

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

January 9, 2012

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, January 9, 2012. 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. 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
Mr. James Song, Director, Department of Facilities Management
Mr. Philip McGaughey, Director, Division of Procurement
Dr. Donna Hollingshead, Community Superintendent

Guests: Mr. Craig Howard, Legislative Analyst, Montgomery County Council Office of Legislative Oversight
Mr. Aron Trombka, Senior Legislative Analyst, Montgomery County Council Office of Legislative Oversight

The meeting was called to order by Mr. Philip Kauffman, chair, at 10:01 a.m.

Approval of December 5, 2011 Meeting Minutes

The meeting minutes of December 5, 2011, were approved as amended.

Office of Legislative Oversight Review of MCPS Budget Category 12

Office of Legislative Oversight (OLO) staff provided a summary of its report that was presented to the Montgomery County Council Education Committee in December and will be presented to the full Council and full Board at the County Council's meeting on January 17, 2012. The report explored the two main drivers of category 12 expenditures: retirement costs and group insurance. The discussion focused primarily on the Montgomery County Public Schools (MCPS) pension fund funded ratio and group insurance fund balance. The FY 2011 funded ratio of 70% is higher than the state pension funded ratio of 65% but slightly lower than the county's funded ratio,

which is in the high 70's. The overall downward trend in the funded ratio is of concern and staff is working on a multiyear strategy to reverse that trend.

There was further discussion about whether or not there is a benefit to having a fixed insurance fund balance target and whether each county agency should have the same fund balance policy. OLO staff made clear that there is no right or wrong answer, but rather, issues to be explored.

The issue of the pension fund will be brought to the next Fiscal Management committee meeting, where staff will present where we are and how it works to get to the 100 percent.

Independent Activity Fund Audit Reports and Accountability of Principals

Committee members reiterated the desire to have the Independent Activity Fund (IAF) audit reports, including the principal's response, available online. MCPS staff shared that audits have become more action oriented and that principals now use a standard response template developed by the Office of School Performance. Committee members requested that staff, in preparing for the reports being posted online, be sure to address the following concerns: any privacy issues associated with the principal's response and possible overlaps with personnel issues.

Additionally, they affirmed that providing public access to the IAF report is fundamentally about holding principals accountable for their fiscal responsibilities, as well as holding the school system accountable for providing proper support to principals in this area.

The Committee members requested that the Chief Operating Officer bring to the Committee a recommendation on where the audits will be housed, what the format will look like, and what the principal's response would look like.

A-133 Audit Report

MCPS staff reported that the external auditors, CliftonLarsonAllen, issued a clean opinion regarding MCPS' use of \$160M federal grant funds in FY 2011. The government requires recipients of federal funds to make sure that those funds were applied in compliance. However, the auditors issued one finding related to time and effort certifications not documented in accordance with MCPS' procedures. This could result in questions by the grantor or pass-through agency. Staff will be sending schools new guidance on procedures for grant funded positions.

Minority Business Participation

MCPS staff reported that they continue to look at strategies to increase minority, female or disable-owned business participation in MCPS contracting (both procurement and construction) with the goal of having higher participation than required by the state. Committee members shared that they continue to hear that there is difficulty gaining entre to MCPS contracting opportunities. MCPS staff said that they are doing more outreach and working with other governmental offices to attract qualified candidates. Additionally, they are conducting pre-contract evaluations to help ensure a good match between a company and the needs of MCPS.

Health Benefit Plan Mid-Year Update

MCPS staff provided year-to-date expense trends for both active employee and retiree expenses. Year-to-date expenses for active employees are 0.4% (\$1M) below projections while year-to-date expenses for retirees are 3% (\$2.7M) above projections. MCPS staff also presented a sample monitoring tool which included very detailed actual and projected revenues and expenses. Committee members agreed with staff that the tool would be helpful but suggested that Board members do not need this level of detail in the sample tool.

MCPS staff will work on a compilation of a shorter simplified report to bring to the committee. Staff will also come back to the committee with a discussion on the best way to manage getting to the five percent funding ratio in the next several years.

Updates*Vendors for 403(b) and 457(b) Plans*

MCPS staff informed the Committee members that a conversation with the employee associations about a long term strategy for increasing participation in MCPS tax-sheltered savings plans began in December. Regulations on 403(b) and 457(b) have intensified and are moving to reduce the number of vendors.

Proposed County Legislation

Staff shared that the county executive is proposing county legislation that would codify current procurement policies used by Boards overseeing investment programs. The legislation would require including emerging investment managers in searches if the firms meet the search criteria. The stated purpose of the bill is to ensure opportunity for participation, provide transparency, and ensure that the intent and goals of current practices remain in place.

Summary of Actions and Follow-ups

- 1) Follow up from Mr. Bowers

The meeting adjourned at 12:16 p.m.

Recorder: Becky Gibson