

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

MINUTES OF THE MEETING OF November 14, 2017

The Audit Committee met on Tuesday November 14, 2017 at 9:32 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
David B. Hamilton (by phone)
Sheila Hill (by phone)
F. Patrick Hughes
Theresa Lochte (by phone)

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
Michelle Lowery, Deputy Chief Operating Officer
Patricia Wild, Managing Dir. Investment Admin. & Accounting
Brian Feilinger, Internal Audit Contract Manager
Lauren Smith, Internal Audit Supervisor
Richa Sultana, Internal Auditor

SB & Company attendees were: Graylin Smith, Client Service Partner
William Seymour, Engagement Partner
Tiana Wynn, Senior Manager

The CliftonLarsonAllen attendee was Thomas Rey, Engagement Partner.

A. Minutes of the July 18, 2017 Audit Committee Meeting

On a motion made by Mr. Hughes, and seconded by Ms. Lochte, the minutes of the July 18, 2107 Audit Committee meeting were ratified.

B. Presentation of FY 2017 MSRPS Financial Statement Audit Results by SB & Company

Mr. William Seymour presented the Committee with the FY 2017 financial statement audit results. The scope of services provided included auditing the financial statements, as well as the Schedule of Contribution and Pension Amounts, required by GASB 68. He informed the Committee that both of these

will receive an unmodified opinion. The audit noted no instances of fraud, or material weaknesses in internal control. He stated that SB & Company had an open relationship with management, and received their full cooperation.

Mr. Seymour noted that for FY 2017, cash and investments increased. The level of funding also increased.

Mr. Seymour generally described how investments were categorized for purposes of valuation. About half are considered to be level 1 investments, which had values that were readily determinable. Others are Level 2 and Level 3 investments. Level 2 investments, such as fund-of-funds, have some observable inputs. Level 3 investments do not have observable inputs, and have a greater valuation risk.

Mr. Seymour told the Committee that the audit reviewed the actuarial assumptions used to determine pension liabilities. The auditors looked at the assumptions and tested their related data. No issues were noted.

Mr. Seymour told the Committee that there were no significant items to be disclosed in the Required Communications section, and that there were no significant audit adjustments.

Mr. Kenderdine thanked SB & Company for their support and assistance with GASB 67 & 68 implementation. He noted that they were especially helpful in dealing with the System's participating employers for GASB 67 and 68.

Mr. Hughes asked how pension liabilities were allocated to participating employers. Mr. Smith responded that SB & Co. prepares a separate report that identifies each employer's liability.

C. Acceptance of the FY 2017 MSRPS Draft Financial Statements

On a motion made by Mr. Hughes, and seconded by Ms. Lochte, the Committee accepted the FY 2017 MSRPS Draft Financial Statements.

D. Presentation of FY 2017 Participating Employer Audit Results Presented by CliftonLarsonAllen

Thomas Rey presented the results of 60 audits performed by CliftonLarsonAllen in FY 2017. He told the Committee that the audits support the System's reporting for GASB 67 & 68, by looking at employers' underlying census data. All of the System's 129 participating employers are audited on a three-year cycle. Sampling was used for most audit tests.

Mr. Rey provided bar graphs comparing the findings for the current and previous audits of this group of employers. He told the Committee that there was an overall decrease in the number of audit findings in terms of both the number of affected employers, and the number of affected accounts. He also provided a table summarizing the audit results, by objective, for each employer.

Mr. Hughes stated that the results show employer compliance is moving in the right direction, and that the Agency's educational efforts are effective.

Mr. Kenderdine recognized the efforts of Ken Reott and Retirement Administration in communicating with participating employers to resolve issues. He noted that usually an issue has been resolved prior to sending the employer a letter notifying them of the audit results.

Ms. Lochte asked if the Agency communicates results to employers when their audits have no findings. Mr. Rongione responded that Internal Audit sends letters to officials of employers with no audit findings, commending them for their efforts.

E. Internal Audit Staffing Update

Mr. Rongione introduced Richa Sultana, the newest member of the Internal Audit team. He noted that Richa has financial statement audit experience, and is a CPA.

F. CY 2018 Audit Committee Meeting Dates

On a motion by Mr. Hughes, seconded by Ms. Hill, the Committee approved the following CY 2018 Audit Committee meeting dates:

- January 16, 2018;
- April 17, 2018;
- July 17, 2018; and
- November 13, 2018.

G. Status of FY 2018 Audit Plan

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

For full-scope audits, the System Transfer Processing audit has been completed. Audits of Retiree Earnings Limitations, Deceased Payments, Buy Backs, and Manual Check Processing are currently in progress. An audit of Disability Claims is planned, but has not started.

For outsourced audits, a risk assessment of investment activities and an audit of private equity processes are currently underway. A future audit of another investment asset class is planned, and will be determined by the risk assessment results.

There are 68 audits of participating employers to be completed in FY 2018. Of these, 25 are currently in progress, and the remaining 43 have not started.

H. Status of Open Issues Log

Mr. Rongione provided a summary of open audit issues. For FY 2018, a total of five open issues were closed, and five new issues were added, bringing the balance of currently open issues to 11.

The Committee also received a listing of the open audit issues. Mr. Rongione told the Committee that five issues related to the System Transfer Audit have been recently added. Additionally, of the three issues related to the Electronic Funds Transfer Audit, two have reportedly been addressed by Finance and the third is about to be addressed. These will be tested prior to the next Audit Committee meeting.

Two open issues related to the Power of Attorney Audit and the Network/Server Maintenance & Support Audit will be tested in December. The remaining open issue, related to the Eligibility Service audit, requires an update to statute, and is scheduled to be included in the next update.

I. Completed Audits

Mr. Rongione summarized the results of the recently completed audit of the system transfer process. He noted that the audit had an overall rating of “green”. Five minor deficiencies were noted. Agency management has agreed to implement corrective actions to address problems identified in the audit.

J. Other Business

The next Audit Committee meeting will be held on January 16, 2018.

Mr. Hughes expressed the Committee’s appreciation of the clean audit report, with no required adjustments. He noted that the Board of Trustees will need to approve the financial statements in their November meeting, and asked that staff provide the Board with them as soon as possible.

K. Motion to Adjourn

On a motion by Mr. Hughes, and seconded by Ms. Hill, the Committee adjourned the meeting at 10:08 a.m.

Respectfully submitted,

David Rongione, Secretary