

NHRS Board of Trustees, Audit Committee
December 9, 2014

NOTE: These minutes from the December 9, 2014 Audit Committee meeting were approved and executed at the January 13, 2015 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
December 9, 2014**

The Public Minutes

**New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301**

Committee Members: John Beardmore, Chair; Maureen Kelliher; Germano Martins. Jack Wozmak and Bill Dwyer, absent.

Staff: George Lagos, Executive Director; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Heather Fritzky, Controller; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; and John Browne, Internal Auditor. Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Lana Friedman, KPMG Senior Associate.

Chair Beardmore called the meeting to order at approximately 8:00 AM. Upon a request from the Chair, a motion was made by Ms. Kelliher to accept the minutes of the Audit Committee meeting of November 12, 2014. Mr. Martins seconded the motion, and it carried unanimously.

The Chair then asked Mr. Gagnon to update the Committee on the status of KPMG's fiscal year 2014 audit. Mr. Gagnon referred the Committee to the June 30, 2014 Comprehensive Annual Financial Report (CAFR) stating the audit was complete and there were no management issues. Before going into the detail of the CAFR however he noted that KPMG's National Office was reviewing all client CAFR's this year because of the many Government Accounting Standard Board (GASB) changes. He noted that the National Office had provided feedback that NHRS's CAFR was one of the cleanest reports it had reviewed. Mr. Gagnon passed that compliment along as he felt that reflected the hard work that all at NHRS had done on this document.

Mr. Gagnon then reviewed KPMG Auditor's Report remarking that an extra paragraph had been included to note that the new GASB Statement No. 67 had been adopted by the System. Next he reviewed the Management's Discussion and Analysis section, stating that under the Plan Funding Status, the funded ratio using GASB 67 requirements is now disclosed. He also reviewed the combining statement of fiduciary net position and statement of changes in fiduciary net position, commenting that the System had a very good year with the plan's net position increasing from \$6.4 billion in 2013 to \$7.4 billion in 2014. He then discussed the Disclosures in the CAFR, in particular Note 5 on the Net Pension Liability of Employers. Mr. Dianis remarked that the Net Pension Liability of \$3.7 billion would be the balance that would be allocated

to the employers in the coming year and that their pro rata share of the liability would be included on their respective balance sheets. Based on a question from the Chair, the Committee then briefly discussed the table on p. 44 of the CAFR showing the long-term expected real rate of return of assets which are presented net of the inflation assumption, while the investment rate of return of 7.75% is a nominal return which includes inflation. Mr. Gagnon concluded by reviewing the schedules of employer contributions and investment returns.

Based on the above discussion, Chair Beardmore thanked and congratulated Mr. Dianis, Ms. Fritzky and the Finance staff on the timely completion of the CAFR with all the GASB revisions that had been required. He also thanked Mr. Gagnon and KPMG staff for their assistance in working through this tedious process. Ms. Kelliher then made a motion to approve and accept the Comprehensive Annual Financial Report for fiscal year 2014 and the unmodified auditor's opinion per RSA 100-A:15, VI(a), and to recommend to the full Board its acceptance and release of the audited report. The motion was seconded by Mr. Martins, and was unanimously approved.

The next item on the agenda was a review of the Annual Ethics Survey for the 2014 fiscal year. Attorney Crutchfield presented the Report Card explaining there had been a one hundred percent response from all active employees, Trustees and IIC members, and he noted no comments that would necessitate further review by the Committee. There being no further discussion, Mr. Martins made a motion to recommend the Report Card to the full Board for approval. Ms. Kelliher seconded the motion, and it carried unanimously.

Attorney Crutchfield then updated the Committee on the status of the Surry Village Charter School's (SVCS) withdrawal proposal. He explained that this item was on this month's agenda as an 'action expected' item, however he had contacted SVCS, and was informed SVCS was still waiting on responses from its actuaries on the two outstanding issues that need to be addressed. Until the System receives answers on these items, he felt no further action should be taken.

Next Mr. Browne reviewed suggested updates to the current Audit Committee Charter received from Committee members as part of NHRS's annual review of all Committee charters. Specifically he discussed who was responsible for approving the audit services of the external auditors, and the Comprehensive Annual Financial Report per RSA 100-A. He confirmed that the Audit Committee, not the Board of Trustees, is responsible for both. He also discussed the frequency of Audit Committee meetings, and why the State Treasurer was a permanent member of the Committee. Based on the discussion, Ms. Kelliher made a motion to recommend to the full Board that it approve the proposed revisions to the Audit Committee Charter as presented. Mr. Martins seconded the motion, and it carried unanimously. Mr. Beardmore then asked when the updated charter would be presented to the full Board. Mr. Crutchfield replied that an edited version would be presented at the January 2015 meeting.

Mr. Browne then reviewed the December 2014 Audit Tracker, explaining there had been no issues with a scheduled completion date in November, and no updates had been made from the prior month.

Mr. Browne also reviewed the status of Internal Audit work. He explained that now that the GASB Employer Census Data Audits were completed, he would be back to addressing the FY 2015 Audit Plan. Specifically, he noted he had started the NHRS Payroll/Personnel Administration audit the prior week and that he was also a member of the Information Technology Working Group that meets weekly.

Lastly, as part of other business, Mr. Cavanagh asked that the minutes note his thanks to Tamre McCrea, Brandon Adams, DeAnne Fortier and Internal Audit, in developing a system on short notice to perform the GASB employer audits including recordkeeping, and completing the audits in a timely fashion.

As there being no further business, the Committee tentatively scheduled the next meeting for 8:30 AM immediately prior to the Board meeting on Tuesday, January 13, 2015.

A motion to adjourn was made by Mr. Martins, seconded by Ms. Kelliher, and it carried unanimously.

Respectfully submitted,
John F. Browne