

NHRS Board of Trustees, Audit Committee
April 9, 2013

NOTE: These minutes from the April 9, 2013 Audit Committee meeting were approved and executed at the May 14, 2013 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

The Public Minutes

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

Committee Members: Catherine Provencher, Chair; John Beardmore; Karen McDonough; Dean Crombie; Jack Wozmak.

Staff: George Lagos, Executive Director; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Heather Fritzky, Accounting and Financial Reporting Supervisor; John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Beardmore to accept the minutes of the January 8, 2013 meeting. Mr. Wozmak seconded the motion, and it carried unanimously.

The first item on the agenda was an update of Open Issues on the Audit Tracking Report. Mr. Browne noted that on the current April Report there are eight open issues as opposed to the nineteen on the report from the last meeting in January so issues are being addressed by Management. He noted seven new issues from the Judicial Retirement Plan audit were added this month, and four issues had been closed. He noted one of the closed issues addressed the timely billing of employers for penalty fees when contributions are reported after the due date. Mr. Browne also noted that NHRS had established a Disaster Recovery team to work on the one outstanding issue going back to FY 2010 – the Business Continuity Plan, and that it was meeting weekly. Next Mr. Dianis reviewed with the Committee a memo NHRS received from KPMG acknowledging the strengthening of the due diligence procedures for selecting alternative investments. This addressed an outstanding 2012 KPMG Management Letter Comment relative to the overall controls over these investments. The Chair commended management on this very positive response. Next based on a question from Mr. Wozmak on unclaimed refunds, management discussed the resolution of this issue. It was explained that because of inactivity in this account and lack of documentation, the reserve in the fund balance for these items had been reduced from \$380,000 to \$50,000, and new procedures have been implemented. Management also briefly reviewed the procedures for checks not cashed, the voiding of checks, software used for follow up, etc. To address the overall concerns of the Committee, management committed to providing a further update on the process for addressing these transactions at the next Committee meeting.

Next Mr. Browne reviewed the audit of NHRS's Administration of the Judicial Retirement Plan completed in March. This administration is coordinated by the NHRS Director of Member Services, and consists primarily of the recording of bi-weekly contributions received from the State and members, and paying the monthly annuities to retirees and beneficiaries of the Plan. Mr. Browne noted that management was in agreement that controls needed to be strengthened and he briefly went through some of the issues identified. He specifically noted that the process to set up retirees for monthly payments needed to be reevaluated and improved, and that a stronger separation of duties needed to be established over the generation of member statements. He did note that while a couple of financial weaknesses were identified in the timely billing of administrative fees and approving the bank reconciliation, management had already addressed these issues. Mr. Lagos summarized the results of the audit by noting that it helped point out the lack of responsibilities for this processing, and that he has addressed this by updating the Letter of Authority for the Member Services Director so that it clearly states the Director's responsibility for administering these services. A motion was made by Mr. Wozmak to accept the audit report as presented, it was seconded Mr. Beardmore, and it carried unanimously.

Mr. Browne then reviewed the Insurance Benefits audit still in process. He stated per RSA 100-A, employers are required to continue to offer health insurance to retirees as they do to members. He noted he would be testing the processing of these health insurance payments plus the NHRS health subsidy, which had been available to almost all members prior to July 2008, but now is available to only certain qualified Group I and Group II retirees. He noted this is another area that like Employer Services processing and Retiree Payment processing, Mr. Lagos is having flowcharted and management staff is reviewing for improving processing efficiencies. Mr. Browne stated that while he is sitting in at these meetings, the focus of his audit will be testing that what staff says they are doing is actually being done correctly. This audit work will include selecting a sample of new and existing retirees, testing how deductions are authorized, recalculating the deduction, and how payments are made to the approximately one hundred eighteen employers/vendors who administer these insurance payments. Mr. Browne noted audit work was going well, however he was following up a couple of possible exceptions having to do with how the insurance subsidy is handled for early retirements, and cases where a retiree initially takes a service retirement but later receives a disability retirement.

Next, Mr. Dianis updated the Committee on work being done to implement the new GASB reporting standards. He said as part of an outreach program he had recently given presentations to both New Hampshire Government Finance Officers (NHGFO) and the New Hampshire Association of Business Managers, and would also be participating in the upcoming NHGFO's annual meeting. Mr. Dianis also noted NHRS has reached out to employers to find out who exactly would be the contact person for financial reporting, as on a daily/ monthly basis the NHRS are often dealing with a payroll processing person. He stated t NHRS had heard from almost two hundred employers so staff feels this has been very successful.

There being no further business, the Committee scheduled the next meeting for 8:15 AM immediately prior to the Board meeting on May 14, 2013.

A motion to adjourn was made by Mr. Wozmak, seconded by Mr. Crombie, and it carried unanimously.