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

MINUTES OF THE MEETING OF July 26, 2022

The Audit Committee convened on Tuesday July 26, 2022 at 11:00 a.m. via video conference call with the host site at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were:	Richard E. Norman, Chairman
	Thomas M. Brandt, Vice-Chairman
	Jamaal R. A. Craddock
	Kenneth B. Haines
	Michael Howard
	Robert Sandlass
MSRA attendees were:	Martin Noven, Executive Director
	Kenneth Reott, Retirement Administrator
	Kimberly O'Keefe, Deputy Retirement Administrator
	Megan Myers, Deputy Retirement Administrator
	David Rongione, Chief Internal Auditor
	Rachel Cohen, Principal Counsel
	Emily J. Spiering, Assistant Attorney General
	Andrew Palmer, Chief Investment Officer
	Robert Burd, Deputy Chief Investment Officer
	Toni Voglino, Senior Compliance Officer
	Patricia Fitzhugh, Deputy Chief Operating Officer
	Robert Diehl, Chief Information Systems Officer
	Thomas Montanye, Deputy Chief Information Systems Officer
	Chris Mannino, Computer Network Specialist II
	Lauren Smith, Internal Audit Contract Manager
	Richa Sultana, Internal Audit Manager
Clearview Group attendee was:	Jeffrey Binford, Principal

1. **Minutes of the April 19, 2022 Audit Committee Meeting – Open Session**
   On a motion made by Mr. Brandt and seconded by Mr. Craddock, the minutes of the April 19, 2022 Audit Committee meeting were approved.

2. **FY 2022 Audit Plan Status**
   Mr. Rongione mentioned that all internal and outsourced audits included in the FY22 audit plan are complete except for the Participating Employer audits. These audits are lagging due to the delay in the procurement process. He added by saying that a new contract is being finalized and work should commence within the next two weeks.

3. **Data Analytic / Continuous Audit Dashboard**
   Mr. Rongione reviewed the data analytics charts noting that the chart on page 8 of the agenda compares the number of exceptions per quarter for the respective audit. He mentioned that the DOB Verification for members is still producing the most exceptions and has been relatively consistent each quarter.

   He then directed the Audit Committee members to the chart that is included on page 9 of the agenda which provides a year-to-year comparison of the analytics performed. He mentioned that the far-right column of this chart shows the number of remaining open issues. He added by saying that for the DOB Verification for members, management has remediated 54 of the 69 exceptions identified during current fiscal year with 15 remaining open items that still need to be addressed. Mr. Norman inquired about the number of issues identified in the DOB Verification for members analysis asking whether the number of exceptions increased from 51 to 69 compared to last year. Mr. Rongione confirmed that Mr. Norman's understanding is accurate.

4. **FY 2022 Internal Audit Performance Report**
   Mr. Rongione reviewed page 10 of the agenda which showed the Internal Audit Division's (IAD) Performance Report for FY22 noting that IAD has met all its performance goals. He mentioned that a performance measure could not be generated for item #6 which compares the actual number of hours spent on audits against the budgeted hours. This is because the audit management software that IAD utilizes to record daily time is currently not able to generate a time report. Mr. Rongione said IAD is working with the audit management software's helpdesk to resolve the issue. He added by saying IAD recently received a file to complete an update which should resolve the issue with time reporting. He advised that a revised performance report will be sent to the Audit Committee members once the issue has been resolved.

5. **FY 2022 Time Report**
   Mr. Rongione mentioned that the time report that compares year-to-year data and calculates the percentage of administrative hours could not be completed due to the same reason as mentioned earlier regarding the performance report. He will send a revised report to the Audit Committee members once the update is installed.

6. **Open Issues Log**
   Mr. Rongione mentioned that the open issues log currently has 58 open issues. He added by saying that during the current fiscal year 52 new findings were added and 16 findings were closed. Majority of these findings are related to the Cybersecurity audit that was performed in FY22. Mr. Rongione mentioned that there is a Cybersecurity audit on the audit plan for FY23, and the open issues related to this audit will be tested during that time.

Mr. Brandt inquired about the open issues related to FY19. Mr. Rongione advised that IAD reaches out to management every quarter regarding the status of the open issues. If management informs the issues have been resolved and ready to be tested, IAD or the contracted vendor performs testing to ensure the issues are remediated properly and then remove them from the issues log accordingly. Mr. Brandt said it is unreasonable to have open issues related to the audits that were performed that far back. He believes that the communication between IAD and management should be improved in order to have the open issues resolved in a timely fashion.

Mr. Palmer added that the open issues related to the Investment Division are currently being worked on. Mr. Binford advised that there were seven to eight findings in 2019 related to Investment Division which have been reduced to four items. He added that the remaining open issues are repeat findings. He further provided that the Investment Division is currently working on a remediation plan which will assist in clearing the remaining repeat items. Mr. Palmer agreed and said Investment Division is enhancing the way certain things work in order to remediate the repeat findings. He also mentioned the process of putting the new procedures in place is taking longer than expected.

Mr. Brandt emphasized that any items older that two years should not remain in the open issues log. He further pointed out one open issue from FY09 related to eligibility service. Mr. Sandlass inquired whether this item can be resolved internally or whether this item requires a legislative change. Mr. Reott concurred stating that the issue will be solved by a COMAR regulation update. He added by saying that the update must go through the Administrative, Executive, and Legislative Review (AELR) process and the publication and comment period.

7. **Annual Risk Assessment**
   Mr. Rongione directed the Audit Committee to page 19 of the agenda that provides an overview of the annual risk assessment process which is utilized in establishing a risk-based internal audit plan. He mentioned that page 20 flows out the process of risk assessment. He added by saying the heat map at page 21 lists out the audits that were included in the FY23 audit plan based on the results of the risk assessment. He continued by saying page 21 includes a list of business processes that were considered as part of the risk assessment and the list goes through page 26. He mentioned that these processes were ranked on likelihood and impact making up the audit universe. The results of the likelihood and impact ratings then determined which audits have the most risk and should be included in the audit plan.

   Mr. Brandt inquired about what ABBYY stands for and how it was decided to include that in the audit plan. He also asked about the Cybersecurity audit since it was at the top of the heat map with the highest risk rating. Mr. Rongione explained that an outside contractor (RSM) performed a Cybersecurity audit last fiscal year which proved to be very beneficial for the Agency, and that a repeat audit is necessary. He continued the topic by explaining that ABBYY is a new scanning software application that scans various forms received by the Agency. This software has intelligent character recognition (ICR) feature which is

supposed to scan the forms, process the forms and then store them in MDS under the appropriate member/retiree's account. Mr. Rongione mentioned that the new and revised business processes are deemed high risk which is why ABBYY was included as part of the FY23 audit plan. As part of this audit, IAD will ensure ABBYY is reading the information on the incoming forms properly and updating into the database accurately.

Mr. Brandt further inquired about how the colors were assigned to the audits that were part of the risk assessment heat map. Mr. Rongione stated that the colors are assigned based on overall risk assessment scores. He emphasized that it is not only IAD who assigns scores to each business process. He further described the process by saying that questionnaires are disbursed to the Audit Committee and management. Management questionnaires list their related processes, and management is asked to rank those processes based on likelihood and impact. IAD then reviews the completed questionnaires and responses from Audit Committee and management. IAD will make necessary updates to the risk rankings based on past audit results and knowledge of the Agency's control environment. Then the business processes with the highest risk rankings are included in the audit plan. Mr. Rongione mentioned the entire process is a team approach.

8. **FY 2023 Audit Plan**
   Mr. Rongione directed the Audit Committee to the proposed FY23 audit plan that is included on page 27 of the agenda. He mentioned that this plan is based on the results of the annual risk assessment and available audit hours. He continued by saying there are five audits listed under Retirement Administration Audits which are revised business processes during the MPAS Plus project. He added by saying this section also includes the continuous audits which are expected to be expanded this year.

   He continued by saying the IT Audits will be a continuation of the same audits performed during the previous fiscal year. He added that the IT auditor resigned in June 2022, and there is currently an active recruitment. The accomplishment of these audits depends on staffing.

   Mr. Rongione then reviewed the list of co-sourced audits. He mentioned that the contractor will need to perform an Investment risk assessment first and then two investment audits will be selected based on the results of the risk assessment. The contractor will also be performing the Cybersecurity audit.

   Lastly there is the participating employer audits which is a mix of internal and external resources. Mr. Rongione completed reviewing the proposed FY23 audit plan mentioning that the remining items included in the list are miscellaneous items that come up during the year.

   Mr. Brandt asked whether the internal IT audits scheduled to be conducted in FY23 is dependent upon acquiring a new employee as he believes IT audits are important. He inquired whether the Agency can outsource any of these audits if the Agency cannot hire internally. Mr. Rongione advised the vendor will perform the SWIFT Assessment audit if

needed as it must be completed on an annual basis however, the other IT audits may be held up until IAD is able to hire an IT auditor. He added by saying the Cybersecurity audit is already being outsourced.

Mr. Norman suggested using auditors from DoIT. Mr. Rongione mentioned that the Agency's Information Systems Division previously utilized DoIT to perform penetration testing, but he does not believe they have the staffing to perform the Agency internal audits. Mr. Diehl concurred saying that the Agency has used DoIT to perform penetration testing. He also advised that DoIT does not have IT auditors to perform audits for various State agencies. Mr. Montanye added by saying DoIT has offered penetration testing and Cybersecurity resources for the Agency. Mr. Diehl and Mr. Montanye will look into utilizing the DoIT resources.

Mr. Brandt said the completion of the IT audits included in the audit plan should not be solely dependent on the ability to fill the position. Mr. Rongione advised that if it's necessary for resources to be shifted, it's possible to scratch audit(s) related to Retirement Administration in order to have the IT audits completed by the contracted vendor. He emphasized that IAD is actively searching for an IT auditor, and the position has now been posted for the second time as the original posting resulted no candidates. He continued by saying the open position that is posted on the State's website is closing on July 27, 2022. IAD will know of any suitable applicants by the end of the week.

Mr. Norman inquired about the job market for hiring an IT auditor. Mr. Rongione stated that CPA firms pay more than the State for IT auditor positions making it harder for the Agency to recruit. He continued by saying the OLA candidates turned down the offer due to raises they recently received in July 2022. He added that the legislative branch offers higher salaries than the executive branch. Mr. Binford chimed in stating that a compensation study was conducted for MDOT which stated that the State pays 23% less than private firms for various positions.

Mr. Norman agreed with the pay variance stating that this is the reason the Investment Division left the general funds group and is now financed through the Trust Fund.

Mr. Howard agreed and stated it should be of great priority to obtain proper recruitment without cutting cost. Mr. Haines added that we have a budget of $40mill but we are currently at only $27mill.

On a motion made by Mr. Brandt and seconded by Mr. Craddock, FY23 audit plan was approved.

9. **Completed Audits**
Mr. Rongione directed the Audit Committee to the IT General Controls Audit report that is included on page 28 of the agenda. He mentioned the IT General Controls Audit was a Green report, meaning a satisfactory or acceptable level of control or compliance. The scope of the audit included general security, database security, and server security controls during FY22. No issues were identified during the audit.

Mr. Rongione reviewed the IT Security Testing Audit report included on page 36 of the agenda stating that it was a Yellow report, meaning improvement is needed. The scope of the audit included IT security controls such as Cyber Security Awareness Training, Sanitization/ Destruction of Computer Equipment, Program Change Controls, Backups of critical Agency infrastructure, Anti-Virus/Malware, Logs & Alerts Monitoring, Updating & Patching, and Unused Active Accounts during FY22. The audit identified four issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan.

Mr. Rongione continued by reviewing the audit report for the Cash Receipts Audit included on page 47 of the agenda. He mentioned that the Cash Receipts Audit report was a Green report, meaning a satisfactory or acceptable level of control or compliance. The scope of the audit included the process of receiving physical checks during the period of March 2020 to November 2021 and the newly implemented process of receiving member contributions through the Employer Portal. The audit identified six issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan.

Mr. Brandt inquired about the Cash Receipts Audit stating that most payments are probably made via ACH (electronic fund transfers). Mr. Rongione stated that a significant amount of payments is made via checks and asked Ms. Sultana to confirm. Ms. Sultana agreed by saying the Agency receives a very high volume of checks, especially for the administrative fees. Mr. Brandt stated the volume of checks may be high, but the amounts may not be. Mr. Rongione requested Ms. Sultana to look up some payments related to the Cash Receipts Audit which will show the check amounts. Ms. Sultana shared her screen using the Microsoft Teams software to show a work paper that showed a listing of checks received by the Agency. She mentioned that the work paper shows a list of randomly selected 25 checks, and there are several checks that are over $1 million. She added by saying all of the high dollar amount checks are related to the administrative fees that are charged by the Agency to various PGU's and State agencies.

Mr. Sandlass inquired whether the Agency is lacking any mechanism to receive the payments electronically or is it a choice made by the PGU's and State agencies. Mr. Rongione asked Ms. Fitzhugh to comment on that question. Ms. Fitzhugh confirmed that the Agency does not lack any mechanism, and it is the local employer's choice to make payments via checks. She believes the process might change with the expansion of the newly implemented Employer Portal.

Mr. Rongione reviewed the Investment Operations - Accounting Audit included on page 62 of the agenda stating that it was a Yellow report, meaning improvement is needed. The scope period was December 1, 2020 through December 31, 2021 and included:

- Adequacy of the accounting and administration policies and procedures;

- Design and operating effectiveness of the controls related to Investment Operations accounting and administration functions; and
- Reporting specifically carried interest, investment reports, and compliance monitoring are being verified and reviewed by the CIO and made available to the Board.

The audit identified four issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan. He added that this audit was performed by BD&Co who are available in the meeting to answer any questions.

10. Other Business
The next Audit Committee meeting is on November 10, 2022. Mr. Norman mentioned that the committee expects to have some of the open issues remediated by then.

Mr. Brandt commented on IAD's performance report regarding the staff audit experience. He mentioned that currently the average experience is 16 years. He believes that having stability is great; however, it might be beneficial to have some staff right out of college who have great knowledge of information technology. Mr. Rongione answered by saying IAD only has a chief and two manager level positions. IAD currently does not have any staff positions and the managers don't have employees to supervise. He added by saying since it is a relatively small team, he prefers having employees with significant audit experience so they can work independently and require less supervision. Mr. Brandt agreed by saying that it is understandable since there is not much of a pyramid within the division.

11. Motion by the Audit Committee to meet in Closed Session
Mr. Norman inquired about the reason for meeting in closed session. Ms. Cohen answered by saying that the closed session is required to approve the April 19, 2022 meeting minutes for the closed session. On a motion made by Mr. Brandt and seconded by Mr. Haines, the closed session convened.

12. Minutes of the April 19, 2022 Audit Committee Meeting – Closed Session
On a motion made by Mr. Brandt and seconded by Mr. Howard, the minutes of the April 19, 2022 Audit Committee meeting – closed session were approved.

13. Motion by the Audit Committee to adjourn Closed Session
On a motion made by Mr. Brandt and seconded by Mr. Haines, the closed session was adjourned.

14. Motion by the Audit Committee to adjourn meeting
On a motion made by Mr. Haines and seconded by Mr. Howard, the meeting adjourned at 11:59 p.m.

Respectfully submitted,

David Rongione

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David Rongione, Secretary