

**BOARD OF TRUSTEES FOR THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
MINUTES OF MEETING**

November 21, 2017

The Board of Trustees for the Maryland State Retirement and Pension System met in the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 12:03 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding

Peter Franchot, Vice Chairman

Eric Brotman

David Hamilton

James Harkins (via phone)

Linda Herman (via phone)

F. Patrick Hughes

Lisa James-Henson

Charles Johnson

Theresa Lochte

Richard Norman

Douglas Prouty

Michael Stafford, Jr.

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess

Angie Jenkins

Ken Reott

Robert Diehl

Michelle Lowery

David Rongione

Anne Gawthrop

Kimberly O’Keeffe

Janet Sirkis

Michael Golden

Andrew Palmer

Toni Voglino

Ira Greenstein

Harvey Raitzyk

Patricia Wild

Assistant Attorneys General attending included: Rachel Cohen, William Mandycz, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan, John Kenney, Justin Hayes, Phillip Anthony, James McKitrick, William Seymour and Tiana Wynn

Consent Agenda

On a motion made by Mr. Prouty and seconded by Mr. Hughes, the Board approved the consent agenda, which included the:

- October 17, 2017 Open Meeting Board Minutes
- November 14, 2017 Audit Committee Meeting Summary

FY2017 System
Active Membership

The Board was presented with the System’s Active Membership by percentage as employed by the State, the libraries, and each local employer. The certified percentages are provided to determine each System employer’s pro rata share of the amount necessary for the administrative and operational expenses of the Board of Trustees and the State Retirement Agency. This report serves as certification of the System’s active membership as of the end of the fiscal year and is submitted to the Secretary of the Department of Budget and Management in accordance with State Personnel and Pensions Article § 21-316(c) of the Maryland Annotated Code.

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On a motion made by Mr. Johnson and seconded by Mr. Hughes, the Board unanimously voted to certify the required membership percentages to the Secretary of Budget and Management, applicable to FY2019.

State Employees	60,141	
State Teachers	1,942	
Local Public Libraries-TCS Teachers	2,411	
Local Public Libraries-ECS Employees	150	
Subtotal State	64,644	34%
Local Boards of Education	109,981	
Local Community Colleges	5,531	
Local Elected & Appointed Officials	58	
Participating Governmental Units	12,159	
Subtotal Local	127,729	66%
Total	192,373	100%

Financial Statements
Report for FYE
June 30, 2017

Mr. Richard Norman, Vice-Chairman of the Audit Committee, presented the System's annual audited financial statement report for the year ending June 30, 2017.

Mr. Norman stated that the financial statements were audited by the System's auditors, SB & Company, and that the statements received an unmodified opinion. Mr. William Seymour and Ms. Tiana Wynn of SB & Company were present for questions.

Mr. Norman also reported that the Audit Committee unanimously accepted the financial statement reports and therefore, was recommending that the Board accept the report for inclusion in the 2017 Comprehensive Annual Financial Report (CAFR).

On a motion made by Mr. Norman and seconded by Mr. Hughes, the Board accepted the FY2017 financial statements for inclusion in the System's Comprehensive Annual Financial Report.

Proposal of the 2018
Board of Trustees
Meeting Dates

The Board was provided with a chart which provides the proposed Board of Trustees meeting dates for 2018.

Mr. Kenderdine asked that the Trustees reserve these dates on their calendars and reminded the Trustees that the Investment Committee and Board will continue to meet on the same day in the months of February, May, September and November.

Treasurer Kopp reported that she, in consultation with Vice-Chairman Franchot and would attempt to rationalize a proposal for modification in order to reduce the number of Board meetings. This proposal will be presented at the December meeting.

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Ms. Herman requested that the November 20th meeting date be moved to the week before or the week after the Thanksgiving holiday.

On a motion made by Ms. James-Henson and seconded by Mr. Hughes, the Board approved the 2018 Board of Trustees Meeting dates, as follows:

Tuesday, January 16, 2018	Tuesday, February 20, 2018*
Tuesday, March 20, 2018	Tuesday, April 17, 2018
Tuesday, May 15, 2018*	Tuesday, June 19, 2018
Tuesday, July 17, 2018	Tuesday, August 21, 2018**
Tuesday, September 18, 2018*	Tuesday, October 16, 2018
Tuesday, November 20, 2018*	Tuesday, December 18, 2018

**Combined Investment Committee and Board of Trustees meetings. Investment Committee meetings will begin at 9:00 a.m., immediately followed by the Board meeting*

The Board of Trustees Education Session will be held on **Tuesday, August 21, 2018.

Medical Board
Physicians

The Board of Trustees was provided a copy of the curricula vitae of Dr. Robert D. Keehn and Dr. David C. Hauser

Mr. Harvey Raitzyk indicated that the law allows for more than one Medical Board and three alternate physicians, should a physician be unable to serve on a Medical Board for any reason. Mr. Raitzyk recommended approval of Dr. Keehn as a permanent member of the Medical Board and Dr. Hauser to serve as an alternate physician, on the System’s Medical Board.

On a motion made by Mr. Hughes and seconded by Mr. Norman, the Board of Trustees approved the addition of Dr. Robert D. Keehn as a permanent member and Dr. David C. Hauser, as an alternate physician, to the Medical Board.

Ratification of the
Board of Trustees
Electronic Vote
regarding Proposed
Legislation
Concerning the
Administrative Fee
Cap

At the recommendation of the Administrative Committee, the Board of Trustees, by electronic vote, approved an additional proposal for legislation to the Joint Committee on Pensions that would:

1. Codify current and long-standing practice for calculating the Agency’s Administrative Fee Cap to include active member salaries, retiree benefits, and inactive member compensation; and
2. Address the fact that the System’s budget will, with the proposed FY2019 budget request, exceed the current Administrative Fee Cap of .22% of payroll. The request for legislation offers alternatives for making this adjustment to the statutory cap.

On a motion made by Mr. Hughes and seconded by Mr. Brotman, the Board of Trustees ratified the electronic vote that approved the proposed legislation concerning the Administrative Fee Cap.

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On a motion made by Mr. Prouty and seconded by Mr. Hughes, the Board voted to meet in a Closed Session, beginning at 12:15 p.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

- a. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- b. reviewing the Medical Board reports regarding individual participants' claims for disability retirement benefits, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and personal information; and
- c. discussing a confidential memorandum from Counsel regarding an overpayment of retirement benefits of an individual participant, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, to consult with counsel to obtain legal advice pursuant to § 3-305(b)(7); and to consult with staff, consultants, or other individuals about pending or potential litigation pursuant to § 3-305(b)(8).

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
Eric Brotman
David Hamilton
James Harkins (via phone)
Linda Herman (via phone)

F. Patrick Hughes
Lisa James-Henson
Charles Johnson
Theresa Lochte
Richard Norman
Douglas Prouty
Michael Stafford, Jr.

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess
Robert Diehl
Michael Golden
Ira Greenstein

Angie Jenkins
Michelle Lowery
Kimberly O'Keeffe
Andrew Palmer

Harvey Raitzyk
Ken Reott
Janet Sirkis
Toni Voglino

Assistant Attorneys General attending included: Rachel Cohen, William Mandycz, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan, John Kenney and Justin Hayes

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Executive Director's
Report

Mr. Kenderdine introduced Robert Diehl, who was hired as the new Deputy Chief Information Systems Officer. Mr. Diehl previously worked at the Department of the Environment.

Mr. Kenderdine reported that the Agency's Holiday Party and Employee Service Awards event is scheduled for Wednesday, December 20, 2017 beginning at 12:00 p.m. and all Trustees are invited to attend.

Mr. Kenderdine reported that on Wednesday, December 6, 2017, the Joint Committee on Pensions would be meeting at 2:00 p.m. for its third and final time for the 2017 interim and would be receiving the annual "Investment Overview" as prepared by the Department of Legislative Services, followed by the System's response by Mr. Palmer. In addition, the Committee will make its decision on Board requested legislation.

Treasurer Kopp commented that Trustees Johnson, Norman and Lochte attended the last JCP meeting, to show their support, which makes a difference. Treasurer Kopp encourages Trustees to attend the meetings in the future.

Mr. Kenderdine reported that postcards were now being mailed to members who request an estimate, acknowledging receipt of their request. Mr. Kenderdine also reported that for those members who included an email address on their application for an estimate, an acknowledgment of receipt was being sent electronically via email.

On a motion made by Mr. Brotman and seconded by Mr. Hughes, the Board returned to open session at 12:28 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
Eric Brotman
David Hamilton
James Harkins (via phone)
Linda Herman (via phone)

F. Patrick Hughes
Lisa James-Henson
Charles Johnson
Theresa Lochte
Richard Norman
Douglas Prouty
Michael Stafford, Jr

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess
Robert Diehl
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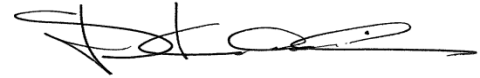
November 21, 2017

Other attendees included: Susanne Brogan, John Kenney and Justin Hayes

During closed session, the Board of Trustees discussed and took action on the following matters:

Closed Session Minutes	The Board reviewed and approved the October 17, 2017 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from October 18, October 26, November 1, November 9 and November 15, 2017.
Recovery of Benefits Overpayment Matter	The Board reviewed and adopted the recommendation of Counsel regarding the recovery of a benefits overpayment matter.
Adjournment	There being no further business before the Board, on a motion made by Mr. Brotman and seconded by Mr. Hughes, the meeting adjourned at 12:29 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

**BOARD OF TRUSTEES
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**AUDIT COMMITTEE MEETING SUMMARY
November 14, 2017**

Presentation of
FY 2017 MSRPS
Financial Statement
Audit Results

THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA IN OPEN SESSION.

Mr. William Seymour presented the Committee with the FY 2017 financial statement audit results. The scope of services provided included auditing the financial statements, as well as the Schedule of Contribution and Pension Amounts, required by GASB 68. He informed the Committee that both of these will receive an unmodified opinion. The audit noted no instances of fraud, or material weaknesses in internal control. He stated that SB & Company had an open relationship with management, and received their full cooperation.

Mr. Seymour noted that for FY 2017, cash and investments increased. The level of funding also increased.

Mr. Seymour generally described how investments were categorized for purposes of valuation. About half are considered to be level 1 investments, which had values that were readily determinable. Others are Level 2 and Level 3 investments. Level 2 investments, such as fund-of-funds, have some observable inputs. Level 3 investments do not have observable inputs, and have a greater valuation risk.

Mr. Seymour told the Committee that the audit reviewed the actuarial assumptions used to determine pension liabilities. The auditors looked at the assumptions and tested their related data. No issues were noted.

Mr. Seymour told the Committee that there were no significant items to be disclosed in the Required Communications section, and that there were no significant audit adjustments.

Mr. Kenderdine thanked SB & Company for their support and assistance with GASB 67 & 68 implementation. He noted that they were especially helpful in dealing with the System's participating employers for GASB 67 and 68.

Mr. Hughes asked how pension liabilities were allocated to participating employers. Mr. Smith responded that SB & Co. prepares a separate report that identifies each employer's liability.

On a motion made by Mr. Hughes, and seconded by Ms. Lochte, the Committee accepted the FY 2017 MSRPS Draft Financial Statements.

Mr. Hughes expressed the Committee's appreciation of the clean audit report, with no required adjustments. He noted that the Board of Trustees will need to approve the financial statements in their November meeting, and asked that staff provide the Board with them as soon as possible.

Presentation of
FY 2017 Participating
Employer Audit
Results

Thomas Rey presented the results of 60 audits performed by CliftonLarsonAllen in FY 2017. He told the Committee that the audits support the System's reporting for GASB 67 & 68, by looking at employers' underlying census data. All of the System's 129 participating employers are audited on a three-year cycle. Sampling was used for most audit tests.

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***AUDIT COMMITTEE MEETING SUMMARY
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Mr. Rey provided bar graphs comparing the findings for the current and previous audits of this group of employers. He told the Committee that there was an overall decrease in the number of audit findings in terms of both the number of affected employers, and the number of affected accounts. He also provided a table summarizing the audit results, by objective, for each employer.

Mr. Hughes stated that the results show employer compliance is moving in the right direction, and that the Agency's educational efforts are effective.

Mr. Kenderdine recognized the efforts of Ken Reott and Retirement Administration in communicating with participating employers to resolve issues. He noted that usually an issue has been resolved prior to sending the employer a letter notifying them of the audit results.

Ms. Lochte asked if the Agency communicates results to employers when their audits have no findings. Mr. Rongione responded that Internal Audit sends letters to officials of employers with no audit findings, commending them for their efforts.

Internal Audit Staffing
Update

Mr. Rongione introduced Richa Sultana, the newest member of the Internal Audit team. He noted that Richa has financial statement audit experience, and is a CPA.

CY 2018 Audit
Committee Meeting
Dates

On a motion by Mr. Hughes, seconded by Ms. Hill, the Committee approved the following CY 2018 Audit Committee meeting dates:

- January 16, 2018;
- April 17, 2018;
- July 17, 2018; and
- November 13, 2018.

Status of
FY 2018
Audit Plan

Mr. Rongione provided the Committee with a status update for the FY 2018 audit plan.

For full-scope audits, the System Transfer Processing audit has been completed. Audits of Retiree Earnings Limitations, Deceased Payments, Buy Backs, and Manual Check Processing are currently in progress. An audit of Disability Claims is planned, but has not started.

For outsourced audits, a risk assessment of investment activities and an audit of private equity processes are currently underway. A future audit of another investment asset class is planned, and will be determined by the risk assessment results.

There are 68 audits of participating employers to be completed in FY 2018. Of these, 25 are currently in progress, and the remaining 43 have not started.

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***AUDIT COMMITTEE MEETING SUMMARY
November 14, 2017***

Status of
Open Issues Log

Mr. Rongione provided a summary of open audit issues. For FY 2018, a total of five open issues were closed, and five new issues were added, bringing the balance of currently open issues to 11.

The Committee also received a listing of the open audit issues. Mr. Rongione told the Committee that five issues related to the System Transfer Audit have been recently added. Additionally, of the three issues related to the Electronic Funds Transfer Audit, two have reportedly been addressed by Finance and the third is about to be addressed. These will be tested prior to the next Audit Committee meeting.

Two open issues related to the Power of Attorney Audit and the Network/Server Maintenance & Support Audit will be tested in December. The remaining open issue, related to the Eligibility Service audit, requires an update to statute, and is scheduled to be included in the next update.

Completed Audits

Mr. Rongione summarized the results of the recently completed audit of the system transfer process. He noted that the audit had an overall rating of "green". Five minor deficiencies were noted. Agency management has agreed to implement corrective actions to address problems identified in the audit.