

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

**MINUTES OF THE MEETING OF NOVEMBER 13, 2020**

The Audit Committee convened on Friday November 13, 2020 at 11:00 a.m. via video conference call with the host site at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: David B. Hamilton, Chairman  
Richard E. Norman, Vice-Chairman  
Thomas M. Brandt

MSRA attendees were: R. Dean Kenderdine, Executive Director  
David Rongione, Chief Internal Auditor  
Rachel Cohen, Principal Counsel  
Kathleen E. Wherthey, Deputy Counsel  
Andrew Palmer, Chief Investment Officer  
Robert Burd, Deputy Chief Investment Officer  
Toni Voglino, Senior Compliance Officer  
Charles Lee, Director of Investment Accounting  
Melody Countess, Chief Operating Officer  
Patricia Fitzhugh, Deputy Chief Operating Officer  
Kenneth Reott, Director of Benefits Administration  
Kimberly O’Keeffe, Deputy Retirement Administrator  
Ira Greenstein, Chief Information Systems Officer  
Robert Diehl, Deputy Chief Information Systems Officer  
Joe Puller, Director of Network Operations & Telecommunications  
Scott Bolander, Computer Network Specialist II  
Lauren Smith, Internal Audit Contract Manager  
Gregory Busch, IT Audit Manager  
Richa Sultana, Internal Audit Manager

CLA attendees were: Thomas Rey, Principal  
Jim Piotrowski, Engagement Manager  
Stephen Maranto, Engagement Senior

**A. Minutes of the July 21, 2020 Audit Committee Meeting**

On a motion made by Mr. Norman and seconded by Mr. Brandt, the minutes of the July 21, 2020 Audit Committee meeting were ratified.

**B. Presentation of FY2020 Financial Statement Audit Results by CliftonLarsonAllen**

Mr. Rey from CliftonLarsonAllen (CLA) introduced himself and his firm noting that their office is based in Baltimore, MD although they work with many other State and Local Retirement Agencies throughout the country. He mentioned that the terms of their engagement included expressing an opinion on whether the financial statements are presented in accordance with GAAP. The scope of the audit also included reporting on internal control and compliance with laws, regulations, contracts and grants although no opinions are issued on these subject matters. Mr. Rey said the audit is not completed yet and his team is currently working on the draft financial statements. He expects no material adjustments to the final version of the financial statements and anticipates to issue an unmodified opinion.

Mr. Rey then turned it over to Mr. Piotrowski to present the results of the audit summary and the draft financial statements to the Audit Committee. Mr. Piotrowski introduced himself mentioning that he has significant experience with auditing State and Local Governments and their retirement and pension plans. He reviewed the timeline of the audit noting that the engagement was accepted in September 2020 when introductory meetings were held and audit timeline was discussed with management. Mr. Piotrowski also mentioned that they performed their risk assessment, internal control evaluation and testing, and fraud inquiries during the same time period. During September, October and November 2020, Mr. Piotrowski and his team performed substantive testing including sending out confirmations to third parties. Mr. Piotrowski said they sent out confirmations to the Investment managers as well as to the members regarding contribution amounts. He said that the audit is now in the process of being wrapped up and they have provided their final comments to management. Mr. Rey mentioned that this year was their first year performing this audit. He noted that going forward, the preliminary work of the audit will be performed prior to year end and the audit timeline will look different on a go forward basis.

Mr. Piotrowski reviewed the results of their key risk assertions which was assessed from a Balance Sheet and Income Statements perspective. He noted that there were four assertions with “red” tick marks that are considered to be significant risks. The first one was the management override of controls. Mr. Piotrowski mentioned that all audits will have this risk. The second one was improper revenue recognition due to not recording them in the proper period. The third one was valuation of investments and investment income. Mr. Piotrowski noted that they sent out confirmation to fund managers and third parties to gain comfort over these valuation numbers. The fourth one was the valuation of net pension liability. He said that a 3rd party actuary was involved by CLA regarding this process. Then Mr. Piotrowski presented the executive summary noting that CLA anticipates to issue an unmodified opinion meaning that the financial statements are presented in accordance with GAAP. He also said that limited procedures were performed on CAFR to ensure it was fairly stated. He noted that no specific opinions will be issued on these CAFR components. He also noted that no material noncompliance was noted in terms of laws, regulations, contracts and grants.

Mr. Piotrowski then reviewed the footnote disclosure items including net position, net investment income, benefits and refunds, and discount rate. Mr. Piotrowski mentioned that

the annual money-weighted rate of return is noted as 3.56% in the presentation which will be updated to 3.50% in the final report.

Mr. Hamilton thanked CLA for their presentation and asked if anybody has any questions for Mr. Piotrowski. Mr. Brandt said he would like to learn more about the process of determining materiality because the numbers seem very high. He is concerned if errors happen under the material amounts determined by CLA, it might go undetected. Mr. Hamilton asked whether it's a discussion to be held outside of the Audit Committee meeting and Mr. Brandt agreed.

Mr. Norman noted that the net position represents 70.7% of total pension liability which he believes, is an increase compared to prior years. He said it may mean the Agency is moving towards being fully funded and he will review the prior year reports to compare against current year to confirm.

Mr. Rey mentioned that they received the current version of the financial statements from management yesterday which is currently under review by his team. In addition, CLA's national office is performing a quality control review as well. He also mentioned that since this is their first year of opining on the Agency's financial statements, if the Audit Committee has any suggestions or comments, they will be open to incorporate them into the final version of the financial statements.

On a motion made by Mr. Norman and seconded by Mr. Brandt, the FY2020 draft financial statements were accepted.

### **C. Presentation of FY2020 Results of Participating Employer Audits by CliftonLarsonAllen**

Mr. Rey mentioned that unlike the financial statements audit, CLA has been performing the Participating Governmental Unit (PGU) audits for many years. He noted that this engagement is an Agreed Upon Procedures which involves reviewing the PGUs on a three years rotating cycle. He said that every year approximately 50 employers are included in their review. Mr. Rey then turned it over to Mr. Maranto to briefly provide a high level summary of the results.

Mr. Maranto noted that there were seven objectives included in their review where #7 was newly added during current year (mid-year) and approximately half of the employers were subject to this testing. He also mentioned that objective #6 is related to any new PGUs which was not applicable for current year's review since there were no new PGUs added.

Mr. Maranto then provided the findings summary by each objective as noted below:

***Objective #1:*** 9 of 65 employers failed to enroll eligible employees out of which 4 employers had similar findings in both current and prior audits.

***Objective #2:*** 1 of 65 employers enrolled an ineligible employee. The employee was full time however, the person held a contractual position therefore not eligible to enroll.

**Objective #3:** 27 of 65 employers had misreported payroll data out of which 16 employers had similar findings in both current and prior audits. This objective has a high volume of repeat findings. Mr. Norman mentioned that it appears that Prince George's and Baltimore City had the majority of the repeat findings. He said it might be beneficial to include these repeat offenders more often rather than including them in the review every three years. Mr. Maranto said he will review the repeat offenders in detail later in the presentation.

**Objective #4:** 4 of 51 employers had incorrect employee or salary information included in their annual billing report of which 1 employer had similar findings in both current and prior audits.

**Objective #5:** 19 of 65 employers had misreported unused sick leave balances of which 8 employers had similar findings in both current and prior audits. In most cases, the employers did not provide the corrective documentations to MSRA.

**Objective #6:** N/A

**Objective #7:** 19 of 32 employers had incomplete and/or misreported wage file data. Instances were noted where wages were underreported by excluding the contractual employees and reporting net of pretax withholdings wages instead of gross wages.

Mr. Maranto also reviewed the status of the management responses noting that 10 employers did not provide any response on corrective actions. Mr. Maranto and his team are following up with employees of these 10 PGUs to gather response and they are aiming to receive them by the end of November 2020.

Mr. Hamilton wanted to review the section of the presentation that had the detail regarding the PGUs with repeat findings. Mr. Norman suggested that these employers should be reviewed more often and he wanted to discuss what the Agency can do to improve the current situation. Mr. Hamilton said he had a discussion with Mr. Kenderdine on the PGUs with repeat findings. He wanted to discuss further about establishing a threshold, the magnitude of the issue, what it means in terms of dollars and the Agency's responsibility in remediating these issues. Mr. Norman added by saying that Mr. Kenderdine was meeting with a lot of the PGUs regarding this matter therefore, a lot of time, effort and money have been involved in this.

Mr. Kenderdine mentioned that he issues letters to the Chief Executives of the PGUs after completion of CLA's review. He added by saying that the time period between issuing the letters and the next year's review, the Agency works with the PGUs to help them in complying with the requirements. Mr. Hamilton suggested that the Agency comes up with the top 10 PGUs that have repeat findings, materiality of those noncompliance and then determine recommendations in remediating this issue. Mr. Hamilton mentioned that in private industry, if the requirements are not complied with, proactive approach is taken to ensure proper compliance and the Agency should do the same. Mr. Norman added by

saying that in his experience with the State police, funding was withheld in instances of noncompliance.

Mr. Hamilton mentioned a separate issue regarding unpaid invoices from PGUs. He said the total amount of unpaid balance is significant. He suggested to prepare a list employers with highest unpaid balances, prepare a report and then present it to the Board. He asked Mr. Rongione whether a report can be prepared within 30/45 days including the names of the PGUs that have repeat findings and unpaid balances. Mr. Rongione answered by saying that it is doable without any issues.

Mr. Kenderdine elaborated on the unpaid invoices by saying that many State and Local employers failed to enroll new employees in the system in a timely fashion. The Agency sought legislative authority and decided to charge \$100 per person per year if employees are not enrolled in a timely fashion. A number of PGUs did not pay this amount charged by the Agency which contributed to this high unpaid balance. He mentioned that he worked with the Deputy Secretary of the budget department to resolve this matter.

Mr. Hamilton suggested that the Audit group works with CLA to identify the PGUs with repeat findings and PGUs with unpaid invoices to be presented to the Board. Mr. Norman and Mr. Brandt agreed with this approach. Mr. Hamilton also asked Mr. Kenderdine to distribute the report on unpaid invoices to Mr. Norman and Mr. Brandt.

#### **D. CY 2021 Audit Committee Meeting Dates**

On a motion by Mr. Hamilton and seconded by Mr. Brandt, the Committee moved to approve the following audit committee meeting dates:

- January 19, 2021
- April 20, 2021
- July 20, 2021
- November 9, 2021

#### **E. Proposed Revisions to the Charter for the Audit Committee**

Mr. Kenderdine mentioned that the governance charters of the System has been in place since 2003 and reviewed every three years. He noted that changes were made to the Charter to include ethics reporting within the investment division. He added by saying this will include routine reporting and reviews from Chief Investment Officer from an ethical standards.

Mr. Rongione reviewed the three changes made to the Charter back in 2018 including removing the phrase “including scope and objectives of audits, and the allocation of resources”; replacing “approve all” with “review the appointment of all” external audit, attestation and other audit services; and removing a specific reference to “human resource” policies.

On a motion by Mr. Norman and seconded by Mr. Brandt, the Committee moved to approve proposed revisions to the charter.

**F. Status of FY2021 Audit Plan**

Mr. Rongione reviewed the status of the FY2021 audit plan noting that the planning phase of the FY2020 Q3 & Q4 Full Network Security audit has been completed and the fieldwork is in progress. For the continuous audits, Mr. Rongione mentioned that Internal Audit has preliminary identified 13 audits and the automated script writing is currently in progress. He mentioned that this year Internal Audit is performing eight PGU audits internally and the planning phase of these audits have been completed for all and three audits are currently at the fieldwork stage. Mr. Rongione then reviewed the status of the outsourced audits noting that planning phase is completed for one of four audits and the fieldwork of that audit is currently in progress. Three of four outsourced audits have not yet been started.

**G. Status of Open Issues Log**

Mr. Rongione presented the listing of open issues noting that Internal Audit was able to close out five issues and added five new issues due to completion of two audits.

**H. Completed Audits**

Mr. Rongione reviewed the results of the two completed audits with the Audit Committee.

**I. Other Business**

Next Audit Committee meeting will be held on January 19, 2021

**J. Motion to Adjourn**

On a motion by Mr. Norman and seconded by Mr. Brandt, the Committee approved to adjourn the meeting at 11:57 a.m.

Respectfully submitted,

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David Rongione, Secretary