

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

November 22, 2010

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, November 22, 2010. In attendance were:

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

Staff: Mr. Larry A. Bowers, Chief Operating Officer
Ms. Susanne DeGraba, Chief Financial Officer
Mr. Roger Pisha, Supervisor, Internal Audit Unit
Mr. John Kevin, Investment Officer, Financial Services
Ms. Shafeena Yunus, Senior Specialist Insurance and Retirement, Financial Services
Mr. Robert Doody, Controller, Division of the Controller
Ms. Laura Steinberg, Staff Assistant, Board of Education

Guests: Mr. William Early, Partner, Clifton Gunderson LLP
Ms. Cheri Amoss, Senior Manager, Clifton Gunderson LLP
Mr. Bill Bullen, Clifton Gunderson LLP
Mr. Joel Eshleman, Clifton Gunderson LLP
Mr. Douglas Rowe, Mercer Human Resource Consulting

The meeting was called to order by Christopher Barclay at 10:05 a.m.

Approval of September 13, 2010 Meeting Minutes

The meeting minutes of September 13, 2010, were approved as submitted.

Audit of the Financial Statements of MCPS

Clifton Gunderson LLP reported to the committee their audit of the financial statements of Montgomery County Public School (MCPS) for the year ending June 30, 2010. They gave a clean opinion and found no control weaknesses with the Financial Management System.

Maryland State Department of Education (MSDE) reported a finding during their single audit with regard to suspension and debarment reporting. Clifton Gunderson LLP felt that MCPS' reporting of suspension and debarments was in compliance with regulations, however would recommend changing wording of contracts to the way MSDE recommends. MCPS staff will send the committee members a copy of the MSDE report.

Actuarial Valuation

Mercer Human Resource Consulting presented their actuarial valuation of the MCPS Employee's Retirement and Pension Systems as of July 1, 2010. The purpose of the report is to provide the actuarial valuation of the Employees' Retirement and Pension Systems' liabilities and expenses and to provide employer contribution rates for the period ending June 30, 2012.

To meet its funding policy, MCPS must contribute 5.57% of payroll. Mr. Rowe discussed the upcoming GASB Statements 25 and 27 which address accounting issues, not funding. The return on MCPS' assets for the 2009-2010 year was 12.1% (gross) which is higher than the 7.5% investment return assumption.

Reports

Pension Fund Report – Retiree COLA

Staff reported that the Retiree Cost of Living Adjustment (COLA) is insufficient to offset the negative COLA being carried forward from 2009. Those retirees who retired prior to January 1, 2010, will have a 0 COLA again this year, as the negative 1.68 percent from last year was offset only by 1.4 percent. Retirees who retired after January 1, 2010, will have a 1.4 percent COLA.

The pension plan is up 12 percent for FY 2010 and the investment climate is more favorable than either of the last two years, even with a two percent decrease in the month of June. The first quarter of the fiscal year saw the pension gaining 9 percent within this case, the timing issues of the contribution date did not work in our favor, as the delay in contribution until the end of September caused us to miss the strong first quarter. Real estate managers are starting to turn around, receiving inflows of money to the manager for the first quarter, and they are optimistic that markets are improving.

Report of the Prescription Vendor Audit

Clifton Gunderson LLP completed their performance audit of the pharmacy benefit and drug rebate operations performed on the MCPS prescription plan administered by Caremark/CVS (Caremark). The performance audit covered the period from January 1, 2008 through December 31, 2008, and did not uncover any significant deficiencies. The audit essentially looked at four areas; claims processing, rebates, contract terms, and internal controls.

A couple of administrative issues were noted with recommendations and included aged claims, performance guarantees, and review procedures of internal controls. Clifton Gunderson recommended that MCPS define a period after which prescription claim will be denied based on the fill date and work with Caremark to implement a system edit; strengthen procedures for tracking and receiving performance exception payments; and develop a procedure to review the periodic report on internal controls in place at Caremark.

403(b) and 457(b) Vendor Fixed-return Accounts

MCPS staff stated that as part of last fiscal year's Request for Proposal responses, the parameters for the products offered to employees, required that to offer fixed accounts in their investment platforms, vendors must meet certain requirements to remain in the program. A fixed account, in

which 20 to 40 percent of our employees' dollars are invested, guarantees a floor minimal rate of return. Staff provided a memo which summarized the requirements for a vendor to continue to offer these products, including disclosure of costs and credit rating of the vendor. The only vendor who is qualified to continue is MetLife. VALIC credit rating does not meet the standard currently, but when they meet that requirement in the future, they could resume offering fixed accounts.

Bi-annual Maryland State Department of Education (MSDE) Audit

The Bi-annual MSDE audit is moving along and the exit conference is scheduled for December 10, 2011. Staff is gathering all records and they are looking at another year of enrollment. A few questions on education plans (special education) background investigation. They have received cooperation from MCPS. The report should be out in January

Committee members would like staff to provide a comprehensive list of all audit and investigations.

Centralized Investment Fund Project

MCPS operates a Centralized Investment Fund (CIF) with conservative investments. MCPS staff recommends a partnership with Sandy Spring Bank to increase investment returns. Schools would have access to their online statements; direct deposits would go back to the schools. April 1, 2011, would start the implementation of this program with a black out period for a few weeks in March. Interest distributions would be made monthly instead of quarterly and the online statements, which would replace paper, would ultimately contain four years of history. This would also help with the annual audit. MCPS schools have 235 accounts and occasionally a school may have a separate account for scholarship money. As of June 30, the investment interest has returned 0.24 percent this past year and 1.43 percent the prior year. Sandy Spring guarantees more.

Updates

State Teacher Pension

In August, a joint pension workgroup was commissioned. Appointed by the state, initially began meeting in January with the final meetings in July. No big news yet, continuing to go over different options. Passing pension costs to the counties would impact maintenance of effort, \$175 million on our behalf with obligation to the county. Any recommendations might be considered in the legislative session, when it might take effect is yet to be seen, there is a great deal unknown about where this is going and fiscal impacts.

Financial Manual

The chief financial officer gave an update that 16 chapters of the financial manual have been published, three more chapters will be published in December, and that the first three chapters published last year are being updated. Three more will be reviewed in February. The staff expressed that the financial manual is a publication written for school and department level users.

Office of Legislative Audit (OLA) Recommendations

Staff reported to the committee on the progress of the OLA Recommendations. A regulation for receivables has been implemented; a travel memorandum has been distributed to principals and directors; improvements to internal controls and the pharmacy audit have been completed. The recommended hotline has received 41 calls since its implementation in February of 2010. All personnel-related calls are directed to the Office of Human Resources and Development and all others are directed to the Internal Auditor.

Committee members requested that staff create a report on the hotline calls for the full year and have the calls broken down by nature/category. They would like to have this report in February or March.

Operating and Capital Budget

MCPS staff briefed the committee that the operating budget and capital budget is moving forward and that the Office of Legislative Oversight's study is coming out on November 23, 2010. Staff will be getting feedback to the Board to move forward with the budget.

Summary of Actions and Follow-ups

- 1) Report on the Hotline in February or March
- 2) Follow up on the Prescription Vendor Audit
- 3) MSDE report – procurement issue
- 4) Discussion on publishing of the IAF reports - what can be done at the next meeting.
- 5) RFP for external auditor in summer

The meeting adjourned at 11:41 p.m.

Recorder: Becky Gibson