

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

MINUTES OF THE MEETING OF July 18, 2017

The Audit Committee met on Tuesday, July 18, 2017 at 2:20 p.m., in the Board Room of the Maryland State Retirement Agency at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: James A. Bush, Jr., Chairman
F. Patrick Hughes
Theresa Lochte
Richard E. Norman

MSRA attendees were: David Rongione, Chief Internal Auditor
R. Dean Kenderdine, Executive Director
Harvey Raitzyk, Retirement Administrator
Ken Reott, Deputy Retirement Administrator
Rachel Cohen, Principal Counsel
Kathleen Wherthey, Deputy Counsel
Ira Greenstein, Chief Information System Officer
Angie Jenkins, Executive Assistant
Brian Feilinger, Internal Audit Contract Manager
Lauren Smith, Internal Audit Supervisor

A. Minutes of the May 16, 2017 Audit Committee Meeting

On a motion made by Mr. Norman, and seconded by Mr. Hughes, the minutes of the May 16, 2017 Audit Committee meeting were ratified.

B. Contractual Audits Update

Mr. Rongione provided an update on the status of contractual audits. He noted that the contractual operational audits of investments are moving forward. This will start with a risk assessment of operational investment activities, followed by an audit of private equity activities. This will be followed by another investment audit, as determined by the risk assessment, later in the year.

C. Staffing Update

Mr. Rongione informed the Committee that internal auditor Delores White Rose left the agency in July. The process to recruit her replacement has begun. It is currently pending approval by the Department of Budget and Management.

D. Status of FY 2017 Audit Plan

Mr. Rongione provided the Committee with a status update for the FY 2017 audit

plan. One item on the FY 2017 audit plan, the System Transfer Processing audit, is currently in progress. It is approximately 90% complete, and its report will be issued prior to the next Audit Committee meeting. The outsourced audit of Private Equity Investments was delayed due to the State's procurement process.

E. Status of Open Issues Log

Mr. Rongione reviewed all open audit issues.

- Issues related to the EFT audit are pending testing, which is expected to occur within the next three months.
- Retirement Administration is in the process of reviewing and updating procedures cited in the Power of Attorney audit.
- For the Network and Server Maintenance audit, Internal Audit recently tested user access rights, and found that the finding had not been fully remediated. This will be retested at a later date.
- For the Eligibility Service audit, the finding cited should be remediated through Retirement Administration's current review of regulations.
- For the Security Patching audit, there was one unsupported operating system. Mr. Greenstein told the Committee that this was replaced on July 12th.
- For the Absolute Return audit, testing of compliance questionnaires is pending the Compliance Officer's return from leave.

F. FY 2017 Internal Audit Performance Report

Mr. Rongione provided the Committee with the Internal Audit Division Performance Report for FY 2017. He noted that 80% of the audit plan was completed, which is short of the 100% goal. This was due to delays associated with the training of new staff, and additional procedures that were required for the EFT Application Processing audit. Additionally, total actual audit hours for the year were 125% of total budgeted hours for the same reasons.

G. FY 2018 Audit Plan

Mr. Rongione reviewed the FY 2018 audit plan. It is based on the annual risk assessment, which considers the inherent and residual risks for each process. The number of available audit hours are also considered. The audit plan assumes that the vacant auditor position will be filled in October. Hiring delays could affect the full implementation of the audit plan, or require it to be revised.

On a motion by Mr. Norman, seconded by Mr. Hughes the Committee approved the FY 2018 audit plan.

H. Update on EFT Audit

Mr. Rongione provided an update on the EFT audit that was previously discussed by the Committee at their May 16, 2017 meeting. Since then, the Agency has cancelled EFT's for the accounts in question, and issued paper checks. This will continue until the affected members submit new EFT forms. The Agency has also implemented programming changes to prevent the problem from recurring. Internal Audit has notified the National Credit Union Administration, which will

investigate further.

I. Completed Audits

Mr. Rongione discussed the Payroll Data and Contributions audit, which was issued on July 14, 2017. He noted that the Agency had recently implemented a new employer data and payroll reporting system (EDPR). There were no significant findings reported. The audit identified a few minor issues that were verbally discussed with management.

J. Other Business

The next Audit Committee meeting is scheduled for Tuesday, November 14, 2017.

On a motion by Mr. Hughes, seconded by Mr. Norman, the Committee adjourned the meeting at 2:30 p.m.

Respectfully submitted,



David Rongione, Secretary