

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

July 16, 2013

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, Baltimore, Maryland beginning at 10:08 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Sheila Hill
Peter Franchot, Vice Chairman	F. Patrick Hughes
David Blitzstein	Major Morris Krome
John Douglass	Theresa Lochte (via telephone)
Robert Hagans	Harold Zirkin
James Harkins	Thurman Zollicoffer

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

Anne Budowski	Michael Golden	Kenneth Reott
Robert Burd	Ira Greenstein	Ben Robb
Margaret Bury	Angie Jenkins	Janet Sirkis
Melody Countess	Van Lewis	Toni Voglino
Patricia Fitzhugh	Robin McClelland	
Anne Gawthrop	A. Melissa Moye	

Assistant Attorneys General present included: Deborah Bacharach, Rachel Cohen and Melissa Warren.

Also attended by: Phillip Anthony, Nathan Bowen, Carlton Byrd, Randy Mickens, Rick Norman, Michael Rubenstein and Dana Tagalicod.

Consent Agenda

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board approved the consent agenda, which included:

- June 18, 2013 Open Meeting Board Minutes
- June 18, 2013 Audit Committee Report

Committee Assignments

In accordance with Board Operations Policy revised and adopted December 21, 2010 by the Board of Trustees, the Board must appoint members and officers of each committee to serve for the period August 1, 2013 through July 31, 2014.

At the request of Treasurer Kopp, in light of the fact that two new Trustees will be joining the Board of Trustees, the Board agreed to defer the assignment of Committee members until the Board's August meeting.

**Process Overview –
Applying for Disability
Retirement Benefits**

Ms. Margaret Bury and Ms. Robin McClelland provided the Board with a packet of documents which outlined the process for administering disability retirement benefits.

Ms. Bury reported that of the 140,000 Maryland retirees, 16,247 (approximately 11.6%) retirees receive disability retirement benefits.

Comptroller Franchot requested that Agency staff provide the Board a breakdown of the number of ordinary and accidental disability retirees from the past two years.

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Treasurer Kopp inquired as to how Maryland's number of disability retirements compare to other States. Ms. Bury indicated that the National Association of State Retirement Administrators (NASRA) conducted a survey comparing State retirement systems, which Ms. Bury could provide to the Board.

CIO Report

Dr. A. Melissa Moye reported that there was a slightly negative return for the month of May, 2013 and that the current total fund market value was \$41.0 Billion.

Dr. Moye reported that the fund was performing over the policy benchmark at 181 basis points for the fiscal-year-to-date.

Dr. Moye reported that seven of the eight asset classes have exceeded the policy benchmark.

Executive
Director's
Report

Mr. Kenderdine reported that the Maryland State Retirement and Pension System received for the twenty-fourth consecutive year the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2012.

Mr. Kenderdine informed the Board of the results for the Employees' System Representative election. Mr. Kenderdine reported that James A. Bush, Jr. has received the majority of all votes cast.

Mr. Kenderdine reported that Mr. Bush is currently a budget analyst with the Maryland Transit Administration. Mr. Bush previously served as a trustee of the Baltimore City Employees Retirement System and the Baltimore City Elected Official Retirement System for 10 years, the last three as board chairman. Mr. Bush was subsequently employed as a financial advisor with Merrill Lynch. Mr. Bush holds degrees in business/finance and chemistry from the University of Baltimore and Loyola University.

Treasurer Kopp announced that Governor O'Malley has reappointed F. Patrick Hughes, as Trustee, to serve another four-year term, beginning July 1, 2013.

Resolution
Presentation

On behalf of the Board of Trustees, Treasurer Kopp and Comptroller Franchot presented Ms. Sheila Hill with a Board resolution in recognition of her 9 years as Trustee to the System. In addition, Ms. Hill was presented with a certificate and pin in recognition of her 25 years of service to the citizens of Maryland. Ms. Hill expressed words of appreciation to her fellow Trustees and agency staff.

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CLOSED SESSION

On a motion made by Mr. Harkins and duly seconded, the Board voted to meet in a Closed Session (11:38 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. approving the closed session minutes, pursuant to State Government Article § 10-503(a)(1)(i), the exercise of an administrative function;
2. discussing the 2013 Performance Self-Evaluation of the Board of Trustees, pursuant to State Government Article § 10-503(a)(1)(i), the exercise of an administrative function
3. approving the Medical Board reports, pursuant to State Government Article § 10-508(a)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter;
4. discussing the additional Medical Board Report on Remand, pursuant to State Government Article § 10-508(a)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Blitzstein
John Douglass
Robert Hagans
James Harkins

Sheila Hill
F. Patrick Hughes
Major Morris Krome
Theresa Lochte (via telephone)
Harold Zirkin
Thurman Zollicoffer

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

Anne Budowski
Margaret Bury
Melody Countess

Michael Golden
Angie Jenkins
Robin McClelland

Kenneth Reott
Janet Sirkis
Toni Voglino

Assistant Attorneys General present included: Deborah Bacharach, Rachel Cohen, Carla Goldman Katzenberg, Jill Leiner, and Melissa Warren.

OPEN SESSION

The Board returned to open session at 12:13 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street.

Katie Schoffstall

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Katie Schoffstall for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

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Ms. Schoffstall appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Goldman Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Shawn D. Murphy

The Board considered the recommendation of the Medical Board in connection with the claim of Mr. Shawn D. Murphy for SPECIAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Neither Mr. Murphy nor his attorney, Michael Davey, Esq. appeared to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Goldman Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's recommendation and deny Mr. Murphy special disability benefits. Following discussion, the Board deferred further consideration to Closed Session.

John P. McCullough

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. John P. McCullough for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Neither Mr. McCullough nor his attorney, Robert Kazary, Esq. appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Goldman Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Tommy J. Proctor

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Tommy J. Proctor for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Neither Mr. Proctor nor his attorney, Richard Link, Esq. appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill R. Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

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CLOSED SESSION – APPEALS AND HEARINGS

On a motion made by Mr. Zollicoffer and seconded by Mr. Zirkin, the Board voted to meet in a Closed Session (12:35 p.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to consider the disability appeal pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Nancy K. Kopp, Chairman
David Blitzstein
John Douglass
Robert Hagans
James Harkins

Major Morris Krome
Theresa Lochte (via telephone)
Harold Zirkin
Thurman Zollicoffer

Agency Staff members attending included: R. Dean Kenderdine, Executive Director\ Board Secretary
Margaret Bury
Angie Jenkins
Janet Sirkis

Assistant Attorney General present included: Deborah Bacharach and Rachel Cohen.

OPEN SESSION

The Board reported that during the closed session the Board reviewed and decided on the following disability appeals:

Katie Schoffstall

The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Katie Schoffstall's request for accidental disability benefits.

Shawn D. Murphy

The Board voted to **ACCEPT** the Medical Board's recommendation and **DENY** Shawn D. Murphy's request for special disability benefits.

**John P.
McCullough**

The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** John P. McCullough's request for accidental disability benefits.

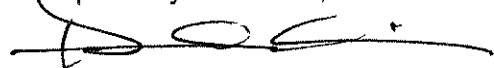
Tommy J. Proctor

The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Tommy J. Proctor's request for accidental disability benefits.

Adjournment

There being no further business before the Board, the meeting adjourned at 12:50 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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***AUDIT COMMITTEE MEETING REPORT
JUNE 18, 2013***

Audit of Absolute
Return Investment
Operational
Processes

Steven M. Harding, President & CEO of P2E Consulting Group, presented a report on the results of an audit of absolute return investment operational processes that was performed by his firm. The audit's objectives were based on criteria contained in an RFP issued by the Agency. The audit provided an overall conclusion that controls were suitably designed and operated effectively. There were four audit findings, which were addressed by the Investment Division in its written response, included in the report. The findings, recommendations, and Investment Division responses were discussed by the Committee.

1. Language contained in the Investment Policy Manual that describes the limitation on absolute return strategies, or hedge funds, could be misinterpreted. Dr. Moye informed the Committee that the Investment Division has drafted clarifying language to address this in the 2013 update of the Investment Policy Manual.
2. The Investment Operations Manual does not include a requirement to monitor the consultant and custodian contracts, and to document these reviews. Mr. Burd informed the Committee that every contract has a monitor, who is aware of its requirements. Through day-to-day interactions with the contractor, the monitor would know if contractual obligations are not being met. The names of the contract monitors will be added to the Investment Operations Manual. Mr. Burd believes that a formal documentation of the monitor's review is not necessary. The Committee discussed options related to documenting the monitoring of consultants' contracts. Dr. Moye indicated that Investments would consider adding an annual checklist to be reviewed and signed by the Chief Investment Officer (CIO). However, she expressed concern that time spent on checklists would take away from more important duties. The Investment Division currently documents important issues and decisions related to its consultants and custodian using email.
3. Annual Compliance Questionnaires received from managers were not reviewed timely, taking as long as six months to review. Dr. Moye informed the Committee that the Investment Division requested an additional full-time position to help address this issue over a year ago, and expects this request to be approved soon.
4. Investment Division staff do not create written notes to document their meetings with investment managers. Mr.

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Cheung informed the Committee that he disagrees with this recommendation because other processes, such as the risk budget and review of periodic reports received from managers and consultants, keep management and staff aware of developments related to an investment. He added that material events are documented and brought to the CIO's attention. Dr. Moyer informed the Committee that the Agency sees its investment consultants as an extension of staff, and that the consultants' reports are part of the documentation that is required. There is a central repository for documentation, which is accessible to, and reviewed by, the CIO/DCIO. The Committee discussed documentation of material and nonmaterial events related to the investments, including on an exception basis.

The Committee noted that it was pleased with the report. Mr. Hughes stated that alternative investments are a high risk area, and the Investment Committee and Board need to understand the nature of the risks. They should take some comfort from the audit results. He asked that absolute return investments be kept as an item on the agenda for future Audit Committee meetings. Prior to each Audit Committee meeting, the Chief Internal Auditor should contact the CIO to determine if there are any significant changes in the process, or extraordinary items associated with the absolute return investment process. If so, this will be included on the agenda.

FY 2014
Internal Audit Division
Audit Plan

Ms. Voglino provided the Committee with the FY 2014 audit plan, and summary of available hours. She noted that the available hours for FY 2014 are based upon the total available hours for all staff members, while taking into consideration State benefit time and administrative time. All remaining hours are allocated to audits which have been incorporated into the audit plan. The audits included in the FY 2014 audit plan were based on risk ratings, as identified in the Agency-wide risk assessment. The audit plan also includes follow-up audits, to determine actions taken for prior audits.

On a motion by Major Krome, and seconded by Mr. Harkins, the Committee approved the FY 2014 audit plan.

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Participating
Employer Audits
-Recommendations
for Reducing Repeat
Audit Findings

Ms. Voglino presented the Committee with staff's recommendations for reducing repeat audit findings at participating employers. She noted that CliftonLarsonAllen presented the results of Year-4 audits at the last Audit Committee meeting, and that the Committee requested suggestions for improving compliance. Internal Audit staff recommends the following:

- Increase the frequency of audits for participating employers with the highest number of audit findings, and those with repeat audit findings.
- Send the audit results to additional officials of the participating employer, having oversight responsibilities.
- Meet with officials of participating employers, if the two prior steps do not improve their compliance.

On a motion by Mr. Harkins, and seconded by Ms. Lochte, the Committee approved staff's recommendations for reducing audit findings at participating employers.

Bank Reconciliation
Audit Update

Ms. Voglino provided the Committee with an update on the actions taken to address audit findings for the Bank Reconciliation Audit, issued on January 3, 2013. She stated that the Agency has agreed to take corrective actions by making payments to the estates of affected individuals, and making an adjustment to the general ledger.

Completed Audits

Ms. Voglino provided the Committee with an overview of the following completed audits that were issued subsequent to their last meeting:

- Annual PGU Billing (Follow-up) – Credits or refunds owed to participating employers due to overcharged employer contributions have yet to be issued, and program logic errors caused some employer contribution billings for certain categories of members to be incorrect. The Agency has agreed to issue credits to the affected employers, make program logic corrections and correct the billings related to certain errors. Mr. Harkins recommended communication be directed to city and municipal association leadership that corrective action was taken by the Agency to refund the affected jurisdictions.
- Disability Retirement Processing – The granting of sick leave credit was inconsistent with statutory language, there were minor disability calculation errors, and required workers compensation offsets were not always made. In addition, an internal control deficiency was

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noted related to the review of workers compensation offsets. The Agency has agreed to make the recommended corrections, and to address the internal control deficiency, as staff resources become available.

- Transfer of Files Containing Sensitive Personal Data (Follow-up) – All audit findings noted in the original audit report have been appropriately addressed by the Agency.

Audits in Progress

The Committee was advised that the following audits are currently in progress:

- Disaster Recovery Process;
- Procurement Process; and
- Member Contribution Refunds Processing.

The Committee will be provided with reports for these audits, upon their completion.

Other Business

The next Audit Committee meeting is scheduled for Tuesday, August 20, 2013, following the regularly-scheduled Board of Trustees meeting.