

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

**MINUTES OF THE MEETING OF August 16, 2016**

The Audit Committee met on Tuesday, August 16, 2016 at 12:15 p.m., in Conference Room 1654 of the Maryland State Retirement Agency at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: James A. Bush, Jr., Chairman  
James "Chip" DiPaula  
David B. Hamilton  
F. Patrick Hughes  
Theresa Lochte  
Richard E. Norman

MSRA attendees were: R. Dean Kenderdine, Executive Director  
David Rongione, Chief Internal Auditor  
Margaret Bury, Retirement Administrator  
Harvey Raitzyk, Deputy Retirement Administrator  
Rachel Cohen, Principal Counsel  
Melody Countess, Chief Operating Officer  
Michelle Lowery, Deputy Chief Operating Officer  
Patricia Wild, Managing Dir. Investment Admin. & Accounting  
Michael Golden, Director of External Affairs  
Brian Feilinger, Internal Audit Contract Manager  
Lauren Smith, Internal Audit Supervisor  
Delores White-Rose, Internal Auditor

CliftonLarsonAllen attendee was Stephen Maranto, Senior Associate

**A. Minutes of the June 21, 2016 Audit Committee Meeting**

On a motion made by Mr. Hamilton, and seconded by Mr. DiPaula, the minutes of the June 21, 2016 Audit Committee meeting were approved.

**B. Contractual Audits Update**

Mr. Rongione informed the Committee that the Credit/Debt Strategy Investments audit is wrapping up its fieldwork phase. A report is expected to be issued prior to the November Audit Committee meeting.

Mr. Rongione told the Committee that Internal Audit is working on an RFP seeking an outside firm to audit the processes associated with the System's private equity investments.

The Committee received the results of participating employer audits that were completed by CliftonLarsonAllen during FY 2016. Mr. Feilinger told the Committee that this is the seventh year that CliftonLarsonAllen has performed employer audits on behalf of the Agency. This year, there was a change in the selection of employers audited. Audits of small employers without significant prior findings were deferred, and replaced with University of Maryland and withdrawn employers. During FY 2016, 59 employer audits were performed.

Mr. Feilinger provided an overview of the audit's objectives, as well as the percentage of employers with findings for each objective, and their typical causes. He noted that there has been a steady decline in the number of findings related to the "sick leave reporting" objective over the years, and believes that this is attributable to Retirement Administration's efforts in this area.

Mr. DiPaula voiced concerns regarding the high percentages of employers that are not in compliance. Mr. Maranto discussed his analysis of the audited employers with repeat findings for misreporting payroll data. He noted that the overall number of affected individuals have decreased, when compared with the employers' previous audits. The Committee discussed possible solutions to help ensure compliance, including assessing penalties, or fees, on non-compliant employers, and one-on-one meetings with employers. Mr. Hughes suggested that the Administrative Committee should consider the issue, including possible legislation. Mr. Kenderdine agreed.

Ms. Bury informed the Committee that she now has a staff member that is dedicated to addressing audit findings with employers. They have already worked on resolving 24 of the audits. She added that other staff is working on webinar training for employers to help address common issues.

### **C. Internal Quality Assurance Results**

Mr. Rongione discussed the results of quality assurance work performed by Internal Audit staff during CY 2015. There are two types of quality assurance work performed – reviews of individual audits performed by Internal Audit staff and outside contractors, and a review of Internal Audit's compliance with general professional standards. He noted that no reviews of individual audits were completed during CY 2015, due to a lack of staffing. A general standards review was performed, and there were no significant recommendations.

Mr. Bush requested additional information on Internal Audit Division staffing. Mr. Rongione responded that there is currently a staff of four, including one staff auditor that was added during the past year. There was one vacant position, which has since been lost. Mr. Kenderdine told the Committee that the position was lost as part of across-the-board reductions that were required of the Agency. Mr. Rongione informed the Committee that he would like to hire an investment auditor to perform audits that are currently contracted to outside vendors.

### **D. FY 2016 Internal Audit Division Time Report**

Mr. Rongione provided the Committee with a comparison of hours spent by Internal Audit staff for FY 2016 to those in FY 2015. The comparison detailed the number of audit, administrative, and State-benefit hours. He noted that the administrative hours accounted for less than 20% of the total.

Mr. Rongione questioned the value of the report to the Committee. He noted that Internal Audit is the only division in the Agency required to track their time. After discussion, Mr. Bush suggested that Mr. Rongione propose changes to the current practice at a future meeting.

**E. FY 2016 Internal Audit Division Performance Report**

Mr. Rongione provided the Committee with the Internal Audit Division Performance Report for FY 2016. He noted that all performance goals were met with the exception of “Percentage of Annual Audit Plan” (completed). Only 96% of the audit plan was completed. The uncompleted portion is solely attributable to delays in the Credit/Debt Strategies audit, which is outsourced to an outside contractor.

**F. FY 2017 Audit Plan Status**

Mr. Rongione provided the Committee with a status update for the FY 2017 audit plan. Staff is currently performing an audit of network and server maintenance. Staff is also gathering preliminary information on an upcoming power-of-attorney audit.

**G. Open Issues Log**

The Committee received a listing of open audit issues. Mr. Rongione advised the Committee that progress is being made. He noted that ten open audit issues were closed in FY 2017, and that nine open issues were added, due to recently completed audits. Most issues are expected to be resolved in September, followed by a few in November and December. He indicated that some of these require legislation/regulations, or computer programming changes.

**H. Internal Audit Charter**

Mr. Rongione informed the Committee that they are required to review and approve the Internal Audit Charter once every three years. He recommended one change to the Charter. Section V of the charter should be changed to indicate that the Charter is to be approved by the Audit Committee. This is consistent with what the Audit Committee’s Charter requires. The Internal Audit Charter’s current version states that it is to be approved by the Board of Trustees.

On a motion by Mr. Hamilton, seconded by Mr. Hughes, the Committee approved the Internal Audit Charter with the recommended change.

**I. Completed Audits**

Mr. Rongione summarized the results of recently completed audits of Disaster Recovery and Cash Flow Management, describing the objectives and findings. He noted that the Disaster Recovery audit had an overall rating of “green”, and

Cash Flow Management was rated “yellow”. Management has agreed to implement corrective actions to address problems identified in the Disaster Recovery audit. The Committee discussed backup sites and the potential use of “the cloud”.

Mr. Kenderdine told the Committee that a workgroup consisting of individuals from the Finance and Investment Divisions has been established to address findings identified in the Cash Flow Management audit. They will also review bank data over the past 16 months to identify instances where there was idle cash.

**J. Proposed Audit Committee Meeting Dates**

The Board of Trustees approved all Committee dates during the August 16<sup>th</sup> meeting, and the Audit Committee did not voice concerns for the following meeting dates in CY 2017:

- February 21, 2017;
- May 16, 2017;
- July 18, 2017; and
- November 14, 2017.

**K. Other Business**

There was no other business discussed. On a motion by Mr. Hughes, the meeting was adjourned at 1:15 p.m.

Respectfully submitted,

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David Rongione, Secretary