

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

December 5, 2011

A meeting of the Montgomery County Board of Education Fiscal Management Committee was held at the Carver Educational Services Center in room 120 on Monday, December 5, 2011. In attendance were:

Members: Mr. Philip Kauffman, Chair
Mr. Christopher Barclay, Member
Mr. Michael Durso, Member

Staff: Mr. Larry A. Bowers, Chief Operating Officer
Mrs. Susanne DeGraba, Chief Financial Officer
Mr. Roger Pisha, Supervisor, Internal Audit Unit
Ms. Laura Steinberg, Staff Assistant, Board of Education
Mr. Richard Johnstone, Director I, Benefits Strategy and Vendor Relations
Mr. Robert Doody, Controller, Division of the Controller
Mrs. Bei (Susan) Chen, Assistant Controller, Division of the Controller
Mr. Jonathon Grabel, Chief Investment Officer, Department of Financial Services
Dr. Marshall Spatz, Director, Department of Management, Budget and Planning
Ms. Robin Confino, Executive Director, Chief Operating Officer
Mr. Stanislaw Damas, Director, Department of Association Relations

Guests: Mr. Tom Hesselton, Clifton Gunderson
Ms. Sherry Amos, Clifton Gunderson
Mr. Douglas Rowe, Mercer Human Resource Counseling
Mr. Colin Bracis, Mercer Human Resource Counseling

The meeting was called to order by Mr. Philip Kauffman, chair, at 10:03 a.m.

Approval of September 12, 2011 Meeting Minutes

The meeting minutes of September 12, 2011, were approved as submitted.

Audit of the Financial Statements of Montgomery County Public Schools (MCPS)

Clifton Gunderson LLP will be merging with LarsonAllen on January 2, 2012. This change will have no impact to the contract Clifton Gunderson LLP signed last year. Clifton Gunderson LLP staff presented the committee with their Fiscal Year 2011 audit of financial activities in MCPS. Clifton Gunderson LLP reported no weaknesses in the internal control process or material deficiencies in the audit. One minor issue was noted with regard to the Information Technology system and a recommendation for improvement was made.

Staff went on to explain the implementation of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and that fundamental changes were made that make the information about fund balance classifications better defined, less vague, and consistent between agencies. Balances are now reported in five categories: nonspendable, restricted, committed, assigned, and unassigned.

In Fiscal Year 2012, Maryland State Department of Education is required to have an audit of state retirement payments for school boards as part of the state retirement and grant funding for those positions.

Actuarial Valuation of the MCPS Employees' Retirement and Pension Systems

Mercer Human Resource Consulting presented the actuarial valuation of the MCPS Employees' Retirement and Pension Systems as of July 1, 2011. The purpose of the report is to provide the actuarial valuation of liabilities, expenses, and to provide employee contribution rates for the next fiscal year. To meet its funding policy, MCPS must contribute 5.42 percent of payroll. MCPS continues a conservative assumption of 7.5 percent return on investment. The current funded ration of 70 percent remains short of the 100 percent goal, although there are fewer losses as the market value is catching up with the asset value.

This is the last actuarial valuation presented by Mercer Human Resource Consulting. Mercer staff enjoyed working with the school system.

Board of Investment Trustees Pension Strategy

The Chief Investment Officer brought the committee up to date on how the pension trust has been performing. He also shared that the trustees are in the process of making structural changes and finding alternative opportunities to dampen volatility and to incur less risk. Proposed changes include shifting from active to passive management and identifying safer investment tools. A policy statement, which is annually approved by the trustees and reviewed by Council, is being developed to articulate mandates, objectives, implementation strategies and monitoring activities. The Board of Trustees will be meeting at the end of the month and a transition of the portfolio will take place in the beginning of the next year.

Updates

Same Sex Marriage and Impact on Employee Pension and Life Insurance Benefits

The Chief Financial Officer shared with the committee that due to new state laws regarding benefits and same sex marriages, MCPS will be changing their pension plan to include eligibility of same sex marriage spouses and accord them with the same benefits. Life insurance benefits will have to be included in negotiations.

Montgomery County Projects – Office of Legislative Oversight

The Office of Legislative Oversight's report on Category 12 will be going to the Montgomery County Council's Education committee this afternoon (December 5, 2011). Staff shared that the

report was reasonable and the recommendations made in the report will be helpful in MCPS' reporting in the future.

Montgomery County Projects – Inspector General

The Inspector General, after meeting with Board officers, is going to provide another draft of his report, at which time, MCPS will provide a response.

County Other Post-Employment Benefits Trust

The Chief Investment Officer informed the committee members that the Board of Investment Trustees had their first meeting since September on November 18, 2011, and is still in its organizing phase and is in the process of forming three to four subcommittees, and no substantive work has begun. MCPS staff will keep the committee up to date on the work of the Board of Investment Trustees.

Summary of Actions and Follow-ups

- 1) Meeting in January – Accountability of Principals
- 2) Continue Discussion on Publishing Internal Audit Reports