

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

November 17, 2020

The Board of Trustees for the Maryland State Retirement and Pension System convened, via video/audio conference call beginning at 1:01 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Thomas Brandt	Linda Herman
David Brinkley	Sheila Hill
Eric Brotman	Richard Norman
James Daly	Douglas Prouty
	Michael Stafford, Jr.

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

Melody Countess	Angie Jenkins	Ken Reott
Mimi Forbes	Van Lewis	David Rongione
Anne Gawthrop	Kim O’Keeffe	Janet Sirkis
Michael Golden	Andrew Palmer	Toni Voglino
Ira Greenstein	Chandra Puranam	Scott Bolander (live stream)

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Other attendees included: Justin Hayes and Alex Walinskas (Comptroller’s Office); and Brad Armstrong, Brian Murphy, Jeff Tebeau and Amy Williams (GRS)

Consent Agenda

Treasurer Kopp reported that there was an issue, reported in the Audit Committee meeting summary, regarding non-compliance with Participating Governmental Units (PGUs), that would be addressed later in the agenda.

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

- October 20, 2020 Open Meeting Board Minutes
- November 13, 2020 Audit Committee Meeting Summary

Presentation by  
GRS regarding the  
FY20 Valuation  
Results and  
Recommendations  
for FY22  
Contribution Rates

Mr. Kenderdine introduced representatives from Gabriel Roeder Smith & Co. (GRS), the System’s actuarial firm to present the results of the FY20 valuation and recommendations for FY22 employer contribution rates, for the Board’s consideration and certification.

Ms. Williams reported on the funding objectives, which showed that the actuarial contribution rate for the aggregate of all State plans decreased by 0.25% of payroll this year and that the funded ratio improved this year on an actuarial value of assets basis and on a market value basis.

Ms. Williams also reported that the recommended contribution rates for FY22 decreased for all systems, except for the Judges’ Retirement System.

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On a motion made by Mr. Prouty and seconded by Ms. Hill, the Board certified the Fiscal Year 2022 State employer contribution rates, as follows:

<b>Fiscal Year 2022 - State</b>	
Teachers	14.67%
Employees	20.50%
State Police	75.30%
Judges	41.92%
LEOPS	42.28%

The Board also approved the Fiscal Year 2022 Municipal employer contribution rates, as follows:

<b>Fiscal Year 2022 - Municipal</b>	
Employees	7.04%
LEOPS	34.21%
CORS	11.06%

Financial  
Statements Report  
for  
FYE June 30, 2020

David Hamilton, Chairman of the Audit Committee, reported that the System's annual audited financial statements for the year ending June 30, 2020, were presented to and reviewed by the Audit Committee at its November 13, 2020 meeting.

Mr. Hamilton stated that the financial statements were audited by the System's auditors, CliftonLarsenAllen, and that the statements received an unmodified opinion.

Therefore, on a motion made by Mr. Hamilton and seconded by the Committee, the Board accepted the FY2020 financial statements for inclusion in the System's FY2020 Comprehensive Annual Financial Report.

Mr. Haines asked that staff provide the Board with a copy of last year's numbers for comparison.

Mr. Kenderdine responded that he would do so.

FY2020 System  
Active Membership

The Board was presented with the System's Active Membership by percentage as employed by the State, the local public libraries, and each participating 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. Brotman and seconded by Mr. Norman, the Board unanimously voted to certify the required membership percentages to the Secretary of Budget and Management, applicable to FY2022, as follows:

State Employees	59,208	
State Teachers	1,996	
Local Public Libraries-TCS Teachers	2,491	
Local Public Libraries-ECS Employees	<u>145</u>	
<b>Subtotal State</b>	<b>63,840</b>	<b>33%</b>
Local Boards of Education	113,359	
Local Community Colleges	5,516	
Local Elected & Appointed Officials	56	
Participating Governmental Units	<u>12,497</u>	
<b>Subtotal Local</b>	<b><u>131,428</u></b>	<b>67%</b>
<b>Total</b>	<b>195,268</b>	<b>100%</b>

Recommendation to  
Adopt Emergency  
Amendments to  
COMAR  
22.03.01.06 –  
Nomination of  
Candidates

Mr. Kenderdine reported that it was necessary to bring back to the Board, the matter of the emergency regulations that would temporarily reduce the number of signed nominations needed to be placed on the ballot as a candidate for election to the Board of Trustees. He reported that following the Board's approval of the emergency regulations in October, the leadership of AFSCME expressed concern that reducing the number of signed nominations to 50 was too low and requested that the number be raised.

Therefore, after speaking with representatives of AFSCME and MSEA, staff recommends that the Board approve the proposed amendment to the emergency regulations, to temporarily reduce the number of signed nominations to 150 signatures, needed to be placed on the ballot as a candidate for election to the Board of Trustees, for submission to the Administrative, Executive and Legislative Committee.

On a motion made by Mr. Haines and seconded by Mr. Brotman, the Board of Trustees voted to adopt the amendment to the emergency regulations to temporarily reduce the number of signed nominations to 150 signatures, needed to be placed on the ballot as a candidate for election to the Board of Trustees to submit them to the Administrative, Executive, Legislative and Review Committee.

Presentation of a  
Work Plan for  
Request for  
Proposal for a  
General Investment  
Consultant

Mr. Brotman reported that the contract for the General Investment Consultant of the System had been renewed for one final year and expires as of June 30, 2021 and that there are no additional renewals available to be exercised. Therefore, a Key Service Provider procurement must be completed prior to the expiration of the current contract.

Mr. Brotman reported that the workplan provided to the Board was taken from the template used in 2014 and provides that finalists will be presented to the Board at its meeting in May 2021.

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The Board was provided with the following timeline for completing the search:

DATE	ITEM
November 17, 2020	Process description to the Investment Committee and Board
January 11, 2021	RFP draft circulated to the Investment Committee and Board
February 1	Issue RFP
February 15	Due date for vendor questions
February 22	Responses to questions distributed to vendors
March 5	Completed proposals due
March 8 - April 30	Staff committee reviews proposals and conducts preliminary interviews, then summarizes and provides an analysis of each of the finalists to Investment Committee and Board.
April 30	Best-and-final offers, if requested
May 18	Finalists present to the Investment Committee, and subsequent Board approval
May 19 - June 30	Contract negotiations
July 1, 2021	New contract period begins

Presentation of a  
Work Plan for  
Request for  
Proposal for an  
Executive Search  
Firm

Mr. Kenderdine reported that with his decision to retire from State service and step down as executive director of the System, it is recommended that the Board procure the services of an executive search firm to facilitate the identification and selection of the System's next director.

Mr. Kenderdine reported that the procurement can be conducted as a "small procurement" under State regulations at COMAR 21.05.07. The Board was provided with the following workplan that outlined the timeline for that procurement.

DATE	ITEM
November 17, 2020	Submit work plan to Board of Trustees.
November 20, 2020	Submit draft Small Procurement Solicitation for internal review by SRA Legal Division.
December 3, 2020	SP Solicitation for Executive Search Services finalized by SRA Procurement and Executive Director.
December 15, 2020	Issue SP Solicitation to eMaryland Marketplace Advantage (eMMA) and directly solicited firms.
December 29, 2020	Completed proposals due.
December 29, 2020 – January 12, 2021	Evaluation period. Evaluation Committee reviews proposals and conducts preliminary interviews of all qualified candidates. The Evaluation Committee will then identify finalist based upon the candidates' technical and financial proposals. Procurement review with BAFO.
January 19, 2021	Finalist presented to the BOT.
February 1, 2021	Contract begins.

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Treasurer Kopp reported that there would be a committee established of 5-7 people to work with the firm through the entire process, to create a job description and interview candidates, in order to have the nominee in place to transition before the end of June.

CIO Report

Mr. Palmer provided the Board with two fund tear sheets, one as of September 30, 2020, which showed that the total fund value at \$57.3 billion, with a fund return of -1.02% for the month and a return of 8.47% for the trailing year. The second tear sheet provided preliminary numbers, as of October 31, 2020, which reported that the total fund value was approximately \$56.9 billion. The report also showed that the fund's return for the month was -0.35% and 5.57 fiscal year to date.

Treasurer Kopp congratulated Mr. Palmer and his staff with the fund performance in tough times.

Executive Director's  
Report

Mr. Kenderdine discussed the results of the most recent audit of Participating Governmental Units (PGU) and a related issue addressed during the Audit Committee meeting on November 13, 2020. Mr. Kenderdine reported that these audits are conducted annually, with one-third of all PGUs included. With this schedule, each PGU is subject to audit once every three years. These are compliance audits where each PGU is assessed for consistent and accurate adherence to the requirements to properly enroll new members, ensure payroll data and unused sick leave is accurately reported, and to ensure that wage file data is accurate and reported.

Mr. Kenderdine stated that the report by the System's auditors, CliftonLarsenAllen identified a number of PGUs that were found out of compliance with a number of the requirements, not just for this most recent audit but in previous audits as well. Mr. Kenderdine reported that the Audit Committee requested a workgroup, composed of Agency staff, be established to consider and recommend to the Board additional enforcement actions that would bring the PGUs into compliance. The workgroup would be comprised of himself, David Rongione, Ken Reott, Melody Countess and someone from the Agency's legal office.

Mr. Hamilton commented that it is the role of the Audit Committee to put a spotlight on these issues, not to be a watchdog, but to be proactive. He suggested that staff speak with the PGUs representatives in the legislature as part of this effort.

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Mr. Kenderdine reported that with the help of Trustee Brotman a conference call was conducted with investment staff and representatives of the Maryland Public Policy Institute (MPPI), to discuss MPPI's past critiques of the System's investment program, in particular its level of passive investment, the direction being taken to bring certain assets in-house, and the rationale for its level of alternative investments. Mr. Kenderdine commented that he believes that overall, it was a positive and productive discussion.

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Mr. Brotman commented that he felt the discussion went well.

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Mr. Kenderdine reported that the next meeting of the Joint Committee on Pensions is scheduled for Wednesday, December 9, 2020 beginning at 2:00 p.m.

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Mr. Kenderdine reminded the Board that the December meeting, scheduled for December 15, 2020, will include the second half of the Board education session, with the monthly Board meeting immediately following.

On a motion made by Mr. Brotman and seconded by Mr. Prouty, the Board voted to meet in a Closed Session, beginning at 1:38 p.m., via video/audio conference call, for the purposes of:

- a) reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosure about a particular proceeding or matter, namely General Provisions Art., § 3-306(c)(3)(ii), requiring that the minutes of a closed session be sealed and not be open to public inspection; and
- 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 psychological information.

**CLOSED SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Thomas Brandt	Linda Herman
David Brinkley	Sheila Hill
Eric Brotman	Richard Norman
James Daly	Douglas Prouty
	Michael Stafford, Jr.

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

Melody Countess	Angie Jenkins	Ken Reott
Mimi Forbes	Van Lewis	David Rongione
Anne Gawthrop	Kim O'Keeffe	Janet Sirkis
Michael Golden	Andrew Palmer	Toni Voglino
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Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Other attendees included: Justin Hayes and Alex Walinskas (Comptroller's Office)

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On a motion made by Mr. Norman and duly seconded, the Board returned to open session at 1:48 p.m., via video/audio conference call.

**OPEN SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Thomas Brandt	Linda Herman
David Brinkley	Sheila Hill
Eric Brotman	Richard Norman
James Daly	Douglas Prouty
	Michael Stafford, Jr.

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

Melody Countess	Angie Jenkins	Ken Reott
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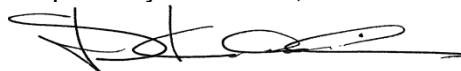
Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Other attendees included: Justin Hayes and Alex Walinskas (Comptroller’s Office)

During closed session, the Board of Trustees discussed and acted on the following matters:	
Closed Session Minutes	The Board reviewed and approved the October 20, 2020 closed session minutes.
Medical Board Reports	<p>Upon recommendation of staff, one disability case from the October 28, 2020 medical board report was removed for further review.</p> <p>The Board reviewed and adopted the medical board reports from October 22, October 28, and November 5, 2020.</p>

**Adjournment**      There being no further business before the Board, on a motion made by Mr. Norman and seconded by Mr. Prouty, the meeting adjourned at 1:50 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

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***AUDIT COMMITTEE MEETING SUMMARY  
November 13, 2020***

Presentation of  
FY2020 Financial  
Statement Audit  
Results by  
CliftonLarsonAllen

Mr. Rey from CliftonLarsonAllen (CLA) introduced himself and his firm noting that their office is based in Baltimore, MD although they work with many other State and Local Retirement Agencies throughout the country. He mentioned that the terms of their engagement included expressing an opinion on whether the financial statements are presented in accordance with GAAP. The scope of the audit also included reporting on internal control and compliance with laws, regulations, contracts and grants although no opinions are issued on these subject matters. Mr. Rey said the audit is not completed yet and his team is currently working on the draft financial statements. He expects no material adjustments to the final version of the financial statements and anticipates to issue an unmodified opinion.

Mr. Rey then turned it over to Mr. Piotrowski to present the results of the audit summary and the draft financial statements to the Audit Committee. Mr. Piotrowski introduced himself mentioning that he has significant experience with auditing State and Local Governments and their retirement and pension plans. He reviewed the timeline of the audit noting that the engagement was accepted in September 2020 when introductory meetings were held and audit timeline was discussed with management. Mr. Piotrowski also mentioned that they performed their risk assessment, internal control evaluation and testing, and fraud inquiries during the same time period. During September, October and November 2020, Mr. Piotrowski and his team performed substantive testing including sending out confirmations to third parties. Mr. Piotrowski said they sent out confirmations to the Investment managers as well as to the members regarding contribution amounts. He said that the audit is now in the process of being wrapped up and they have provided their final comments to management. Mr. Rey mentioned that this year was their first year performing this audit. He noted that going forward, the preliminary work of the audit will be performed prior to year end and the audit timeline will look different on a go forward basis.

Mr. Piotrowski reviewed the results of their key risk assertions which was assessed from a Balance Sheet and Income Statements perspective. He noted that there were four assertions with “red” tick marks that are considered to be significant risks. The first one was the management override of controls. Mr. Piotrowski mentioned that all audits will have this risk. The second one was improper revenue recognition due to not recording them in the proper period. The third one was valuation of investments and investment income. Mr. Piotrowski noted that they sent out confirmation to fund managers and third parties to gain comfort over these valuation numbers. The fourth one was the valuation of net pension liability. He said that a 3<sup>rd</sup> party actuary was involved by CLA regarding this process. Then Mr. Piotrowski presented the executive summary noting that CLA anticipates to issue an



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unmodified opinion meaning that the financial statements are presented in accordance with GAAP. He also said that limited procedures were performed on CAFR to ensure it was fairly stated. He noted that no specific opinions will be issued on these CAFR components. He also noted that no material noncompliance was noted in terms of laws, regulations, contracts and grants.

Mr. Piotrowski then reviewed the footnote disclosure items including net position, net investment income, benefits and refunds, and discount rate. Mr. Piotrowski mentioned that the annual money-weighted rate of return is noted as 3.56% in the presentation which will be updated to 3.50% in the final report.

Mr. Hamilton thanked CLA for their presentation and asked if anybody has any questions for Mr. Piotrowski. Mr. Brandt said he would like to learn more about the process of determining materiality because the numbers seem very high. He is concerned if errors happen under the material amounts determined by CLA, it might go undetected. Mr. Hamilton asked whether it's a discussion to be held outside of the Audit Committee meeting and Mr. Brandt agreed.

Mr. Norman noted that the net position represents 70.7% of total pension liability which he believes, is an increase compared to prior years. He said it may mean the Agency is moving towards being fully funded and he will review the prior year reports to compare against current year to confirm.

Mr. Rey mentioned that they received the current version of the financial statements from management yesterday which is currently under review by his team. In addition, CLA's national office is performing a quality control review as well. He also mentioned that since this is their first year of opining on the Agency's financial statements, if the Audit Committee has any suggestions or comments, they will be open to incorporate them into the final version of the financial statements.

Presentation of  
FY2020 Results of  
Participating Employer  
Audits by  
CliftonLarsonAllen

Mr. Rey mentioned that unlike the financial statements audit, CLA has been performing the Participating Governmental Unit (PGU) audits for many years. He noted that this engagement is an Agreed Upon Procedures which involves reviewing the PGUs on a three years rotating cycle. He said that every year approximately 50 employers are included in their review. Mr. Rey then turned it over to Mr. Maranto to briefly provide a high level summary of the results.

Mr. Maranto noted that there were seven objectives included in their review where #7 was newly added during current year (mid-year) and approximately half of the employers were subject to this testing. He also

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mentioned that objective #6 is related to any new PGUs which was not applicable for current year's review since there were no new PGUs added.

Mr. Maranto then provided the findings summary by each objective as noted below:

**Objective #1:** *9 of 65 employers failed to enroll eligible employees out of which 4 employers had similar findings in both current and prior audits.*

**Objective #2:** *1 of 65 employers enrolled an ineligible employee. The employee was full time however, the person held a contractual position therefore not eligible to enroll.*

**Objective #3:** *27 of 65 employers had misreported payroll data out of which 16 employers had similar findings in both current and prior audits. This objective has a high volume of repeat findings. Mr. Norman mentioned that it appears that Prince George's and Baltimore City had the majority of the repeat findings. He said it might be beneficial to include these repeat offenders more often rather than including them in the review every three years. Mr. Maranto said he will review the repeat offenders in detail later in the presentation.*

**Objective #4:** *4 of 51 employers had incorrect employee or salary information included in their annual billing report of which 1 employer had similar findings in both current and prior audits.*

**Objective #5:** *19 of 65 employers had misreported unused sick leave balances of which 8 employers had similar findings in both current and prior audits. In most cases, the employers did not provide the corrective documentations to MSRA.*

**Objective #6:** *N/A*

**Objective #7:** *19 of 32 employers had incomplete and/or misreported wage file data. Instances were noted where wages were underreported by excluding the contractual employees and reporting net of pretax withholdings wages instead of gross wages.*

Mr. Maranto also reviewed the status of the management responses noting that 10 employers did not provide any response on corrective actions. Mr. Maranto and his team are following up with employees of these 10 PGUs to gather response and they are aiming to receive them by the end of November 2020.

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Mr. Hamilton wanted to review the section of the presentation that had the detail regarding the PGUs with repeat findings. Mr. Norman suggested that these employers should be reviewed more often and he wanted to discuss what the Agency can do to improve the current situation. Mr. Hamilton said he had a discussion with Mr. Kenderdine on the PGUs with repeat findings. He wanted to discuss further about establishing a threshold, the magnitude of the issue, what it means in terms of dollars and the Agency's responsibility in remediating these issues. Mr. Norman added by saying that Mr. Kenderdine was meeting with a lot of the PGUs regarding this matter therefore, a lot of time, effort and money have been involved in this.

Mr. Kenderdine mentioned that he issues letters to the Chief Executives of the PGUs after completion of CLA's review. He added by saying that the time period between issuing the letters and the next year's review, the Agency works with the PGUs to help them in complying with the requirements. Mr. Hamilton suggested that the Agency comes up with the top 10 PGUs that have repeat findings, materiality of those noncompliance and then determine recommendations in remediating this issue. Mr. Hamilton mentioned that in private industry, if the requirements are not complied with, proactive approach is taken to ensure proper compliance and the Agency should do the same. Mr. Norman added by saying that in his experience with the State police, funding was withheld in instances of noncompliance.

Mr. Hamilton mentioned a separate issue regarding unpaid invoices from PGUs. He said the total amount of unpaid balance is significant. He suggested to prepare a list employers with highest unpaid balances, prepare a report and then present it to the Board. He asked Mr. Rongione whether a report can be prepared within 30/45 days including the names of the PGUs that have repeat findings and unpaid balances. Mr. Rongione answered by saying that it is doable without any issues.

Mr. Kenderdine elaborated on the unpaid invoices by saying that many State and Local employers failed to enroll new employees in the system in a timely fashion. The Agency sought legislative authority and decided to charge \$100 per person per year if employees are not enrolled in a timely fashion. A number of PGUs did not pay this amount charged by the Agency which contributed to this high unpaid balance. He mentioned that he worked with the Deputy Secretary of the budget department to resolve this matter.

Mr. Hamilton suggested that the Audit group works with CLA to identify the PGUs with repeat findings and PGUs with unpaid invoices to be presented to the Board. Mr. Norman and Mr. Brandt agreed with this approach. Mr. Hamilton also asked Mr. Kenderdine to distribution the

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report on unpaid invoices to Mr. Norman and Mr. Brandt.

Proposed Revisions to  
the Charter for the  
Audit Committee

Mr. Kenderdine mentioned that the governance charters of the System has been in place since 2003 and reviewed every three years. He noted that changes were made to the Charter to include ethics reporting within the investment division. He added by saying this will include routine reporting and reviews from Chief Investment Officer from an ethical standards.

Mr. Rongione reviewed the three changes made to the Charter back in 2018 including removing the phrase “including scope and objectives of audits, and the allocation of resources”; replacing “approve all” with “review the appointment of all” external audit, attestation and other audit services; and removing a specific reference to “human resource” policies.

Status of FY2021  
Audit Plan

Mr. Rongione reviewed the status of the FY2021 audit plan noting that the planning phase of the FY2020 Q3 & Q4 Full Network Security audit has been completed and the fieldwork is in progress. For the continuous audits, Mr. Rongione mentioned that Internal Audit has preliminary identified 13 audits and the automated script writing is currently in progress. He mentioned that this year Internal Audit is performing eight PGU audits internally and the planning phase of these audits have been completed for all and three audits are currently at the fieldwork stage. Mr. Rongione then reviewed the status of the outsourced audits noting that planning phase is completed for one of four audits and the fieldwork of that audit in currently in progress. Three of four outsourced audits have not yet been started.

Status of Open Issues  
Log

Mr. Rongione presented the listing of open issues noting that Internal Audit was able to close out five issues and added five new issues due to completion of two audits.

Completed Audits

Mr. Rongione reviewed the results of the two completed audits with the Audit Committee.