G50L00
Maryland Supplemental Retirement Plans

Operating Budget Data

($ in Thousands)

	FY 07 Actual	**FY 08 Working**	**FY 09 Allowance**	**FY 08-09 Change**	**% Change Prior Year**
Special Fund	$1,322	$1,409	$1,522	$113	8.0%
Total Funds	**$1,322**	**$1,409**	**$1,522**	**$113**	**8.0%**

- The fiscal 2009 allowance, absent pay-as-you-go health insurance and Other Post Employment Benefits funding which distort year-to-year comparisons, increases by $5,379, or 0.42%, from the fiscal 2008 working appropriation.

Personnel Data

	FY 07 Actual	**FY 08 Working**	**FY 09 Allowance**	**FY 08-09 Change**
Regular Positions	14.00	14.00	14.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**14.00**	**14.00**	**14.00**	**0.00**
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		0.50	3.60%	
Positions Vacant as of 12/31/07		0.50	3.60%	

- The fiscal 2009 allowance contains no new positions. The 0.5 vacancy represents an administrative position that has been unfilled for over a year.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Membership Gains Continue as Match Remains in Place: Plan membership has increased steadily while the Employer Match program has been in place.

Investment Returns Improve, Exceed Benchmarks: The composite returns for overall the Maryland Supplemental Retirement Plans (MSRP) offerings exceed the one-, three-, five-, and ten-year benchmark indices.

Issues

Revenue Structure Remains Unpredictable: Plan revenue remains unpredictable, while the fee assessed is a percentage of assets. The board has proposed an addition to the fee structure that could resolve problems encountered in the past. **DLS asks the board to detail its plans to implement such a fee adjustment mechanism, the impact a potential fee holiday would have on participant charges, its strategy for drawing down reserves, and the appropriate level of carryover balance.**

Voluntary Employee Accounts Program Study: Study reviewing the possibility of creating a State-sponsored voluntary retirement contribution plan for small, private sector employers concludes that such programs have potential but are not feasible in current regulatory environment. **The Department of Legislative Services (DLS) recommends that the board develop a reasonable method of updating the budget committees on federal rule changes that could facilitate the adoption of a State-sponsored Voluntary Employee Accounts Program.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

T. Rowe Price Life Cycle Funds Show Rapid Growth: In less than a year, member contributions to the Life Cycle funds have exceeded $60.0 million and now represent 2.4% of the MSRP portfolio.

Operating Budget Analysis

Program Description

Title 35 of the State Personnel and Pension Article established the Teachers' and State Employees' Supplemental Retirement Plans and a board of trustees to administer them. The board of trustees has the responsibility of administering the State's:

- Deferred Compensation Program pursuant to Internal Revenue Code (IRC) Section 457;
- Tax-deferred Annuity Program for Educational Employees under IRC Section 403(b);
- Savings and Investment Program under IRC Section 401(k); and
- Employer Matching Plan under IRC Section 401(a).

The Maryland Supplemental Retirement Plans (MSRP) staff provide education programs and support information to State employees and human resource personnel in State agencies. These efforts are designed to create awareness among State employees of the need and mechanisms available to save for their own retirement. Staff also support the board's work in selecting investment options and overseeing their operation.

MSRP finances its operations through a fee imposed on its members' accounts, based on a percentage of assets in the plans. For fiscal 2008 and 2009, the board fee is 0.05% of assets. In addition, the board contracts with Nationwide Retirement Solutions, Inc., for administration of all four plans. At the January 30, 2008, Board of Public Works meeting, the board ratified a new administrator's contract with Nationwide Retirement Solutions Inc., the term of which is set to conclude on December 31, 2012. The new contract, which was awarded after a competitive bidding process against two other financial service providers, lowers the fee on assets in the plan to 0.14%, down from the 0.23% rate charged in the previous contract. Therefore, the combined asset fee paid by participants is lowered to 0.19%.

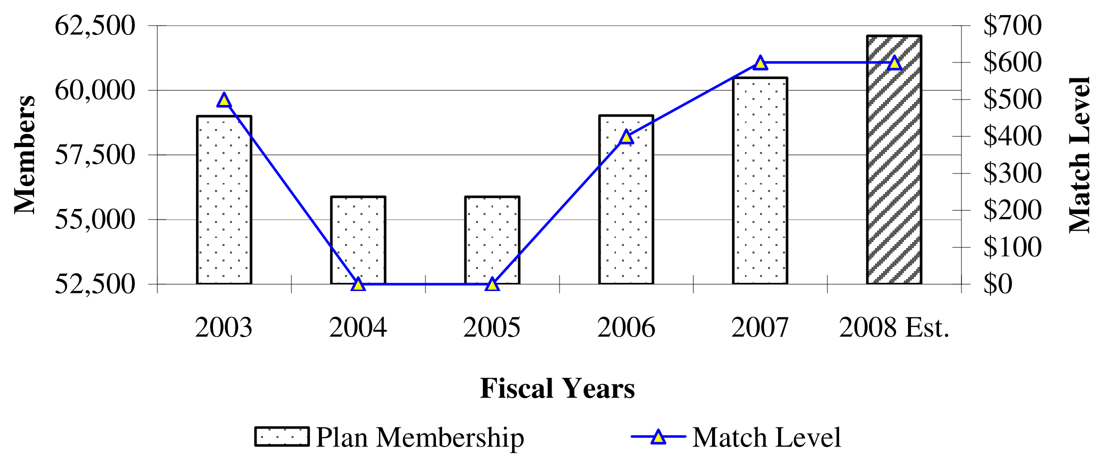
Performance Analysis: Managing for Results

With day-to-day administration and management of the plans handled by Nationwide Retirement Solutions, Inc., the agency's two primary goals are to (1) provide clear and complete information about the plans to employees to help cultivate informed decisions about participation; and (2) provide effective long-term investment opportunities for participants. With respect to the first goal, the agency has established a goal of 85% participation in the plans by eligible State employees.

Membership Gains Continue as Match Remains in Place

Exhibit 1 shows the annual member participation in the State's deferred compensation plans from fiscal 2003 to their projected levels at the end of fiscal 2008. Plan membership has steadily increased from a low of 55,877 members in fiscal 2005 to an all-time high in fiscal 2007. As of June 30, 2007, 60,477 of the 80,636 eligible State employees, or 75%, were members of one or more supplemental retirement plans. In spite of the increases, participation levels fell short of the agency's goal of 85%. Nevertheless, the percentage of employees actively deferring to their accounts, and the value of their contributions, both increased for the second consecutive year. In fiscal 2007, 41,667 members (69% of the total membership) were actively deferring a portion of their gross annual salary into at least one account. This represents a 6.2% increase in deferring members over fiscal 2005. The dollar value of their deferrals has likewise increased, rising from $142.2 million in fiscal 2005 to $182.9 million in fiscal 2007.

Exhibit 1
Maryland State Retirement Plans
Membership Levels vs. Employer Match Funding
Fiscal 2003-2008



Source: Maryland Supplemental Retirement Plans; Department of Legislative Services

Exhibit 1 further demonstrates that the provision of State matching funds is correlated to the plans membership totals. Membership fell during fiscal 2004 and 2005, when State matching funds were suspended. The return of the match in fiscal 2006, together with improved performance in equity markets, helped membership rebound. A fully funded match of $600 in fiscal 2007 and 2008 has helped the plans' ranks grow further. The fiscal 2009 allowance also includes funding for the $600 match. Yet, even with a consistent match in recent years, the agency has been unable to reach its goal of 85% participation among eligible State employees. **The Department of Legislative Services (DLS) recommends that the board comment on efforts to increase membership levels in the event that the matching funds program is discontinued, and on the achievability of the current participation goal under any scenario.**

Investment Returns Improve, Exceed Benchmarks

Exhibit 2 shows the performance of the investment options offered by MSRP. It provides a snapshot of the composite returns generated by the plans' investment options as of June 30, 2007, and compares the returns to the benchmark indices against which the mutual funds are measured. It also shows the comparable figures from 2006. In fiscal 2006, one- and three-year returns lagged behind the composite returns of the benchmark, while the five- and ten-year returns exceed them. In fiscal 2007, the MSRP offerings beat the benchmarks across the board, indicating a positive step toward providing effective investment options for plan participants.

Exhibit 2
Maryland Supplemental Retirement Plans (MSRP)
Average Rate of Return

Annual Average Rates of Return as of June 30, 2007

	One-year	Three-year	Five-year	Ten-year
Average Returns for all MSRP Options	18.20%	12.90%	12.20%	10.10%
Average Returns for all Benchmark Indices	17.40%	12.40%	12.10%	8.10%

Annual Average Rates of Return as of June 30, 2006

	One-year	Three-year	Five-year	Ten-year
Average Returns for all MSRP Options	9.40%	12.60%	6.10%	10.10%
Average Returns for all Benchmark Indices	9.90%	13.00%	5.80%	8.60%

Source: Maryland Supplemental Retirement Plans

Exhibit 3 offers a fund-by-fund perspective of these options, comparing the performance of each fund available to participants against its own benchmark index, as of September 2007. The board continues to make progress in eliminating chronically low-performing funds from its menu of options. In addition to the five funds it closed in 2006, the board closed the Washington Mutual Investors Fund in 2007. That fund had been one of the weakest performers available to members when compared against benchmark indices. Most recently, the board has added five new funds (Goldman Sachs Large Cap Value Fund, Vanguard Small Cap Growth Index Fund, Vanguard Value Index Fund, Vanguard Small Cap Value Index Fund, and Vanguard Total International Stock Fund,) and a menu of life cycle funds (discussed below). Of the new funds, three have met or outperformed only one of their performance benchmarks, while the other two have not exceeded

Exhibit 3
Maryland Supplemental Retirement Plans
Mutual Fund Performance Compared with Benchmark Indices as of September 2007

MSRP Investment Options	One-year	Three-year	Five-year	Ten-year
Vanguard Prime Money Market	▲	▲	▲	▲
PIMCO TotalReturn Fund	▲	▲	▲	▲
Fidelity Puritan Fund	▲	▲	▲	▲
Neuberger Berman Equity Fund	▲	▲	▲	▲
Vanguard Institutional Index Fund	▲	▲	▲	▲
Growth Fund of America	▲	▲	▲	▲
EuroPacific Growth Fund	▲	▲	▲	▲
Van Kampen Midcap Growth Fund	▲	▲	—	▲
LordAbbett MidCap Value	▲	—	—	▲
T. Rowe Price Small Cap Stock	—	▲	—	▲
Legg Mason Value Trust	—	—	▲	▲
Goldman Sachs Large Cap Value	▲	—	—	*n/a*
Washington Mutual Investors Fund	▲	—	—	—
Vanguard Small Cap Growth Index Fund	—	▲	—	*n/a*
Vanguard Value Index Fund	—	—	▲	—
Dreyfus MidCap Index Fund	—	—	—	—
Vanguard Small Cap Value Index Fund	—	—	—	*n/a*
Vanguard Total International Stock Fund	—	—	—	*n/a*

▲Fund Equaled or Beat Benchmark Index —Fund Underperformed Benchmark Index

Note: New fund in italics.

Source: Nationwide Retirement Solutions, Inc.

any of them. This performance is understandable to the degree that four of the five funds are index funds – funds that mirror an actively managed benchmark's composition but charge lower fees. The goal with index funds is typically to equal the returns of the fund that the index tracks. The new funds merit further tracking as they have equaled the performance of their benchmarks on only a few occasions. **The board is asked to comment on its rationale for adding these five funds to its plan choice menu given their track records and to discuss why alternative funds in the same asset class were not chosen.**

Governor's Proposed Budget

The fiscal 2009 allowance growth of $112,707 is primarily driven by the inclusion of Other Post Employment Benefits funding of $58,112 and an increase in employee health insurance costs of $49,216. There are minor increases for rent expenditures, $7,395, and travel costs, $1,500, which are partially offset by a reduction in telecommunication usage of $3,803 as shown in **Exhibit 4**.

Exhibit 4
Governor's Proposed Budget
Maryland Supplemental Retirement Plans
($ in Thousands)

How Much It Grows:	**Special Fund**	**Total**
2008 Working Appropriation	$1,409	$1,409
2009 Governor's Allowance	1,522	1,522
Amount Change	$113	$113
Percent Change	8.0%	8.0%

Where It Goes:	
Personnel Expenses	
Employee and retiree health insurance – Other Post Employment Benefits funding	$58
Employee and retiree health insurance – pay-as-you-go costs	49
Retirement	3
Turnover adjustments	-1
Increments and other compensation	-3
Other fringe benefit adjustments	1
Other Changes	
Rent	7
Travel	2
Department of Budget and Management telecommunications reductions	-4
Other items	1
Total	**$113**

Note: Numbers may not sum to total due to rounding.

Issues

1. Revenue Structure Remains Unpredictable

The board receives funds for operating expenditures through fees on user accounts. As the fees are based on a percentage of the asset base, the revenue generated is subject to market fluctuations. In 2002 and 2003, in response to overall poor market returns, the board imposed a flat per account fee of $8 and $6 respectively, to meet revenue shortfalls, and then increased its asset based charge to 0.11%. As seen in **Exhibit 5**, collections subsequently grew from $1.4 million in fiscal 2002 to $1.8 million in fiscal 2004, before falling slightly in fiscal 2005. In fiscal 2006, revenue came into line with actual agency expenditures as the percentage charge on assets was dropped to 0.05%. This change led expenditures to exceed revenues in fiscal 2007, and prompted the use of the plans' carryover balance, which had exceeded the agency's target of 25.0% of annual revenue since fiscal 2004. Use of the balance, which ended fiscal 2007 at $670,772, is expected in a similar fashion during fiscal 2008.

The frequent change in past board fees reflects the difficulty of accurate fee projection, and the board's response provides insight into how that fee structure compensated for undercharging members. Recent, more consistent growth of the plans' asset base has resulted in balance accumulation, which suggests that the plans will encounter future difficulties in projecting the fee, but this time in terms of overcharging. As the asset value of the plans' portfolio increases, the revenue directed to the plans by a level percentage fee will increase. A five basis point charge has been in place for the past two fiscal years and generates revenues that currently track well with administrative costs. DLS projections show that the revenues generated by the board's charge on assets will outstrip its operating expense by 2010, assuming consistent growth patterns of the asset base and operating expenditures. Past difficulties in calculating how much to adjust the percentage charged upward suggest the need to alter the plans' assessment mechanism as the possibility of adjusting it downward looms.

The board has recently discussed a promising alternative. The board typically sets its fee as a percentage of assets at the beginning of the fiscal year. It collects the resultant charge on a monthly basis, and an accounting of this assessment then appears on member account activity statements. Over the course of the year, the combination of market activities that change the plans' total asset values and the budgetary needs of the agency determine how far apart revenues will be from expenditures. The board's proposal would create a mechanism through which it could declare – if necessary – a fee holiday. The fee holiday mechanism allows the plans to ensure required income and carryover balance targets have been met before the corresponding cessation of member fees would begin, thus avoiding the accumulation of large balances and, more importantly, the overcharging of plan participants. A similar system has been successfully used by the Department of Budget and Management to adjust for overcharging in the employee health insurance system. However, with a more agile method of responding to changing market conditions in place, the 25% carryover balance goal may need to be lowered. **The board is asked to detail how it plans to implement such a fee adjustment mechanism. Specifically, it should estimate the total and per member savings a potential fee holiday would generate given current balance and revenue levels, and detail the impact such a change would have on its strategy for drawing down reserves. The board should specifically discuss what level of carryover balance it believes is an appropriate percentage of its operating budget, in light of the new policy to more closely monitor fees.**

Exhibit 5
Participants' Fees and Agency Operating Budget
Fiscal 2002-2008

	2002	2003	2004	2005	2006	2007	2008 (Est.)
PEBSCO/Nationwide Fees	$3,555,869	$3,242,450	$3,690,947	$4,135,755	$4,505,329	$5,125,018	$4,616,467
as Percent of Assets	0.28%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%/0.14%[5]
Board Fees + Adjustments	$1,386,603	$1,586,478	$1,833,852	$1,719,944	$1,301,598	$1,158,166	$1,237,040
as Percent of Assets	$8 + 0.06%[1]	$6 + 0.11%[2]	0.11%	0.11%/0.07%[3]	0.07%/0.05%[4]	0.05%	0.05%
Operating Expenses (Actual)	$1,517,455	$1,464,572	$1,534,177	$1,338,905	1,303,763	$1,321,698	$1,408,907
Carryover Balance	$23,399	$145,305	$444,990	$826,029	$823,864	$660,332	$498,905
Carryover Balance as Percent of Operating Expenses	1.54%	9.92%	29.01%	61.69%	63.19%	51.15%	35.41%

[1] Special one-time board fee of $8 per account collected March 2002.
[2] Special one-time board fee of $6 per account collected March 2003.
[3] Board fee reduced January 1, 2005.
[4] Board fee reduced January 1, 2006.
[5] New administrator's contract ratified January 30, 2008 reduced Nationwide fee to 0.14%.

Source: Maryland Supplemental Retirement Plans; Department of Legislative Services

2. Voluntary Employee Accounts Program Study

Several recent studies have indicated that most Americans are not saving enough for retirement. Complementary studies suggest that a significant barrier to savings comes from a portion of small businesses with few employees finding it difficult or expensive to establish retirement saving plans. MSRP's history of negotiating lower fees and mutual fund rebates from financial management firms because of its economies of scale established it as a potential State leader on this topic. Therefore, committee narrative from the 2007 session requested that MSRP conduct a study of the feasibility of the State sponsoring a voluntary employee accounts program (VEAP) for private sector employers and employees. The study was released in January 2008.

Study Considerations

In assessing the potential for a State-sponsored VEAP, the report examines potential State liabilities and cost efficiencies. Liabilities associated with such a plan include:

- inadequate supervision creating a loss of expected tax benefits when ineligible participants are erroneously allowed in a plan;
- the incursion of federal penalties if forms were not filed timely or transactions were conducted improperly;
- accounting mistakes creating expenses or losses; and
- a potential breach of the State's fiduciary duty to plan participants.

These liabilities could be mitigated but not entirely eliminated by maintaining State control over program elements such as requiring indemnification from all vendors, limiting investment options, restricting sales practices from affiliated investment groups, providing a well funded professional supervisory staff, utilizing a simple program structure to reduce the likelihood of accounting mistakes, and retaining specific control (through the organizing documents) of program investment options and administrative structure.

The major cost efficiencies from a State-sponsored program for its own employees come from centralized management of employee and account data, and the ability of the program to use existing State resources for communication, transactions, and education. However, VEAP-style programs as they are currently allowed under existing federal law would be inefficient for nearly the same reasons. The advantages of a single payroll center, a single data center, and recognized methods for contacting employees do not exist in a collection of otherwise unconnected, widely dispersed businesses, which each have their own payroll system. Moreover, a variety of pension and securities rules restrict the ability of small businesses to simply piggy-back on existing State plans to achieve economies of scale. This flaw would be a major disadvantage to any potential State-sponsored private plan.

With these best practice considerations for liability limitation and efficiency maximization in mind, the report examines possible VEAP plan types. Of the four potential models, the Multiple Employer Plan and the Association Plan models are discarded as unfavorable because of their inherent lack of State control over critical operations. More in line with the MSRP's evaluation of essential characteristics for a successful State-sponsored program are:

- **The SIMPLE (Savings Incentive Match Plan for Employees) 401(k).** This plan is a variation on the standard 401(k) plan. It allows the use of short form pre-approved plan documents and does not require discrimination testing that compares employee contribution rates across salary ranges, greatly assisting administration efficiency while retaining tax benefits.

- **SIMPLE IRA Plan Model.** This plan is a more limited variation on the SIMPLE 401(k). There is a standard, pre-approved adoption agreement; no Department of Labor reporting or bonding requirements; no discrimination testing; and more limited employer communication responsibility. Under the SIMPLE IRA the employer serves as a conduit for pre-tax salary reduction contributions to IRA accounts at qualifying financial entities. Thus, neither the employer nor the State has active responsibility for the investment when the employee is no longer in their employ, which has a significant effect on possible overall efficiency of the arrangement.

Both of the plans require the establishment of accounts for all employees, an employer contribution to all employee accounts, and are structured simply enough that the abovementioned liability mitigation efforts would likely be achievable.

Study Conclusions

The report concludes that a State-sponsored voluntary accounts program is potentially viable but would require significant long-term State expense and could expand the State's financial liabilities. MSRP recommends that the program only proceed if the State retains direct control over investments and administrative arrangements and receives specific regulatory approval of that authority from the IRS. As detailed, the preferred program models would be either the SIMPLE 401 (k) plan or SIMPLE IRA plan. When identifying the costs, the report estimates median start-up costs of approximately $625,000 and an ongoing annual State commitment of $400,000. The time required to enact such a plan would be between three and four years, but it could take up to five years for the plan to be self-sufficient. **Exhibit 6** encapsulates the range of time and financial requirements estimated in the report. Given the currently tight regulatory climate and the minimal efficiencies a State-sponsored plan could offer, DLS believes that such a program is infeasible at present. **It, therefore, recommends that the board comment on a reasonable method of updating the budget committees on favorable federal rule changes or other events that could facilitate the economical adoption of a State-sponsored Voluntary Employee Accounts Program.**

Exhibit 6
VEAP Plan Measure Cost and Time Estimates

	Cost (in $)			Time to Enact (In Months)		
Essential Plan Measure Estimates	**Low**	**Median**	**High**	**Low**	**Median**	**High**
Design and draft plan documents	$200,000	$200,000	$200,000	12	15	18
Process documents with the IRS and U.S. Dept of Labor	150,000	175,000	200,000	12	15	18
Prepare customer related documents/web site and staff plan	200,000	250,000	300,000	12	15	18
Start Up Cost Estimates	**$550,000**	**$625,000**	**$700,000**	**36 months**	**45 months**	**54 months**
Additional Considerations						
Compliance adjustments	$20,000	$30,000	$40,000	annually		
Service changes due to varying membership levels	-100,000	150,000	400,000	depending on usage		

VEAP: Voluntary Employee Accounts Program

Note: Ongoing costs of $400,000 annually are estimated. This assumes that the VEAP has been successfully introduced and has stabilized its asset base to contain at least $40 million.

Source: Maryland Supplemental Retirement Plans; Department of Legislative Services

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. T. Rowe Price Life Cycle Funds Show Rapid Growth

In August 2006, the board approved the addition of life cycle funds administered by T. Rowe Price to its list of investment options. Life cycle funds are mutual funds that feature an asset mix that adjusts over time as the individual investor ages. For instance, a life cycle fund for an investor in his or her twenties might begin with an aggressive approach centered on equity growth funds but over time gradually shifts its asset allocation into more conservative income-generating investments (*e.g.*, income funds or bond funds) to protect the principal. The board opted to include life cycle funds because its own research showed that more than half of its members had not adjusted their asset allocation for more than two years. With life cycle funds, asset allocation is handled by the fund managers, so members in essence receive investment management services for the same fees they currently pay to individual mutual fund managers. Life cycle funds are growing in popularity among defined contribution programs and are already offered by the Maryland College Savings Plan.

While implementation of the life cycle funds only began in February 2007, these options have quickly become a popular vehicle for retirement investing. **Exhibit 7** shows the 12 different funds T. Rowe Price offers and the total plan assets held in each fund as of September 30, 2007.

Exhibit 7
T. Rowe Price Life Cycle Fund Offerings
Asset Holdings as of September 30, 2007

Fund	Assets	% of Total
2005 Fund	$2,517,393	4.2%
2010 Fund	9,473,572	15.7%
2015 Fund	14,076,336	23.4%
2020 Fund	11,990,733	19.9%
2025 Fund	8,040,541	13.3%
2030 Fund	6,312,154	10.5%
2035 Fund	3,126,886	5.2%
2040 Fund	2,455,119	4.1%
2045 Fund	596,358	1.0%
2050 Fund	465,279	0.8%
2055 Fund	308,933	0.5%
Income Fund	889,501	1.5%
Total	**$60,252,805**	

Source: Nationwide Investments “Administrator’s Report” 3rd Quarter 2007

In less than a year, the Life Cycle Funds have registered $60,252,805 in retirement contributions, or 2.4% of the entire MSRP portfolio. The most popular retirement target dates appear to be between 2010 and 2020, indicating that those retiring in the next 5 to 15 years find these funds more desirable than those with later retirement dates. The attractiveness of this option is further borne out by the contribution allocation rate associated with these funds. In the quarter ended September 30, 2007, 9.4% of all monies contributed by plan members were invested in life cycle funds.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Supplemental Retirement Plans
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2007					
Legislative Appropriation	$0	$1,365	$0	$0	$1,365
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	15	0	0	15
Reversions and Cancellations	0	-58	0	0	-58
Actual Expenditures	**$0**	**$1,322**	**$0**	**$0**	**$1,322**
Fiscal 2008					
Legislative Appropriation	$0	$1,392	$0	$0	$1,392
Cost Containment	0	0	0	0	0
Budget Amendments	0	17	0	0	17
Working Appropriation	**$0**	**$1,409**	**$0**	**$0**	**$1,409**

Note: Numbers may not sum to total due to rounding.

Fiscal 2007

- The fiscal 2007 budget for the Maryland Supplemental Retirement Plans increased by $14,768 due to a budget amendment that distributed statewide funds across agencies for a 2% cost-of-living adjustment that was centrally budgeted in the Department of Budget and Management.

- There was a cancellation of $57,733. The vast majority of the cancellation, $55,339, represents the salary and fringes corresponding to vacant positions.

Fiscal 2008

- The fiscal 2008 budget increased by $16,952 due to a special fund budget amendment that distributed statewide funds across agencies for a 2% cost-of-living adjustment that was centrally budgeted in the Department of Budget and Management.

Appendix 2

Audit Findings

Audit Period for Last Audit:	February 10, 2004 – October 18, 2006
Issue Date:	March 2007
Number of Findings:	1
Number of Repeat Findings:	1
% of Repeat Findings:	100%
Rating: (if applicable)	n/a

Finding 1: **Transaction Controls: Proper internal controls have not been established over the processing of purchasing and disbursement transactions.**

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3

Object/Fund Difference Report
Maryland Supplemental Retirement Plans

Object/Fund	FY07 Actual	FY08 Working Appropriation	FY09 Allowance	FY08-FY09 Amount Change	Percent Change
Positions					
01 Regular	14.00	14.00	14.00	0	0%
Total Positions	**14.00**	**14.00**	**14.00**	**0**	**0%**
Objects					
01 Salaries and Wages	$ 932,777	$ 1,017,464	$ 1,101,664	$ 84,200	8.3%
02 Technical and Spec. Fees	1,529	5,000	5,000	0	0%
03 Communication	19,820	16,275	28,947	12,672	77.9%
04 Travel	17,871	16,000	17,500	1,500	9.4%
07 Motor Vehicles	14,037	14,796	14,796	0	0%
08 Contractual Services	230,827	229,808	229,495	-313	-0.1%
09 Supplies and Materials	8,583	11,100	11,300	200	1.8%
10 Equip. – Replacement	647	1,000	1,500	500	50.0%
11 Equip. – Additional	2,069	5,400	5,400	0	0%
13 Fixed Charges	93,538	92,064	106,012	13,948	15.2%
Total Objects	**$ 1,321,698**	**$ 1,408,907**	**$ 1,521,614**	**$ 112,707**	**8.0%**
Funds					
03 Special Fund	$ 1,321,698	$ 1,408,907	$ 1,521,614	$ 112,707	8.0%
Total Funds	**$ 1,321,698**	**$ 1,408,907**	**$ 1,521,614**	**$ 112,707**	**8.0%**

Note: The fiscal 2008 appropriation does not include deficiencies.