

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

**MINUTES OF THE MEETING OF June 21, 2016**

The Audit Committee met on Tuesday, June 21, 2016 at 8:30 a.m., in the Board of Trustees Meeting Room of the Maryland State Retirement Agency at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: F. Patrick Hughes, Chairman  
James A. Bush, Jr.  
James “Chip” DiPaula  
Kenneth B. Haines  
Richard E. Norman

MSRA attendees were: R. Dean Kenderdine, Executive Director  
David Rongione, Chief Internal Auditor  
Margaret Bury, Retirement Administrator  
Kenneth Reott, Deputy Retirement Administrator  
Brian Feilinger, Internal Audit Contract Manager  
Lauren Smith, Internal Audit Supervisor  
Delores White-Rose, Internal Auditor

**A. Closed Session**

On a motion made by Mr. Bush, and seconded by Mr. DiPaula, the Committee voted to meet in a closed session beginning at 8:30 a.m. in the Board of Trustees Meeting Room of the Maryland State Retirement Agency at 120 East Baltimore Street, Baltimore, Maryland for the purpose of approving the Minutes of the Closed Session of February 16, 2016, pursuant to the General Provisions Article, Section 3-103(a)(1)(i), to exercise an administrative function.

**OPEN SESSION**

**B. Minutes of the February 16, 2016 Audit Committee Meeting**

On a motion made by Mr. Bush, and seconded by Mr. DiPaula, the minutes of the February 16, 2016 Audit Committee meeting were approved.

**C. Internal Audit Staffing Update**

Mr. Rongione introduced a new member of the Internal Audit team, Delores White-Rose. Delores has been with Internal Audit since March 30th, and holds the CICA designation. She has over 20 years of audit experience in the federal, state, and non-profit sectors.

**D. Contractual Audits Update**

Mr. Rongione informed the Committee that the FY 2016 audits of participating

employers are about 64% complete. They are on track to be completed soon.

The timeline for the Credit/Debt Strategy investments audit has been revised. The testing phase has begun, and a report is expected by August 5, 2016.

Internal Audit has begun an RFP for services to audit the processes associated with private equity investments.

**E. FY 2016 Audit Plan Status**

Mr. Rongione provided the Committee with a status update for the FY 2016 audit plan. He noted that audits in the plan have been completed, with the exception of Disaster Recovery, which is currently in the reporting phase. It will be finalized within the next month. Staff has started working on FY 2017 audits.

**F. Open Issues Log**

The Committee received a listing of open audit issues. Mr. Rongione advised the Committee that progress is being made. There are currently 23 open items, with 17 previously open items closed during FY 2016. He noted that an open item listed does not necessarily mean that management has not taken appropriate action to remediate it. Internal Audit may not have followed up on it yet.

Mr. Hughes stated that he would like to see the open items closed out, rather than being carried forward to the next fiscal year. Mr. Kenderdine said that he will work with Internal Audit to come up with a plan to clear the open items. He will provide the Committee with the plan by the end of July.

**G. Annual Agency-wide Risk Assessment**

Mr. Rongione told the Committee that he completed his annual Agency-wide risk assessment. He provided a list of the activities comprising the top ten risks identified. The assessment included input from the Audit Committee, Executive Management and Agency managers, and considered various risk factors. Also included was the ranking of investment risks previously identified by an investment consultant in 2011.

Mr. Rongione noted that five of the top-ten risks are scheduled for audit during FY 2017.

**H. FY 2017 Audit Plan**

The Committee received the proposed FY 2017 audit plan. Mr. Rongione pointed out that the plan includes various initiatives related to automating the audit process. In FY 2016 AutoAudit software was implemented to automate audit working papers. Going forward, additional software modules will be implemented, including issue tracking that will automatically send reminders to management for open audit issues. There will also be a time tracking module, and a mechanism for tracking risks. The risk-tracking module will be implemented over a five year period.

Mr. Hughes asked for additional details on the proposed Power of Attorney (POA) audit. Mr. Rongione advised that this process was identified as a top risk by both the Retirement Administration and Finance Divisions. Processing of POA's is decentralized and not tracked. Ms. Bury added that Retirement Administration staff makes sure that POA's received meet the legal requirements, based on a checklist provided by the Attorney General's office. They take a closer look at last-minute POA's for someone who is really sick. The person designated as POA cannot also designate themselves as the member's beneficiary. The Committee agreed that the audit should look at whether POA's should all be approved by the Legal Department.

Mr. Norman requested additional information on the hours designated for Fraud Reports in the Audit Plan. Mr. Rongione stated that hours are allocated in case the Office of Legislative Audits notifies Internal Audit of a potential fraud, requiring investigation.

On a motion made by Mr. Bush, and seconded by Mr. DiPaula, the Committee approved the FY 2017 Audit Plan.

**I. Other Business**

The Committee's next meeting is on Tuesday, August 16, 2016. There being no further business before the Committee, on a motion by Mr. DiPaula, seconded by Mr. Bush, the meeting was adjourned at 8:50 a.m.

Respectfully submitted,

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David Rongione, Secretary