



Board of Directors

Audit Committee Meeting

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May 21, 2026

9:30 a.m.

BOARD MEMBERS:

Moalie Jose, P.E., *Chair, Audit Committee*

Sean L. Coleman, Esq.

Rebecca L. Flora, AICP

Shelley L. Heller

Charles C. Glass, Ph.D., P.E.

Agenda

Call to Order	Moalie Jose
Approval of Minutes – October 23, 2025	Moalie Jose
SB& Company FY26 Audit Plan	Monique Booker
Resolution 26-05-1R – OPEB Trustee Agreement	Hament Patel
Internal Audit Report	Ryan Dowdell
• FY27/FY28 Internal Audit Plan	
Old/New Business	Moalie Jose
Adjournment	Moalie Jose

BOARD OF DIRECTORS
MARYLAND ENVIRONMENTAL SERVICE
RESOLUTION NO. 26-05-1R

A RESOLUTION

AMENDING THE MARYLAND ENVIRONMENTAL SERVICE OTHER POST-EMPLOYMENT BENEFITS (“OPEB”) TRUST ARRANGEMENTS BY AUTHORIZING A CHANGE IN TRUSTEE AND CUSTODIAN FROM THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A. TO PNC BANK, NATIONAL ASSOCIATION, ACTING THROUGH PNC INSTITUTIONAL ASSET MANAGEMENT, AND GENERALLY RELATING TO THE ADMINISTRATION AND FIDUCIARY OVERSIGHT OF THE SERVICE’S OPEB TRUST.

RECITALS

WHEREAS, pursuant to § 3-103.1(b) of the Natural Resources Article of the Annotated Code of Maryland, the Maryland Environmental Service (“Service”) is authorized and directed to determine and establish compensation and benefits for its employees;

WHEREAS, by Resolution No. 09-06-1R adopted on June 22, 2009, the Board of Directors of the Service (“Board”) approved the establishment of an irrevocable Other Post-Employment Benefits trust (“OPEB Trust”) to fund retiree medical reimbursement benefits under the Maryland Environmental Service Retiree Medical Reimbursement Plans (“Reimbursement Plans”);

WHEREAS, the OPEB Trust was established pursuant to an OPEB Trust Agreement with The Bank of New York Mellon Trust Company, N.A.(“BNYM”) as Trustee and Custodian;

WHEREAS, the Service currently operates the OPEB Trust as an Internal Revenue Code Section 115 trust for the purpose of reimbursing eligible retirees and their spouses for qualified medical expenses;

WHEREAS, the Service currently utilizes PNC Bank as investment advisor to the OPEB Trust;

WHEREAS, Pursuant to the OPEB Trust agreement, the Executive Director of the Service was designated the Plan Administrator, with full authority to act on behalf of the Service pursuant to the agreement:

WHEREAS, BNYM has implemented changes to its online systems that have made trading by PNC and administration by MES of this account significantly more difficult for the Service;

WHEREAS, PNC Bank has offered to serve as both investment advisor and trustee/custodian for the OPEB Trust through its institutional management group;

WHEREAS, the Service requested and received a fiduciary opinion letter from employee benefits counsel dated April 9, 2026 addressing fiduciary considerations associated with engaging a single entity to serve as both investment manager and custodian;

WHEREAS, employee benefits counsel concluded that there is no per se fiduciary prohibition on selecting PNC Bank to serve in both roles, provided that potential conflicts are identified, evaluated, and mitigated through a disciplined fiduciary process;

WHEREAS, the Board has considered relevant fiduciary, administrative, and operational factors and has determined that it is in the best interests of the Service and the beneficiaries of the OPEB Trust to authorize a change in Trustee and Custodian.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE MARYLAND ENVIRONMENTAL SERVICE THAT:

1. Change of Trustee and Custodian. The Board approves the termination of The Bank of New York Mellon Trust Company, N.A. as Trustee and Custodian and authorizes the appointment of PNC Bank, National Association, acting through PNC Institutional Asset Management, to serve as Trustee and Custodian of the OPEB Trust.
2. Continuation of OPEB Trust. The OPEB Trust shall continue as an irrevocable trust dedicated exclusively to providing benefits under the Reimbursement Plans and paying reasonable administrative expenses.
3. Fiduciary Oversight. The Board affirms that the MES Plan Administrator has considered the fiduciary implications of engaging a single entity to serve in both roles, consistent with the guidance of counsel.

4. Authorization to Execute Documents. The Executive Director of the Service or the Treasurer is authorized to execute and deliver all agreements, amendments, certifications, and related documents necessary to implement this Resolution.

5. Further Actions Authorized. The Executive Director, Treasurer, and other officers are authorized to take any and all actions necessary or proper to carry out this Resolution.

6. Effective Date. This Resolution shall take effect immediately upon adoption.

ADOPTED this ____ day of May, 2026.

MARYLAND ENVIRONMENTAL SERVICE

BY: ____

SHELLEY HELLER, CHAIR

BY: _____

BRENDON BAATZ, TREASURER

BY: - _____

SEAN L. COLEMAN, SECRETARY



Draft Internal Audit
Plan – FY27 & FY28

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Draft Internal Audit Plan – FY27 & FY28

Internal Audit Plan

The internal audit plan covers the period beginning July 1, 2026 through June 30, 2028. This plan includes internal audits selected based on the results of the risk assessment performed by the IA, input from various managers throughout the Agency, and input and review from the Executive Director and the Deputy Director. The internal audit plan is designed to provide IA resources in an effective and efficient manner.

We use a two-year risk assessment model to prioritize audit coverage and ensure timely reviews of high exposure areas. IA performs four primary activities – audits, management advisory services, investigations, and external consulting. Our focus is to actively work within the Agency to assist management in addressing strategic, financial, operational, reputational, and compliance risks and exposures.

IA focuses on both Agency-wide and department level processes and control systems. To focus audit resources, the work completed by other audit professionals and compliance officers across the Agency were considered in setting the overall audit plan and in planning the work conducted on any specific project. Additionally, audits may be performed at the express request or instruction of Agency management regardless of where that risk may rank in the annual risk assessment.

The types of audits that can be performed by the IA are as follows:

- Integrated Audits - Combine a financial controls audit of an area with an information technology assessment of the systems and infrastructure that support the unit. An integrated audit can assess the effectiveness of the coordination between the information systems and the business activities to support defined goals and objectives.
- Financial Control Audits - Focuses on accounting and reporting of financial transactions, including commitments, authorizations, receipt, and disbursement of funds. This type of audit verifies that there are sufficient controls over cash and other assets, and that there are adequate process controls over the acquisition and use of resources. Address questions of accounting, recording, and reporting of financial transactions, as well as reviewing the adequacy of internal controls.
- Compliance Audits - Reviews adherence to laws, regulations, agreements, policies, and procedures. Examples include federal and state law, Agency/State policies, organizational, or departmental directives. Recommendations based on findings or observations typically call for improvements in processes and controls intended to ensure compliance with the regulations noted. Any environmental and safety observations will be forwarded to the Environmental Compliance and Safety division for an intensive review.

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- Operational Audits - Examines the use of MES resources to evaluate whether those resources are utilized in the most efficient and effective way to fulfill the Agency's mission and objectives. An operational audit may include elements of a compliance audit, a financial audit, and an information systems audit.
- Construction Audits - Focus on major capital projects at MES and clients to ensure key processes and controls in place to manage these activities are operating effectively throughout the life of the project. As part of the Construction Audits, the IA team validates compliance with the contract terms, including detailed reviews of the contractor's invoicing activity.

Internal Audit also provides the following consultation/ investigative services:

- Internal Consultation- Internal consulting engagements are advisory in nature and are designed to add value and improve MES's governance, risk management, and internal control processes without providing formal assurance. These engagements are typically performed at the request of management and may include facilitation, analysis, advice, or recommendations related to business processes, risk assessments, policy development, system implementations, or organizational change initiatives.
Internal consulting engagements do not include management decision-making and are conducted in a manner that preserves the independence and objectivity of the IA function.
- External Consultation- External consulting engagements are advisory services provided by the MES Internal Audit function to external agencies, authorities, or clients, typically at the request of executive leadership or pursuant to inter-agency agreements. These services are designed to leverage Internal Audit's expertise in governance, risk management, internal controls, compliance, and operational effectiveness to support other organizations. External consulting services may include risk and control assessments, process reviews, policy or framework evaluations, facilitation, benchmarking, and advisory support related to system implementations or organizational changes. These engagements do not provide formal audit assurance unless explicitly defined as such and do not involve assuming management responsibilities for the external entity. All external consulting work is conducted in a manner that preserves the independence, objectivity, and professional judgment of the Internal Audit function and is consistent with applicable professional standards and MES oversight requirements.
- Fraud Hotline- Fraud Hotline activities consist of the intake, documentation, triage, and preliminary assessment of allegations received through established reporting channels, including fraud, waste, abuse, misuse of resources, unethical conduct, or significant internal control concerns. Internal Audit evaluates hotline submissions to

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determine credibility, risk, and appropriate disposition, which may include referral to management, Human Resources, Attorney General, Safety and Environmental Compliance, or escalation for a formal investigation. Hotline activity trends may also be used to inform the Annual Risk Assessment and audit planning process.

- Special Investigations- Special investigations are independent, non-routine engagements initiated in response to specific allegations or indicators of fraud, financial irregularities, misconduct, or significant control failures. These projects are typically narrow in scope, fact-driven, and may involve coordination with executive leadership, Attorney General, Human Resources, law enforcement, or external oversight bodies. Special investigations are conducted in accordance with professional standards, maintain confidentiality, and may result in formal investigative reports, management actions, or referrals as appropriate. These activities are distinct from routine audits and may be performed outside the annual audit schedule based on risk and urgency.

MARYLAND ENVIRONMENTAL SERVICE
Risk Assessment and Draft Internal Audit Plan – FY27 & FY28

Proposed Audit Plan for Fiscal Years 2027:

Audit Unit	Audit Focus	Budget*	Timeframe
Annual Risk Assessment	Perform Agency-wide risk assessment as required by internal audit professional standards to aid in selection of annual audit work.	150 hours	September 2026 – March 2027
Monitor Fraud Hotline	Monitor reports made to the Fraud Hotline, as well as items reported directly to IA during the annual risk assessment process or throughout the year. Coordinate with MES management and the Attorney General for appropriate follow-up.	100 hours	July 2026 – June 2027
Special Investigations	Any requested audits from MES management and Attorney General that are not identified in risk assessment and require immediate attention.	400 hours	July 2026 – June 2027
Auxiliaries	Oversight of external audits, Corrective action plan follow-up, External Quality Assessment	550 hours	June 2026 – June 2027
Consulting / Advisory Services	Provide internal/ external advisory and consulting services to support management initiatives, including risk and control assessments, process reviews, system implementations, organizational changes, and governance support, performed in a manner that preserves Internal Audit independence.	2,500 hours	July 2026 – June 2027
Information Systems	Information systems, cybersecurity, and access-management review: user provisioning and de-provisioning, segregation of duties, system security controls, and data integrity.	1,200 hours	July 2026– June 2027

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Risk Assessment and Draft Internal Audit Plan – FY27 & FY28

Integrated	Contract and vendor administration management: review of procurement and contract terms, cost reimbursement and invoicing controls, project cost allocation, and cross-functional coordination between Operations, Finance, and IT.	1,200 hours	July 2026– June 2027
Fiscal	Quarterly P-card review	150 hours	July 2026 – June 2027
Human Resource and Affirmative Actions	Workforce sustainability review: succession planning, training adequacy, onboarding controls, and retention risks in critical operational and leadership roles, benefit program management; assessment of HR processes supporting staff continuity.	400 hours	July 2026– June 2027
Operational	Site and operations management review: safety controls, staff allocation and coverage, regulatory and permit compliance, asset, and equipment maintenance, purchasing and inventory processes, and operational continuity across facilities.	600 hours	April 2027 – June 2027
	Total Budget	7,250 hours	

Note on Carryforward of FY 2025–2026 Audit Projects-Internal Audit applies a rolling, multi-year audit planning approach. Any FY 2025–2026 audit projects that are not completed by fiscal year-end will be carried forward and incorporated into the FY 2027 Audit Plan, subject to reassessment of risk, scope, and available resources.

As of the date of this audit plan, ten FY 2025–2026 audit projects remain in process. In addition, the following FY 2025–2026 projects have not yet commenced and have been deferred into the FY 2027 Audit Plan:

- Inventory Management Review – Masonville (EDR)-Operational
- Review of Marketing Contract Management Processes (EO)- Operational
- Review of the Reimbursable Contractor Agreements (Administration)- Integrated

These projects will be prioritized and scheduled within the FY 2027 Audit Plan based on risk significance, resource availability, and coordination with management.

Audit #24-02, Review of the AE Shortlist Process, has been deferred due to a conflict of interest between Internal Audit and Procurement and will be incorporated into the integrated audit category noted above.

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Risk Assessment and Draft Internal Audit Plan – FY27 & FY28

Proposed Audit Plan for Fiscal Years 2028:

Audit Unit	Audit Focus	Budget*	Timeframe
Annual Risk Assessment	Perform Agency-wide risk assessment as required by internal audit professional standards to aid in selection of annual audit work.	150 hours	September 2027 – March 2028
Monitor Fraud Hotline	Monitor reports made to the Fraud Hotline, as well as items reported directly to IA during the annual risk assessment process or throughout the year. Coordinate with MES management and the Attorney General for appropriate follow-up.	100 hours	July 2027 – June 2028
Special Investigations	Any requested audits from MES management and Attorney General that are not identified in risk assessment and require immediate attention.	350 hours	July 2027 – June 2028
Auxiliaries	Oversight of external audits, Corrective action plan follow-up, continuous monitoring	250 hours	July 2027 – June 2028
Consulting / Advisory Services	Provide internal/ external advisory and consulting services to support management initiatives, including risk and control assessments, process reviews, system implementations, organizational changes, and governance support, performed in a manner that preserves Internal Audit independence.	2,500 hours	July 2027 – June 2028
Integrated	Enterprise Third-Party Management: governance, risk assessment, contract oversight, performance monitoring, concentration risk, and alignment of third-party reliance with business objectives.	1,200 hours	July 2027 – June 2028

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Risk Assessment and Draft Internal Audit Plan – FY27 & FY28

Integrated	Enterprise governance assessment: roles and responsibilities, risk ownership, escalation mechanisms, committee structures, policy governance, and alignment between strategy, risk, and operations.	1,400 hours	July 2027 – June 2028
Operational	Review of the MES COOP, including continuity planning, disaster recovery coordination, dependency mapping (people, systems, vendors), and readiness across operational units.	1,300 hours	July 2027 – June 2028
	Total Budget	7,250 hours	

* See Appendix A for a detailed allocation of internal audit resources for the 2025 and 2026 fiscal year. Additionally, Budgeted hours are approximate and may change depending on project scope to be determined by IA, MES management, and the audit committee.

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Risk Assessment and Draft Internal Audit Plan – FY27 & FY28

Appendix A – Allocation of Internal Audit Resources FY25-26

The audit plan for fiscal years 2024 and 2025 was based on a professional staff provided by IA. Through this process IA's available resources during those years were utilized in the following.

- 2% for special investigations and un-planned audits.
- 32% for planned audits identified as area of risk in the prior risk assessment.
- 1% for developing the risk assessment (FY27 and FY28).
- 1% for responding and following up to potential reports of fraud.
- 42% for performing billable work for external clients.

The remaining resources (22%) are committed to the completion of planned audit projects described in FY25 and FY26, FY27 and FY28 risk assessment, and administrative tasks.

When choosing which audit projects to include in the audit plan, priority was given to addressing MES's highest risks and riskiest audit units, along with accommodating requests from MES management. Additional consideration was given to the most efficient timing to complete audits, particularly in areas currently undergoing a high degree of change.