

Audit Report

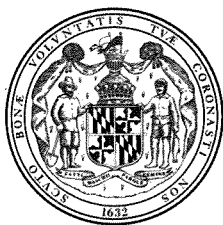
**Board of Trustees of the Maryland Teachers and State
Employees Supplemental Retirement Plans**

December 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Thomas J. Barnickel III, CPA
Legislative Auditor

December 5, 2014

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) for the period beginning September 16, 2011 and ending August 19, 2014. MSRP is responsible for supervising and administering the State's voluntary tax sheltered income deferral plans for State employees and certain employees of local boards of education and municipalities.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge the cooperation extended to us during this audit by MSRP.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Title 35 of the State Personnel and Pensions Article of the Annotated Code of Maryland provides that the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) is responsible for the supervision and administration of the State's three voluntary tax sheltered income deferral plans for State employees and certain employees of local boards of education and municipalities. These plans consist of the Deferred Compensation Plan, the Tax Sheltered Annuity Plan (primarily for employees of State and local educational institutions), and the Savings and Investment Plan, as permitted under Sections 457, 403(b), and 401(k) of the Internal Revenue Code, respectively.

Title 32 of the State Personnel and Pensions Article of the Annotated Code of Maryland authorizes employer matching contributions of up to \$600 per participant each fiscal year, if appropriated, for State Employees' Alternate Contributory Pension Plan members who elect to contribute to the supplemental retirement plans. These employer matching contributions are maintained in the Match Plan and Trust, a defined contribution matching plan as permitted under Section 401(a) of the Internal Revenue Code.

The assets of all of MSRP's plans are held in trust for the plan participants. Under current tax laws, income taxes are not due from participants in these supplemental retirement plans on amounts deferred, on amounts contributed by the State, and on income earned on these amounts; rather, distributions are subject to federal, state, and local income taxes when received. Effective April 2011, the Board began accepting Roth contributions to both the 457 and 401(k) plans. Unlike the other plans, Roth contributions are made on an after-tax basis, but eligible distributions of Roth contributions and any earnings will not be further taxed. Title 35 also provides that expenses incurred by MSRP for the implementation, maintenance, and administration of these plans shall be paid from the contributions to the plans or from the income or assets of the plans.

MSRP has designated a plan administrator for the supplemental retirement plans. The plan administrator conducts the enrollment of all individuals who elect to participate in the plans and acts as the agent of record in coordinating deferrals between the State and the various investment carriers. A contractual agreement has been executed between MSRP and the plan administrator that specifies the rates to be assessed against participant account asset balances to cover related administrative expenses incurred by or on behalf of the plan administrator. This contract covers the period from January 1, 2013 through December 31, 2017.

Financial Statement Audits

MSRP engaged an independent certified public accounting firm to perform audits of the plans' financial statements for calendar years 2011, 2012, and 2013. In the related audit reports, the firm stated that these financial statements presented fairly, in all material respects, the respective net position of MSRP and the changes in its net position held in trust for deferred compensation benefits in accordance with accounting principles generally accepted in the United States of America.

The audited financial statements of the plans indicate that, during calendar year 2013, amounts deferred by employees participating in the Deferred Compensation Plan, the Tax Sheltered Annuity Plan, and the Savings and Investment Plan totaled approximately \$58.1 million, \$2.5 million, and \$82.6 million, respectively. These financial statements further indicate that, as of December 31, 2013, the assets available for plan benefits for the Deferred Compensation Plan, the Tax Sheltered Annuity Plan, the Savings and Investment Plan, and the Match Plan and Trust totaled approximately \$1.5 billion, \$82.9 million, \$1.5 billion, and \$173.7 million, respectively.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of MSRP's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. A less significant finding was communicated to MSRP that did not warrant inclusion in this report.

A draft copy of this report was provided to the MSRP. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) for the period beginning September 16, 2011 and ending August 19, 2014. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained

provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the MSRP's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included benefits paid to retirees and beneficiaries, contributions from participating employees, and procurements and disbursements. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MSRP's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MSRP engaged an independent certified public accounting firm to perform audits of the plans' financial statements for calendar years 2011, 2012, and 2013. In the related audit reports, the firm stated that these financial statements presented fairly, in all material respects, the respective net position of MSRP and the changes in its net position held in trust for deferred compensation benefits in accordance with accounting principles generally accepted in the United States of America. This independent certified public accounting firm also performed certain agreed upon procedures to assist in evaluating the administration of the plans for calendar years 2011 through 2013. In the related agreed upon procedures reports, no findings were identified by the firm for the procedures performed. We have relied on the work of the independent accounting firm to provide audit coverage of certain aspects of MSRP's operations (asset fee collections, benefits paid). Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

MSRP's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

AUDIT TEAM

Brian S. Tanen, CPA, CFE
Audit Manager

Elaine D. Portnoy
Senior Auditor

Donald J. Rodis, III, CPA
Staff Auditor