

**Montgomery County Board of Education
Fiscal Management Committee Minutes**

November 18, 2008

A meeting of the Montgomery County Board of Education Fiscal Management Committee was held at the Carver Educational Services Center in Room 120 on Tuesday, November 18, 2008. In attendance were:

Members: Mr. Christopher Barclay, Chair
Mr. Steve Abrams, Member
Mrs. Patricia O'Neill, Member

Staff: Mr. Larry A. Bowers, Chief Operating Officer
Ms. Sue DeGraba, Chief Financial Officer
Mr. Roger Pisha, Audit Supervisor
Mr. Robert Doody, Controller
Ms. Susan Chen, Assistant Controller, Division of Controller
Mr. Richard Johnstone, Director I, Benefits Strategy and Vendor Relations
Mr. John Kevin, Investment Specialist, Benefits Strategy and Vendor Relations
Ms. Laura Steinberg, Staff Assistant, Legislative and Inter-governmental Relations

Guests: Mr. Collin Bracis, Mercer Human Resource Consulting
Ms. Mary Joe Gary, Mercer Human Resource Consulting
Mr. Tom Persichetti, Mercer Human Resource Consulting
Mr. William Early, Clifton Gunderson, LLP

The meeting was called to order by Mr. Christopher Barclay, Chair, at 9:04 a.m.

Appreciation for Mr. Steve Abrams

The committee acknowledged that this would be the last Fiscal Management Committee meeting for Mr. Steve Abrams as a member of the Board of Education.

The committee thanked Mr. Abrams for his 12 years of dedicated service to the citizens of the county and for making a difference.

Approval of September 22, 2008, Meeting Minutes

The Fiscal Management Committee voted unanimously to approve the September 22, 2008, minutes as submitted.

Actuarial Valuation of the MCPS Employees' Retirement and Pension Systems

Mercer Human Resource Consulting presented the committee members with their annual review and actuarial valuation of the employee's retirement and pension systems as of July 1, 2008, and their actuarial valuation for GASB 45 liabilities associated with post retirement benefits. MCPS investments are less aggressive and more conservative compared with other public systems. The

yield, adjusted downward two years ago, will need to be adjusted again and then revisited in another two to five years. The funded ratio of actuarial value of assets and accrued liabilities is improving a bit each year. The Board decided not to use the reduced rate for next year, which is the rate that drives the budget. We are not dropping the rate knowing what's coming in the future.

MERCER assigned what they believe to be a reasonable long range return, knowing that those long-range returns do not fluctuate with the market. The committee members would like to see alternative models that would factor in different assumptions, lengths of time, and the recovery rate in order to allow the Board to make a decision on what the assumption should be used, in light of the budget shortfall.

The actuarial valuation of GASB 45 is used to determine the annual required contribution (ARC) and Net OPEB obligation and to determine the phase in contribution. The goal is to shift from funding only current claims to fully funding the ARC over eight years. Management of liability, percentage of payroll, and required contribution has come down to about 10 percent each year; this is the number that would be used. Need to look at data management, aggregate plans, duplicate coverage, opportunities, simply for having the availability.

Audit of the Financial Statement of MCPS

Management letter from Clifton Gunderson LLP

Clifton Gunderson, LLP completed their review of the MCPS financial statement for the year ending June 30, 2008. The audit found several issues, including one high school and one middle school having a cash balance deficit due to each school processing checks in advance and then holding the checks until payment was due. Similar finding was noted during the previous audit for two different schools. Another issue noted was that one food services account was uncollateralized. The review also had several issues regarding FMS, including no review of vacation rules, systems passwords, account lockout, audit policies not meeting minimum industry standards, database encryption, formal audit log review, log retention or an audit configuration policy or procedure.

Staff Responses to the Management Letter

The division of Food and Nutrition Services and the Division of Controller have established procedures to coordinate deposit balances with collateral requirements so that they do not have any accounts that are uncollateralized. MCPS policies will be expanded to address types of delegation of authority. MCPS is also aligning its security policies with the National Institute of Standards and Technology. Database encryption of sensitive data will be completed in December 2008. The school's security procedures manual will be updated to reflect procedures in audit log review, retention, analysis, and configuration by June 30, 2009.

Clifton Gunderson, LLP will be back to the Fiscal Management committee to discuss the audit from the state auditors once it has been received. The State audit will have a broader overview since they dive into information where Clifton Gunderson, LLP looks at risk.

Updates to the defined contribution plan's documents 403 (B) and 457(B)

The Internal Revenue Service guidelines scheduled to take effect January 1, 2009, requires the Board of Education to amend and restate the current plan documents to comply with the regulatory updates. The changes include eliminating one catch-up provision in each plan. MCPS presented the committee with the recommended changes they would like to bring forward to the full Board.

Note to committee

The State Retirement and Pension System recently adopted regulations to impose administrative fee on employers for failure of employees to provide required information to be enrolled in the state retirement system. Currently, MCPS has approximately 1,000 employees not enrolled. MCPS will begin scanning forms before they are sent to the State. The school system is looking at several ways to get the number of noncompliant employees lowered before the State of Maryland sends a bill for those that are not signed up properly. The committee has asked that MCPS staff get back to them with updates on the progress.

Summary of Actions and Follow-ups

- 1) Update on the progress of the State Retirement

The meeting was adjourned at 11:02 a.m.

Recorder: Becky Gibson