

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

MINUTES OF THE MEETING OF JULY 16, 2024

The Audit Committee convened on Tuesday July 16, 2024, at 11:30 a.m. via video conference call with the host on site at 120 East Baltimore Street, Baltimore, Maryland.

Committee members present were: Mia N. Pittman, Chairman
Robert F. Sandlass, Jr., Vice-Chairman
Jamaal R.A. Craddock
Richard E. Norman

MSRA attendees were: Martin Noven, Executive Director
Katherine Morris, Director of Communications
Kimberly O’Keefe, Retirement Administrator
Megan Myers, Deputy Retirement Administrator
Derrick Johnson, Deputy Retirement Administrator
David Rongione, Chief Internal Auditor
Dave Toft, Director of IS Data Security and Quality
Thomas Montanye, Deputy CISO
Melody Countess, Chief Operating Officer
Cheryl Davis-Shaw, Executive Special Assistant
Courtney Key, Special Assistant
Lauren Smith, Internal Audit Contract Manager
Richa Sultana, Internal Audit Manager

AAG’s present were: Rachel Cohen, Principal Counsel
Emily J. Spiering, Assistant Attorney General

UHY Attendees were: Thomas Rey
Ty Coffee

Other: Michael J. Howard

1. Call Meeting to Order

Ms. Pittman called the meeting to order.

2. Request to Amend the Agenda

Ms. Pittman requested an amendment to the agenda to discuss the membership of the Audit Committee (AC). On a motion made by Mr. Norman and seconded by Mr. Craddock, the amended agenda was approved.

3. Ratification of the Minutes of the April 16, 2024 Audit Committee Meeting

On a motion made by Mr. Norman and seconded by Mr. Craddock, the minutes of the April 16, 2024 AC meeting were approved.

4. Status of FY 2024 Audit Plan

Mr. Rongione mentioned that all internal and outsourced audits included in FY24 audit plan are complete. He directed the AC members to the newly added column that shows the number of issues identified per audit, for a total of 108 issues during the fiscal year. He also mentioned that these findings have been summarized by division in a chart. This chart splits the findings in two categories - 1) internal audit finding, and 2) data analytic finding.

5. FY 2024 Internal Audit Performance Report

Mr. Rongione reviewed the FY24 Internal Audit Division (IAD) Performance Report mentioning that IAD has met all its performance goals for the fiscal year.

6. FY 2024 Time Report

Mr. Rongione reviewed the FY24 time report that details the IAD hours and compares them to prior fiscal years. He pointed that audit hours are up, and administrative hours are down due to having an IT auditor for the full fiscal year.

7. Data Analytic Dashboard

Mr. Rongione presented the Data Analytics dashboard that currently shows 9 open issues. He compared the dashboard with previous year's which had 55 open issues that spanned between FY22 and FY23. He complemented management by saying they have done a great job at remediating these open issues and staying current with the FY24 issues. He added that all current open issues are related to recently issued reports, and management is actively working on resolving these items as well.

8. Status of Open Issues Log

Mr. Rongione presented the open issues aging report by division noting that there are currently 36 issues that have been open for greater than a year. He added that priority should be given to remediating these items. He then mentioned that during FY24 Management has closed 31 open issues. He then directed the AC members to the summary of open issues log that lists the higher risk issues as seen in red and orange colors.

Ms. Pittman asked whether the outstanding issues and the issues identified during FY24 will be discussed as part of risk assessment discussion. Mr. Rongione answered by saying this information was covered as part of the completed audits discussion where the number of issues identified per audit during the fiscal year was presented. This information has also been summarized in a chart that shows issues identified by division.

9. Annual Risk Assessment

Mr. Rongione presented the risk assessment memo that details the annual risk assessment process. The purpose of this memo is to give committee members an overview of the risk assessment process. He then reviewed the key takeaways from the memo by mentioning the following:

- The approach to the risk assessment follows internal auditing standards.
- Internal audit performs a risk assessment to develop a risk-based audit plan to ensure the higher risk areas are audited.
- The risk assessment process includes the following summarized steps:
 - First, obtain an understanding of the agency.
 - Next, identify, assess, and prioritize risks.
 - Then, estimate resources.
 - Lastly, propose annual audit plan for approval of the AC.
- A separate risk assessment for the Investment Division will be performed by IAD's contractual audit firm, UHY LLP.
- The audit plan is flexible, and any emerging risks will be evaluated. If necessary, a change to the audit plan will be proposed to the AC for approval.
- It is important to note that the IIA has issued new standards that become effective in January 2025. One of the new standards require a continuous risk assessment. To meet this requirement, IAD will perform a refresh to the risk assessment halfway through the year and update the audit plan accordingly.
- The memo includes a heat map of the higher risk items that have been selected for inclusion in the FY25 audit plan.
- A listing of the other agency business processes is also included in the memo that is color coded by risk in descending order. These are the processes that are not included in the FY25 audit plan.

Ms. Pittman suggested that it is important to take a pause prior to moving forward with next year's audit plan to assess the issues identified and reflect on what was learned from the prior year's audits. There might be some overlapping issues that are affecting multiple findings. She believes it is appropriate for management to document a plan of action, especially for the issues that have remained open for more than a year. This exercise may assist in revealing common mitigating factors. Mr. Noven agreed with the idea and confirmed that he will have a document ready for AC members prior to the next meeting. Ms. Pittman also suggested to keep Mr. Rongione informed regarding the proposed remediation plan and get his opinion on whether it seems appropriate.

10. FY 2025 Audit Plan

Mr. Rongione presented the proposed FY25 audit plan which is based on the results of the annual risk assessment and available audit hours. He mentioned that IAD has split the audit plan into two sections – 1) July to December, and 2) January to June. He then highlighted some key points from the audit plan:

- In December IAD will perform an update to the risk assessment and if necessary, adjust the January to June audit plan.
- IAD's focus from July to December includes:
 - Data analytics
 - An accounts payable consulting project
 - Three IT audits
 - An Investment risk assessment and an Investment audit
 - A review of the new IIA Standards and implementing the required changes before they become effective in January 2025

Ms. Pittman asked whether the Investment risk assessment will be presented to the AC and approved by AC members prior to proceeding with the first audit. Mr. Rongione answered by saying that based on the result of the risk assessment, the highest risk rated investment audit will most likely begin prior to the next AC meeting. He added that he can share the risk assessment report with the AC members. He also mentioned they can wait to start the actual audit until late November/early December since the next AC meeting is not until November however, it gets challenging at that point given the holidays. Ms. Pittman inquired about whether any of the AC members have any objections on moving forward with the first investment audit prior to having AC's approval on the updated risk assessment. Mr. Rongione clarified that previously the risk assessment has never been approved since it is merely a report. The approval will be required for the audit plan and the inclusion of that specific business process within Investment. Ms. Pittman agreed and requested a motion to approve the FY25 audit plan. On a motion made by Mr. Norman and seconded by Mr. Craddock, the FY25 audit plan was approved.

11. Completed Audits

Mr. Rongione presented the results of the following completed audits:

a. Disaster Recovery Audit

The Disaster Recovery audit was a “Yellow” report, meaning improvement is needed. The scope included the disaster recovery controls and processes during the period of November 1, 2023 through March 31, 2024. The audit identified 2 issues which are detailed in the report. Management has agreed with the issues and responded with an acceptable remediation plan.

b. 1099-R and 1042 Process Audit

The 1099-R and 1042 Audit was a “Yellow” report, meaning improvement is needed. The scope included the 1099-R and 1042’s issued for calendar year 2022. The audit identified 5 issues, one of which was a red finding. The red finding was due to a communication breakdown between two divisions. Management has agreed with the issues and responded with an acceptable remediation plan.

c. Contractual Risk and Portfolio Management and Due Diligence

Mr. Rongione requested Mr. Rey from UHY LLP to present the Contractual Risk and Portfolio Management and Due Diligence audit reports. Mr. Rey said based on the risk assessment of prior fiscal years, the above mentioned two Investment audits were performed. Both audit reports are clean reports as no findings were identified during the audits. The reports include some recommendations and best practices which require no remediation from management.

12. External Quality Assurance Review

Mr. Rongione presented the External Quality Assurance Review report noting that this assessment is required by internal auditing standards. He added that the assessment was performed by CliftonLarsonAllen (CLA). He reviewed the executive summary mentioning that the report indicates that IAD generally conforms to the IIA Standards. The report also shows that IAD has received a “Pass” rating for the GAGAS standards which is the highest rating that can be received from these types of assessment. He also mentioned that there is a detailed chart available which specifies the specific standards and notes IAD’s conformance with each standard. The report identified three opportunities for improvement. IAD has agreed to these improvement opportunities and will begin implementing these during the fiscal year.

Ms. Pittman congratulated Mr. Rongione and his team. She also thanked management for their participation in the interview process. She thanked CLA as well for the nature of the questions asked during the interview and for their depth of conversation.

13. Disputed EFT Payment Log

Mr. Johnson presented the Disputed EFT Payment log mentioning that there has been a positive movement from CY2023 where the Agency recovered a portion of payment. He added that the Agency is hopeful to recover the full agreed upon amount by the end of this calendar year. He then said during CY2024, there has been additional instances of fraud between the period of February through April all of which affecting one payee. The Agency was successful to prevent one action, and there is an ongoing investigation for the other two instances.

14. Discuss the Membership of AC

Ms. Pittman thanked Mr. Howard for his dedication to AC and Mr. Sandlass for stepping up as the Vice-Chair of the committee. She then wanted to discuss the challenges of appropriate restaffing of the AC and the various possibilities of approaching that. She

continued by saying the committee is currently understaffed and she has two thoughts on the matter – 1) whether it is important for an ex officio to be a member; 2) from a charter perspective, should it be a predefined membership meaning AC membership should be based on inclusion. For example, chair of other committees should be included as an AC member.

A discussion ensued regarding the various options, including having an ex officio or their deputy on the committee, having a predefined membership for AC i.e., chair of other committees should be included as an AC member, and having former trustees serve on the committee which will require an amendment to the AC charter.

Ms. Cohen provided clarification regarding the committee structure, and membership requirements. She added that a charter amendment would be required to allow former trustees to serve on the committee.

Mr. Noven said he would discuss the three options with the Treasurer.

Ms. Pittman summarized the discussion by saying that the committee is not ready to make a recommendation to the full Board, but she wanted to get the conversation started as the 5th member is an immediate concern. She said more will be discussed on this topic during next meeting.

Mr. Sandlass asked whether DLS (Office of Legislative Audits) could be a viable option. Mr. Noven answered by saying DLS functions as the Agency's external auditors therefore, it might not make sense to have them serve on the AC.

15. Motion by the Audit Committee to meet in Closed Session

On a motion made by Mr. Norman and seconded by Mr. Craddock, the meeting was moved to closed session.

16. Other Business

Ms. Pittman said the next AC meeting will be on November 12th at 9:30 am.

17. Motion by the Audit Committee to Adjourn Meeting

On a motion made by Mr. Sandlass and seconded by Mr. Craddock, the meeting adjourned at 12:24 pm.

Respectfully submitted,

David Rongione

David Rongione, Secretary