

Audit Report

State Retirement Agency

November 2025

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



**OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY**

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DEPARTMENT OF LEGISLATIVE SERVICES

OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

November 25, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the State Retirement Agency, for the period beginning May 1, 2021 and ending April 15, 2025. The Agency provides administrative support services and investment functions for the State Retirement and Pension System of Maryland, a cost-sharing multiple employer public employee retirement system.

Our audit disclosed that the Agency did not obtain and review supporting documentation to verify certain management fees charged by private fund managers. Specifically, while the Agency had established procedures to verify the propriety of certain management fees, our review disclosed that during fiscal year 2025, approximately \$260 million in private fund management fees were not properly verified.

Furthermore, our audit disclosed a cybersecurity-related finding. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the finding from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted finding falls under the referenced definition. The specifics of the cybersecurity finding were previously communicated to those parties responsible for acting on our recommendations.

The Agency’s response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of the Agency’s

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response related to the cybersecurity audit finding. In accordance with State law, we have reviewed the responses and will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with the Agency.

We wish to acknowledge the cooperation extended to us during the audit by the Agency.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Background Information

Agency Responsibilities

The State Retirement Agency provides administrative support services and investment functions for the State Retirement and Pension System (System) of Maryland, a cost-sharing multiple-employer public employee retirement system consisting of a State pool and a Municipal pool. The State pool includes State agencies, boards of education, community colleges, and libraries; and the Municipal pool includes participating local governmental units that elected to join the System.

The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland and comprises the following individual systems:

- Teachers' Retirement and Pension Systems,
- Employees' Retirement and Pension Systems,
- State Police Retirement System,
- Judges' Retirement System, and
- Law Enforcement Officers' Pension System.

Responsibility for the administration and operation of the System is vested in a 15-member Board of Trustees. According to the State's records, the Agency's expenditures totaled approximately \$50.1 million during fiscal year 2024 (See Figure 1).

Figure 1
State Retirement Agency
Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024	
	Positions
Filled	204
Vacant	20
Total	224
Fiscal Year 2024 Expenditures	
	Expenditures
Salaries, Wages, and Fringe Benefits	\$32,600,895
Technical and Special Fees	653,975
Operating Expenses	16,878,808
Total	\$50,133,678
Fiscal Year 2024 Funding Sources	
	Funding
Special Fund	\$22,373,584
Non-Budgeted Fund	17,501,995
Reimbursable Fund	10,258,099
Total	\$50,133,678

Source: State financial and personnel records

Select System Financial Information

According to its records, as of June 30, 2024, the System had approximately 176,000 retirees and beneficiaries, and approximately 205,000 active participants. Figure 2 provides select System financial information.

Figure 2
Select System Financial Information
 (expressed in billions)

Fiscal Year	Total Contributions	Net Investment Income (Loss)	Benefit Payments	Total Net Position at June 30	Unfunded Actuarial Accrued Liability
2024	\$3.7	\$4.4	\$5.0	\$67.9	\$25.4
2023	\$3.4	\$2.0	\$4.8	\$64.9	\$22.3
2022	\$3.2	(\$1.9)	\$4.5	\$64.3	\$19.4
2021	\$3.1	\$14.3	\$4.3	\$67.6	\$18.9

Source: Audited System Financial Statements

Note: The Unfunded Actuarial Accrued Liability is the amount by which the Actuarial Accrued Liability exceeds the Actuarial Value of Assets as determined by the System's actuary.

Financial Statement Audits

The Agency engages an independent accounting firm to perform an annual audit of the System's financial statements. In the related auditor reports, the firm stated that the System's financial statements presented fairly, in all material respects, the respective financial position of the System as of June 30, 2021, 2022, 2023, and 2024, and the changes in plan net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated May 20, 2022. See Figure 3 for the results of our review.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Agency discontinued reviewing and approving investment reconciliations received from its custodial bank resulting in the failure to identify missing reconciliations and investigate monthly discrepancies and differences ranging between \$315.5 million and \$1.1 billion.	Not Repeated
Finding 2	Redacted cybersecurity-related finding. ¹	Status Redacted ¹

Findings and Recommendations

Private Investment Fund Management Fees

Background

The Agency has internal fund managers employed by the Agency and also contracts with over 400 public and private fund managers to provide investment services for its assets, which totaled approximately \$70.3 billion, as of March 31, 2025. Public fund managers invest in publicly traded assets, such as those found on a stock exchange, while private fund managers form privately held entities, often structured as limited partnerships, and private equity and private real estate fund investments. Approximately \$29.5 billion was invested with the public fund managers, \$27.6 billion with private fund managers, and \$13.2 billion was internally managed by the Agency.

Fund managers are generally paid a fixed rate management fee, which totaled \$383.9 million during fiscal year 2025² according to the Agency's records. Public fund manager fees are generally calculated by applying a specified contract rate to asset under management and are paid via an invoice. Private fund managers' fees are based on a specified contract rate generally applied to the investment amount of total committed capital by all limited partners and are deducted from an investment account established by the Agency.

¹ The finding description as well as the implementation status of this cybersecurity-related finding have been redacted from the publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

² In addition, interest incentives are paid if performance thresholds are met on certain private alternative investments. For example, as noted in the fiscal year 2024 audited financial statements, during calendar year 2023, \$222.6 million in interest incentives were earned.

Finding 1

The Agency did not establish procedures to verify the propriety of certain private fund management fees which totaled \$260 million in fiscal year 2025. As a result, the Agency paid certain fees without ensuring the propriety of the payment.

Analysis

The Agency did not establish procedures to verify the propriety of certain private fund management fees. Specifically, the Agency only reviewed supporting documentation to ensure the propriety of the management fee if the quarterly management fee exceeded \$1 million, which only applied to 18 fund managers with related fees totaling approximately \$81.2 million during fiscal year 2025 (or 24 percent of the total direct private fund management fees).³ For the remaining 306 fund managers with approximately \$260 million in fees, the Agency only ensured the fee was properly calculated based upon the agreed upon contract rate but did not verify the underlying figures used in the calculation. As a result, there was a lack of assurance that the fees charged were proper.

The Agency advised us that it relies on the annual audit of the fund managers performed by external auditors to ensure the accuracy of the management fees. However, they could not document that the audits ensured the accuracy of the management fees assessed by the fund managers. Specifically, the Agency was often just one of many investors assessed management fees and there was no documented verification of the fees charged to the Agency.

We tested five quarterly management fees each under \$1 million that totaled approximately \$1.1 million. Our review disclosed that the fund managers only provided notices of the fees retained without any supporting documentation of how the fees were calculated and as a result, the agency did not have the ability to determine the propriety of the management fees tested. In response to our request, the Agency contacted the fund managers who provided documentation to support the propriety of the management fees tested.

³ We reviewed 3 quarterly management fees in excess of \$1 million (selected based on materiality), totaling approximately \$7.5 million and noted all were supported by appropriate documentation to verify the amount of the fee deducted.

Recommendation 1

We recommend that the Agency

- a. obtain and review sufficient supporting documentation to ensure that management fees are accurate, and**
- b. recover any fees that could not be supported.**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Finding 2 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendations, along with the Agency’s responses, have been redacted from this report copy.

Finding 2

Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Retirement Agency for the period beginning May 1, 2021 and ending April 15, 2025. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Agency’s financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included benefits paid to retirees and beneficiaries, contributions required from participating employers, investments, payroll, and

information systems security and control. We also determined the status of the findings contained in our preceding audit report.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of May 1, 2021 to April 15, 2025, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of the Agency's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from the Agency's Maryland Pension Administration System for the purpose of testing pension and contribution benefits. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

The Agency's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of

assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Agency, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Agency's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Agency that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that a finding in this report falls under that definition. Consequently, for the publicly available audit report all specifics as to the nature of the cybersecurity finding and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the

public audit report. The specifics of this cybersecurity finding have been communicated to the Agency and those parties responsible for acting on our recommendations in an unredacted audit report.

The Agency's response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Agency regarding the results of our review of its response.

APPENDIX

STATE RETIREMENT AGENCY
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MARYLAND STATE RETIREMENT
and PENSION SYSTEM

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November 21, 2025

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
351 West Camden Street
Baltimore, Maryland 21201

Dear Mr. Tanen:

Please find enclosed the State Retirement Agency's response to the Legislative Auditor's draft report for the fiscal compliance audit covering the period May 1, 2021 through April 15, 2025.

On behalf of Agency management, we would like to thank you and your audit team for your professionalism and courtesy throughout the engagement. We appreciate the team's efforts to complete the audit with minimal disruption to our daily operations, as well as the time taken to meet with management to review the findings and final recommendations. We value the audit process and remain committed to continued improvement of our internal controls.

Sincerely,

Jonathan D. Martin
Acting Executive Director

State Retirement Agency

Agency Response Form

Private Investment Fund Management Fees

Finding 1

The Agency did not establish procedures to verify the propriety of certain private fund management fees which totaled \$260 million in fiscal year 2025. As a result, the Agency paid certain fees without ensuring the propriety of the payment.

We recommend that the Agency

- a. obtain and review sufficient supporting documentation to ensure that management fees are accurate, and**
- b. recover any fees that could not be supported.**

Agency Response

Analysis	Factually Accurate
Please provide additional comments as deemed necessary.	The Agency's current verification procedures for investment management fees distinguish between invoiced fees and direct fees. All invoiced fees are reviewed for accuracy and compliance prior to payment processing. For direct fees, which are fees embedded within private investment fund structures, the Agency's procedure applies a risk-based verification sampling methodology that focuses on the largest investments. The Agency does not directly disburse payments for these fees via invoices; rather, they are reflected in investor capital account statements that detail fee transactions contributing to the fund's net asset value (NAV). Given the number of private market funds in which the System invests, it is not operationally feasible to verify every individual direct fee transaction due to staffing limitations and budget constraints. However, all private investment funds are contractually required under their limited partnership agreements to provide audited annual financial statements, which serve as a key control to gain assurance of reported fees and NAV. The Agency also requires all private fund managers to complete an annual certification confirming the accuracy of the audited financial statements and compliance with the limited partnership agreement. In addition to this external audit requirement, the Agency performs quarterly NAV reconciliations, management fee analyses and reporting, and performance reviews of investment managers to identify anomalies or inconsistencies. These layered procedures collectively provide reasonable assurance that management fees are properly assessed, accurately reported, and aligned with contractual terms and

State Retirement Agency

Agency Response Form

	fiduciary standards. It is important to note that, although our approach relies on risk-based sampling, we have not identified any errors in reported direct management fees through our reviews conducted over the years. In addition, the OLA auditors found no inaccuracies in the fee calculations from their independent manager sampling.		
Recommendation 1a	Agree	Estimated Completion Date:	Q1 2026
Please provide details of corrective action or explain disagreement.	The Agency agrees to enhance its procedures for verifying direct private fund management fees by expanding the scope of sampling. The Agency will improve its sampling methodology to ensure broader coverage, including a rotational schedule. Given the large volume of private funds and existing resource constraints, a sampling approach remains a more efficient method than full population testing, in line with industry standards. The Agency recognizes the importance of expanding coverage to further strengthen assurance over fee accuracy and transparency.		
Recommendation 1b	Agree	Estimated Completion Date:	Current
Please provide details of corrective action or explain disagreement.	Consistent with our policy, the Agency will take appropriate action with the fund manager should any errors be identified in management fees.		

State Retirement Agency

Agency Response Form

Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that the Information Systems Security and Control section, including Finding 2 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendations, along with the Agency’s responses, have been redacted from this report copy.

Finding 2 Redacted cybersecurity-related finding.
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Agency Response has been redacted by OLA.

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