

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

**MINUTES OF THE MEETING OF APRIL 17, 2018**

The Audit Committee met on Tuesday April 17, 2018 at 10:58 a.m., in the Board Room of the Maryland State Retirement Agency at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: Richard E. Norman, Chairman  
F. Patrick Hughes (by phone)  
Theresa Lochte

MSRA attendees were: R. Dean Kenderdine, Executive Director  
David Rongione, Chief Internal Auditor  
Harvey Raitzyk, Retirement Administrator  
Kim O'Keefe, Deputy Retirement Administrator  
Ken Reott, Deputy Retirement Administrator  
Rachel Cohen, Principal Counsel  
Melody Countess, Chief Operating Officer  
Andrew Palmer, Chief Investment Officer  
Patricia Wild, Managing Dir. Investment Admin. & Accounting  
Ira Greenstein, Chief Information Systems Officer  
Toni Voglino, Investments Compliance Officer  
Brian Feilinger, Internal Audit Contract Manager  
Lauren Smith, Internal Audit Supervisor  
Richa Sultana, Internal Auditor

BD & Company representatives were: Scott Freinberg, Director  
Jeff Binford, Senior Manager

**A. Minutes of the January 16, 2018 Audit Committee Meeting**

On a motion made by Ms. Lochte, and seconded by Mr. Hughes, the minutes of the January 16, 2018 Audit Committee meeting were ratified.

**B. Private Equity Operational Audit Results**

Scott Freinberg and Jeff Binford, of BD & Company, presented the results of their Private Equity Operational Audit.

Mr. Binford told the Committee that processes reviewed included general partner selection and due diligence; management fees; capital calls; reporting; contracting; compliance; valuation; and reconciliation. The audit's scope included assessments of the adequacy of: policies, procedures, and practices; design and adequacy of controls; adequacy and effectiveness of management;

oversight over third-party providers; and reporting.

The audit identified no reportable deficiencies. A minor deficiency related to documentation for initial due diligence was noted. Mr. Binford told the Committee that current documentation requirements were not in place at the time the related investments were entered into. However, there was documentation showing that the investments were properly authorized. Therefore, this item was not included in the report.

The audit report identified specific risks and controls. Mr. Binford noted that all risks were rated “green”, indicating that there was a satisfactory state of control to address them. In response to a question from Mr. Hughes, Mr. Binford confirmed that due diligence was up to policy standards. BD & Company’s review identified no exceptions to investment procedures.

### **C. Investments Risk Assessment**

Mr. Binford presented the results of BD & Company’s Investment Risk Assessment. The overall objective was to evaluate the operational risks associated with investment asset classes and processes, for the purpose of identifying and prioritizing future investment audits. The results of the review was a prioritized listing of process-based investment audits.

Mr. Binford described the risk assessment process. He interviewed Investment Division management, as well managers for each investment class, to obtain their input for each pertinent risk area identified. Based on the interviews, processes were scored, based on their potential impact, and the likelihood of inherent risks. As a result, future investment audits were identified, by priority: (1) Management & Incentive Fees; (2) Portfolio Management and Ongoing Due Diligence; (3) Valuation and Performance; (4) Compliance; (5) Partnership/Fund Manager Selection; (6) Investment Operations, Accounting, and Administration; (7) Contractual Risk; and (8) Management Reporting.

### **D. Status of Audit Plan**

Mr. Rongione provided the Committee with a status update for the FY 2018 audit plan.

For full-scope audits, the Buy Backs Audit is currently in the reporting phase. Fieldwork is in process for the Disability Claims Audit.

For outsourced audits, a future audit of Investment Management and Incentive Fees is in the process of being scheduled.

There are 71 audits of participating employers to be completed in FY 2018. Of these, 20 % have been completed, 31 % are complete, pending management responses, 48% are currently in progress, and the remaining 1% have not started. All are expected to be completed by the end of FY 2018.

#### **E. Status of Open Issues Log**

Mr. Rongione provided a listing of open audit issues. He told the Committee that Internal Audit has been working with Agency management to resolve these. Most of the issues are expected to be remediated by the next Audit Committee meeting.

Ms. Lochte inquired about the status of the issue regarding multiple payments to a single bank account. Mr. Rongione responded that he met with an affected retiree and her credit union to investigate the issue. He found that the credit union was netting loan payments against the recorded check deposit, making it appear that their full benefit payment was not received. After analysis, it appears that the retiree is receiving their proper benefit.

#### **F. Office of Legislative Audits Discussion Notes**

The Committee received discussion notes for the Office of Legislative Audits' recent fiscal compliance audit of the Agency. Mr. Rongione told the Committee that findings were of two categories: (1) fiscal compliance, and (2) information systems. All but one of the fiscal compliance findings will be included in the final audit report. Only one of the information systems findings will be included.

#### **G. Audit Committee Self Evaluation Results**

The Committee received the results of their self-evaluation surveys. Mr. Rongione noted that overall, ratings were satisfactory, or above. There were four areas that had at least one response indicating "adequate, but needs improvement". These included the need for additional Audit Committee members, and a better understanding of financial statement reporting risks and the risk for material misstatements. Internal Audit will work with the Committee to address these concerns.

#### **H. Internal Audit Performance Survey Results**

The Committee received the results of a survey of their evaluation of the Internal Audit Division. Mr. Rongione noted that all responses were "satisfactory", or above. Internal Audit will use the feedback for further improvement.

Mr. Norman inquired about the training of Internal Audit staff. Mr. Rongione responded that all staff meet, or exceed, their minimum requirements of 20 to 40 hours of continuing education, per year.

#### **I. Annual Agency-Wide Risk Assessment**

Mr. Rongione told the Committee that Internal Audit will soon begin the annual Agency-wide risk assessment. Surveys will be sent to Audit Committee members, the Executive Director, and Agency senior staff and managers. From their responses, Internal Audit will evaluate process risks for their likelihood of occurrence, and potential impact. The FY 2019 audit plan will be based on the risk assessment results.

**J. Internal Audit – External Quality Assurance Review**

Mr. Rongione told the Committee that Internal Audit is currently undergoing an external quality assurance review, which is being performed by CliftonLarsonAllen. This review is required by auditing standards. The results are expected to be reported by the end of June.

**K. Audit Committee Charter**

The Committee received proposed changes to the Audit Committee Charter, which were previously discussed at their January 16, 2018 meeting. On a motion by Mr. Hughes, seconded by Ms. Lochte, the Committee voted to approve the changes.

**L. Completed Audits**

Mr. Rongione presented the results for the Manual Check Processing audit. He noted that it received an overall rating of “Green”, indicating that there was an acceptable level of control and compliance.

**M. Other Business**

The next Audit Committee meeting will be held on July 17, 2018.

**N. Motion to Adjourn**

On a motion by Ms. Lochte, and seconded by Mr. Hughes, the Committee adjourned the meeting at 11:30 a.m.

Respectfully submitted,

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David Rongione, Secretary