

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

**MINUTES OF THE MEETING OF November 13, 2018**

The Audit Committee met on Tuesday November 13, 2018 at 9:30 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)  
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  
Rachel Cohen, Principal Counsel  
Melody Countess, Chief Operating Officer  
Patricia Fitzhugh, Deputy Chief Operating Officer  
Patricia Wild, Managing Dir. Investment Admin. & Accounting  
Lauren Smith, Internal Audit Contract Manager  
Pamela Smith, Administrator III

SB & Company attendees were: William Seymour, Engagement Partner  
Tiana Wynn, Senior Manager

The CliftonLarsonAllen attendee were: Thomas Rey, Engagement Partner  
Stephen Maranto, Senior Associate

**A. Minutes of the July 17, 2018 Audit Committee Meeting**

On a motion made by Mr. Hughes, and seconded by Ms. Lochte, the minutes of the July 17, 2108 Audit Committee meeting were ratified.

**B. Presentation of FY 2018 MSRPS Financial Statement Audit Results by SB & Company**

Mr. William Seymour presented the Committee with the FY 2018 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 would 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 generally described how investments were categorized for purposes of valuation. About half are considered 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.

**C. Acceptance of the FY 2018 MSRPS Draft Financial Statements**

On a motion made by Mr. Hughes, and seconded by Ms. Lochte, the Committee accepted the FY 2018 MSRPS Draft Financial Statements.

**D. Presentation of FY 2018 Participating Employer Audit Results Presented by CliftonLarsonAllen**

Thomas Rey presented the results of 71 audits performed by CliftonLarsonAllen in FY 2018. He told the Committee that the audits support the Systems' reporting for GASB 67 & 68, by looking at employers' underlying census data. All of the System's 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. Kenderdine recognized the efforts of Pamela Smith, Administrator III, 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.

Mr. Hughes asked if the Agency has an interface system that interacts with PGU systems in relation to payroll reporting. Mr. Harvey Raitzyk that that each PGU may have an independent payroll system, however, each PGU must upload in the Agency specific format; getting data in a standard format is the goal no matter the system.

Ms. Lochte asked if the findings page for the “Town of Federalsburg” contains an error. Specifically, when addressing the “Effect”, if “underpayment” should be replaced with “overpayment”. Mr. Rey concurred, and indicated the report will be updated.

**E. Internal Audit Staffing Update**

Mr. Rongione noted that the Internal Audit Division is currently operating at 50%, with 2 of 4 positions active. One employee is out on FMLA until January, and the other position is currently vacant. Internal Audit conducted interviews for the open position; however, an offer was not extended to potential candidates. During the budget process, Internal Audit requested additional funds for IT and Investment audits, in order to address risks the current resources are unable to address. If these funds are not allocated during the budget process, internal audit will try to reclass the open position to an IT auditor position. This will be difficult given the salary constraints. This reclass will also leave a void in the responsibilities of the current Internal Auditor II PIN.

Mr. Hughes agreed that more compliance and assurance services would be required in relation to in-house investing, and added that the right resources need to be in place to address the additional risk.

**F. CY 2019 Audit Committee Meeting Dates**

On a motion by Mr. Hughes, seconded by Mr. Hamilton, the Committee approved the following CY 2019 Audit Committee meeting dates:

- January 15, 2019;
- April 16, 2019;
- July 16, 2019; and
- November 12, 2019.

**G. Status of FY 2018 Audit Plan**

Mr. Rongione provided the Committee with a status update for the FY 2019 audit plan. He noted that due to the current staffing deficit, slow progress has been made.

For full-scope audits, the Death Benefit Processing audit is in-progress. For outsourced audits, the Management & Incentive Fee audit is in-progress. There are 51 audits of participating employers to be completed in FY 2019. Of these, 25 are currently in progress, and the remaining 26 have not started.

**H. Status of Open Issues Log**

Mr. Rongione noted that Internal Audit has followed up with Management for all of the findings. Management has indicated that all findings (except the first one, which requires regulation updates) are ready for testing. Based on staffing levels, internal did not have an opportunity to test these prior to the Committee meeting. These will be a priority to test prior to the next meeting.

**I. Completed Audits**

Mr. Rongione summarized the results of the recently completed audit of the disability process. He noted that the audit had an overall rating of “green”. One minor deficiency was noted. Agency management has agreed to implement corrective actions to address the issue identified in the audit.

**J. Other Business**

The next Audit Committee meeting will be held on January 15, 2019.

**K. Motion to Adjourn**

On a motion by Mr. Hughes, and seconded by Ms. Lochte, the Committee adjourned the meeting at 10:15 a.m.

Respectfully submitted,

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David Rongione, Secretary