked whether any approval is needed for the report. Mr. Rongione confirmed that no approval is needed.

#### **7. Status of FY 2024 Audit Plan**

Mr. Rongione presented the Audit plan status noting that the SWIFT Assessment as well as the DROP Processing and Payment audit have been completed since the last committee meeting. The System Transfer audit is nearing completion. The Deceased payments and the IT Security Controls audits are all in progress. The Investment contractual risk audit is currently in the planning phase and expect to will kick off soon. For the PGU audits, Internal Audit Division (IAD) is off to a great start with 56 of the 82 audits in progress. Ms. Pittman asked whether he anticipates any issues in completing the audit plan. Mr. Rongione answered by saying he believes IAD is on schedule and should be able to complete all audits included in the audit plan by the end of fiscal year.

#### **8. Continuous Audit Dashboard**

Mr. Rongione presented the continuous audit dashboard report noting that IAD has created a new chart which shows the aging of remaining issues. The items in "green" have been open for up to 180 days, "yellow" have been open 6 months to a year, and "red" greater than a year. He suggested that management should prioritize efforts on remediating the red and yellow issues.

## 9. Status of Open Issues Log

Mr. Rongione presented the open issues dashboard which gives an overview of the number of open and closed issues per division. Like the continuous audit dashboard, IAD has created a new chart that shows aging of remaining issues. The items in “green” have been open for up to 180 days, “yellow” have been open 6 months to a year, and “red” greater than a year. There are currently 34 issues that have been open for greater than 1 year. While most of these issues are low to moderate risk by themselves, the combination of quantity and length of time open increases the risk to the agency. He suggested that management should prioritize efforts to remediate these items.

Mr. Noven commented that the log has gotten a lot better. There were issues older than 10 years that shouldn’t have been there to begin with. He added that majority of the open issues are Information Systems issues, and he requested Mr. Diehl to provide more perspective.

Mr. Diehl provided additional detail on the Information Systems open issues noting that his team is working aggressively to remediate the issues. He mentioned that there are some issues that are not completely in his team’s control, but his team is working to resolve the issues regardless. He added that there were some new standards from NIST back in 2022. The Agency wasn’t necessarily trying to be certified on those standards. He said majority of them were on third party risk management. His team has been exploring some tools to put some structure and proactive approach around the area to obtain the necessary certifications. The remaining open items revolve around technologies that were either procured or looking to procure to help eliminate the risks. His team is currently looking to implement a permission system to elevate permission to the administrators and helpdesk team based upon needs.

Mr. Howard asked whether these issues can be remediated within a year. Mr. Diehl replied by saying most definitely. He said several of the issues will be removed as part of the third-party risk management. He added that his team performed a supply chain vendor survey for services, software, hardware maintenance, software as a service etc. Historically the Agency depended on State approved vendor and the contract managers to vet those vendors. The new assessment has opened a new realm of responsibilities. He expects all issues to be removed by next year except for the items that are not necessarily in his team’s control.

Ms. Allen asked to see the severity of the findings. Ms. Pittman said she spoke to Mr. Rongione on this matter. She asked to see the aging plus the relative severity of the findings. Mr. Rongione said IAD has the information available and they are working on implementing a chart to incorporate the requested information.

Mr. Sandlass asked how frequently Mr. Noven and Mr. Rongione are meeting to discuss the open items. Mr. Noven said he meets monthly with Mr. Rongione and they discuss the open issues as one of their discussion items. He added that the Agency has made a lot

of progress. They also talk about the open issues during the senior staff meeting. They are all working together to make it a priority. Mr. Howard mentioned that they can convey to the staff that the AC is repeatedly asking about the lingering open issues. Mr. Noven said most of the staff, if not all, are on the call therefore they are aware of urgency.

Ms. Pittman re-emphasized the importance of third-party risk as it is an imminent risk in terms of breaches therefore it must be prioritized. Mr. Howard said he is very appreciative of the effort of the team to eliminate these open issues. Ms. Pittman suggested that the aging, level of criticality, description of finding and the recommendation should be presented on one page. Mr. Rongione said his team will work on implementing this suggestion.

## **10. Completed Audits**

Mr. Rongione reviewed the completed audits starting with the SWIFT Assessment audit which was a green report, meaning a satisfactory or acceptable level of control or compliance. The scope included the Mandatory and Advisory controls during the period of January 1, 2023 through July 1, 2023. The audit identified 2 issues which are detailed in the report. Management agreed with the issues and has remediated them prior to the issuance of this report.

He then reviewed the DROP Processing and Payments audit report, which was a green report as well, meaning a satisfactory or acceptable level of control or compliance. The scope included the process of DROP enrollments and terminations during the period of July 1, 2022 through June 30, 2023. There were no reportable issues identified during the audit. Mr. Howard thanked the staff for their tremendous job.

Mr. Rey reviewed the results of Investment Valuation audit which included a review of the ongoing monitoring of private market, onboarding of managers and the investment accounting. Their audit did not have any findings. Their report includes one recommendation regarding the quarter lag. The valuation was as of September 30, 2022 however, there was a significant downturn in the 4<sup>th</sup> quarter of 2022. UHY LLP has quantified that in their report. Their suggestion is to keep an eye on the quarter lag in order to incorporate any known changes to the annual financial statements for a more accurate picture.

Mr. Rey then presented the result of the Finance Consulting project. His team was engaged to perform an assessment of the Finance division. The division had some difficulties meeting deadlines, processing invoices and maintaining adequate staff. His team identified the root cause of each difficulty and provided recommendations. The scope included interviewing staff to understand the responsibilities of each department within the division. They also obtained an understanding of how other divisions interact with the Finance division. They reviewed process documents and provided recommendations. Their assessment identified that there was poor work culture, functions were included within



Finance division that belonged to other divisions, inadequate communication, insufficient training and communication, and lack of documented policies and procedures. The assessment identified there are a lot of opportunities for system automation.

Ms. Pittman inquired about one of their recommendations on return to work. Mr. Rey said that not all employees were being productive during their work from home and having an entirely flexible work schedule. He also believes that a lot of the processes are manual, and the flexible/remote work further delayed the manual processes.

Mr. Noven added some context by saying that the reason this assessment was performed was due to unpaid invoices. He added that the Finance division lost some team members and the transition did not go smoothly. This caused the Finance division not having the resources to pay bills and management was spending additional time to track down what didn't get paid and why. The Agency hired a consultant to assist Ms. Countess to remediate the issues. He added that the Agency needs to provide resources to Finance division to implement the recommendations. He said this item can be further discussed during the next AC meeting which will allow Ms. Countess more time to implement the recommendations.

Ms. Countess said her team is working diligently. Her division is currently understaffed. She said she only has 7 staff where she needs 12-15 staff members. She mentioned the division struggled to fulfil positions as mentioned by Mr. Omisore, there has been a shortage of accounting staff in the industry. She added that her team is also waiting on some processes to be re-engineered which will rectify some of the operations.

Ms. Pittman expressed her support to Mr. Noven and Ms. Countess. She said it is very helpful to have a third-party perspective.

Mr. Noven added that this assessment was not imposed upon the Agency. Management brought it to the auditor's attention with an intention to help the Finance division. Ms. Allen applauded the Agency for doing this assessment as she believes it is very important to identify the resources and funding needed to rectify the issues. This assessment will elevate the process of getting the much-needed resources. Mr. Howard agreed whole heartedly and mentioned that it is important to focus on not just the quantitative issues but the qualitative issues as well.

## **11. Investment Compliance Report**

Ms. Voglino mentioned that the Investment Compliance team provides the Audit Committee an annual compliance report to keep the board informed. She summarized the report as follows:

1. *External Manager Investment Guideline Violations:* External managers are required to comply with certain investment guidelines. Investment Compliance team monitors it daily. There was a total of 56 external managers monitored. The compliance team

performed over 233,000 tests which identified 3,095 violation alerts. 100% of the alerts were reviewed. 2,805 were false alerts and 290 alerts needed corrective actions due to overweight of a security or overweight of cash due to position changes. All alerts have been corrected by managers.

2. *Internal Manager Investment Guideline Violations:* Like external manager, internal managers are required to comply with certain investment guidelines. Investment Compliance team monitors it daily. There was a total of 9 internal mandates monitored. The compliance team performed over 41,000 tests which identified 3,058 violation alerts. 100% of the alerts were reviewed. 1,373 were false alerts, 166 alerts due to corporate action and no corrective action necessary, and 1,519 alerts needed corrective actions due to overweight of a security, non-permitted security, or overweight of cash due to position changes. All alerts have been corrected by staff.
3. *External Manager Annual Compliance Questionnaire and Certificate (the "ACQ"):* 83 managers and consultants were required to complete the ACQ and 100% were received and reviewed by Compliance.
4. *Private and Commingled Annual Certification:* 356 funds were required to complete the annual certification per their side letter. 100% were received and reviewed by Compliance
5. *Personal Trading Monitoring and Attestation:* Staff has their personal trading monitored by Compliance to determine if they, or someone in their immediate family, has traded a security that is on the Restricted List or traded without prior approval by Compliance. There were 7 violations that did not obtain pre-approval. It was as simple as they forgot to obtain pre-approval. The Compliance team re-trained them on pre-approval and the requirement of not trading on restricted securities. 100% of staff completed the Personal Trading Disclosure and Attestation Statement in FY 2023
6. *Conflicts of Interest Reporting and Attestation:* Each conflict is categorized as follows:
  - Not a Conflict
  - Perception of a Conflict
  - Potential Conflict of Interest
  - Actual Conflict of Interest or
  - Material Conflict of Interest

100% of the conflicts were reviewed. All were either not a conflict, perception of a conflict or potential conflict. For potential conflict, the Compliance team monitors them on a quarterly basis to see whether it has become an actual/material conflict of interest. 100% of employees have submitted their Conflicts of Interest Disclosure Form and Attestation.

7. *Code of Ethics Attestation:* Maryland Ethics law requires to certify that they read, understand and comply with the policy. 100% of staff have completed the required Code of Ethics Attestation for FY2023
8. *Mandatory Staff Training in Compliance:* All Investment Division staff are required within 30 days of hire and annually thereafter to have training on the following:
  - Ethics
  - Conflicts of Interest
  - Material non-public information, and
  - Personal trading compliance

100% of Investment Division staff completed the required training

9. *Regulatory Reporting:* There are three regulatory reporting: 13F and 13H and 13G. 13F is required quarterly if over \$100 million in assets under management internally. This report gets uploaded to SEC's databases and become public information. There was no 13H filed for FY2023 because there were no changes from prior year. 13G is for beneficial ownership where there is 5% or more outstanding share. There was none in FY2023

Ms. Pittman said she understands that the report is prepared annually for guidelines violation, but she wanted to know how frequently the violations are monitored. Ms. Voglino answered by saying her team monitors it daily.

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

Due to timing constraints, the item to be discussed during closed session was moved to January 2024's meeting agenda.

**13. Other Business**

No other business was discussed.

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

On a motion made by Ms. Allen and seconded by Mr. Howard, the meeting adjourned at 11:27 p.m.

Respectfully submitted,

*David Rongione*

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David Rongione, Secretary