

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

MINUTES OF THE MEETING OF January 16, 2018

The Audit Committee met on Tuesday January 16, 2018 at 10:17 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 (by phone)
David B. Hamilton (by phone)
Sheila Hill (by phone)
F. Patrick Hughes
Theresa Lochte (by phone)

Other Board members present: Nancy K. Kopp (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
Brian Feilinger, Internal Audit Contract Manager
Lauren Smith, Internal Audit Supervisor
Richa Sultana, Internal Auditor

A. Minutes of the November 14, 2017 Audit Committee Meeting

On a motion made by Ms. Hill, and seconded by Mr. Hughes, the minutes of the November 14, 2017 Audit Committee meeting were ratified.

B. Internal Audit Quality Assurance Results

Mr. Rongione presented the results of the Internal Audit Division's quality assurance efforts for calendar year 2017. There were two components to the quality assurance efforts – reviews of selected audits, and a review for compliance with general internal audit standards. There were no recommendations for the general standards review.

C. Internal Audit Peer Review

Mr. Rongione informed the Committee that the Internal Audit Division is seeking a peer review of its operations for conformance with Generally Accepted Government Auditing Standards (GAGAS). GAGAS requires a peer review once

every three years. Internal Audit's last peer review was performed in May 2015, so the current peer review is due in May 2018. Internal Audit has solicited vendors and is currently awaiting their responses.

D. MPAS 3

Mr. Rongione informed the Committee of Internal Audit's participation in the MPAS 3 project, which involves the reengineering of Agency business processes. Internal Audit will provide input on proposed processes to help assure that they contain appropriate controls. Involvement in MPAS 3 could affect the annual audit plan, due to the use of resources normally assigned to audits. Mr. Norman requested that the Committee be informed of any audit plan changes, once they are known.

E. Audit Committee Responsibilities

Mr. Rongione told the Committee that he mapped their responsibilities, as spelled out in the Audit Committee Charter, to when they were last performed. He presented a table summarizing the results. There were a few items identified that required discussion with the Committee. Based on the discussions, Mr. Rongione will make some minor changes to the Audit Committee Charter, and include additional information items in future Audit Committee meetings.

F. Evaluations

Mr. Rongione informed the Committee that he will be sending the Audit Committee self-evaluation forms next week, as well as an Internal Audit performance survey. The results of these will be presented at the April 17th Audit Committee meeting. Mr. Norman requested that Committee members complete and return the evaluation and survey by the requested due date.

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, Retiree Earnings Limitations, and Deceased Payments audits have been completed. Audits of Buy Backs, Manual Check Processing, and Disability Claims are currently in progress.

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, 24 % have been completed, 34% 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, by division, as well as

a listing of the specific open audit issues. Mr. Rongione told the Committee that the first six issues listed are related to recently completed audits. None of these have been checked by Internal Audit yet, to see if the recommended action items have been implemented.

Three issues related to the Electronic Funds Transfer audit have reportedly been addressed by Finance. An additional item related to the Network Server Maintenance & Support audit has also been reportedly addressed. Internal Audit will test these to verify the implementation of changes prior to the next Audit Committee meeting.

The remaining open issue, related to the Eligibility Service audit, requires an update to regulation. It is scheduled to be included in the next update.

I. Completed Audits

Mr. Rongione summarized the results of the recently completed audits of the death match and retiree earnings limitation processes.

He noted that the Death Match audit had an overall rating of “green”, indicating an acceptable state of control and level of compliance. No significant issues were identified. The audit scope included a review of processes for the national death match, Maryland death match, retirees over age 95, and retirees living overseas.

Mr. Rongione told the Committee that the Earnings Limitation audit also received an overall rating of “green”. The audit identified one retiree that was overpaid. Management has sent a letter to the retiree notifying them of the overpayment and requesting repayment.

J. Other Business

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

K. Motion to Adjourn

On a motion by Mr. Hughes, and seconded by Ms. Hill, the Committee adjourned the meeting at 10:53 a.m.

Respectfully submitted,

David Rongione, Secretary