

Minutes of Audit Committee Meeting  
April 12, 2011  
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of May 10, 2011.

The meeting was convened at approximately 8:35 a.m. on April 12, 2011, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were Chair Catherine Provencher; Mr. Sam Giarrusso, Mr. Dean Crombie, and Representative Ken Hawkins. Senator Jeb Bradley joined the meeting in progress. NHRS staff members in attendance were Ms. Kim France, Interim Executive Director; Mr. Timothy Crutchfield, Chief Legal Counsel; Mr. Jack Dianis, Director of Finance; and Mr. Larry Johansen, Director of Investments. Mr. John Browne, Internal Auditor, participated via a phone conference call as he was out of state.

Upon a request from the Chair, a motion was made by Mr. Giarrusso to accept the minutes of the March 8, 2011 meeting. Representative Ken Hawkins seconded the motion, and it carried unanimously.

Next, Chair Provencher asked Mr. Crutchfield to give the Committee an update on the remaining action items needed to address the VCP Compliance Statement. Mr. Crutchfield stated the NHRS is working with the Groom Law Group to address the remaining corrections through Board-adopted policies. Mr. Crutchfield said NHRS had recently received a draft policy document from Groom which would be reviewed internally and bring any resulting questions back to Groom by the end of the month with the intent to present the draft to the Committee for review in May. Per a question from the Chair, Mr. Crutchfield explained that adoption of the policy by the Board would complete the VCP corrections. Mr. Giarrusso then asked for clarification of the handling of the \$89 million that was transferred from the 401(h) account to the Special Account in November per the Board vote. Mr. Crutchfield explained that the VCP correction required that the identified funds be moved out of the 401(h) account and back into the pension trust but that the IRS did not direct which of the two pension accounts, the Special Account or the State Annuity Accumulation Fund, must receive the transfer.

The updated status of the Open Audit Issues Tracking System was addressed next. At the request of the Chair, Ms. France gave an overview of what was done for this. Ms. France explained that the Executive Team after having met with the Audit Committee Chair, had obtained copies of the Audit reports from the Internal Auditor, and had gone through the tracker updating the Management Response – Action Taken column and the Target Date columns to reflect the current status of work. Ms. France noted the most important point to be made was that Executive Management is now actively involved in this process and she explained that a number of the audit issues had already been completed. She did specifically call to the attention of the Committee the Business Continuity Plan explaining that this was being approached in two phases, one that there was an immediate plan in development to address current internal processing but also they would be working on a separate phase to address the need of NHRS processing through outside vendors. Ms. France then solicited feedback from the Committee as to the presentation of information as for the moment the tracker includes all history associated with an issue. The committee briefly discussed the report, requesting to Management that going

forward all history be retained, the target dates be aligned with responses and action plans, and that issues be removed from the report once they are completed. The Chair also requested a legend be added to the end of the tracker to further clarify detail within the report.

Next, the Chair asked for a status of 2011 Internal Audits. Mr. Browne explained he had completed his audit work on Member Accounting, and had drafted a report and audit issues list that he had presented to management. The issues were very much the same as discussed at the prior audit meeting, that being controls over the calculation of interest, additional contributions, and missed member contributions. Per a question from the Chair, Mr. Browne felt appropriate actions were being taken to address these, and he expected to have management's formal responses to the issues over the next couple of weeks.

Next Mr. Browne provided an update on his review of Investment Management Costs. He noted he was approximately seventy per cent through the audit, and no major issues had been identified. The audit has included reviewing/reconciling equity and fixed income investment management agreements to quarterly invoices and to reports from Northern Trust, NHRS' custodian. He noted similar testing was being performed for real estate and private equity investments, and would also include investment consultant payments and how transaction costs are analyzed. Mr. Browne did bring a couple of control points to the committee's attention. One was FDIC's new insurance on bank accounts, where non-interest bearing accounts now have unlimited insurance for 2011 and 2012. Mr. Dianis confirmed for the committee that NHRS is now using these accounts for our transactions, and while there are fees for these accounts they are offset against the credits earned on the accounts. Per a suggestion from Mr. Giarrusso, Mr. Dianis noted he would tickler these accounts for review when the insurance expires, and that these accounts could be changed to interest bearing if interest rates were to rise. Representative Hawkins then asked for clarification on how the sweep account is managed. Mr. Dianis explained he was responsible for that working with the Director of Investments. The Chair clarified that this account is not a true investment account but rather the system's checking account. Mr. Browne then noted that Management has agreed to update procedures for making Investment Management Fee payments as the investment unit that had at one time been part of the finance unit is now a separate unit with a staff four. Next, based on current stories in the media, Mr. Browne asked Mr. Johansen, Director of Investments, to update the committee on our currency-trading exposure. Mr. Johansen explained that NHRS faces a modest exposure in that most capital calls are in U.S. dollars. Also that most of our investment managers who do own non-US assets can chose their own currency traders and therefore can put these transactions out to bid, rather than having to trade exclusively through the custodian, which appears to be the issue identified in the news stories. Lastly Mr. Giarrusso did make a request that this audit evaluate the expenses incurred during transitions of managers, and Mr. Browne said he would perform further work on that.

The Chair asked if there was any further business. Ms. France said she had asked if Mr. Browne could do an audit of the System vendor contracts and would request if it could be a high priority. The Chair asked Mr. Browne how this would impact the 2011 Audit Plan. He stated that it could be included in the Audit of Account Reconciliations, which is part of the Committee approved plan for 2011 and was next on his list of audits to be performed.

There being no further business, the Committee decided the next meeting will be held on May 10<sup>th</sup> at 8:30 am, prior to the Board meeting.

A motion to adjourn was made by Mr. Giarrusso, and seconded by Mr. Crombie. The motion carried unanimously.