

NHRS Board of Trustees, Audit Committee  
August 14, 2012

**NOTE:** These minutes from the August 14, 2012 Audit Committee meeting were approved and executed at the November 13, 2012 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; Jack Wozmak; Karen McDonough (telephonically); Dean Crombie (delayed arrival).

Staff: George Lagos, Executive Director; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Paul Zahensky, Director of Information Technology; Heather Fritzky, Accounting and Financial Reporting Supervisor; John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Wozmak to accept the minutes of the June 12, 2012 meeting. Ms. McDonough seconded the motion, and it carried unanimously.

Next as part of the passage of Senate Bill 244 changing the approval and acceptance date by the Audit Committee of the NHRS Audited Financial report in RSA 100-A:15, VI(a) from December 1 to December 31, the Chair entertained a motion to recommend to the full Board that the NHRS Audit Policy be amended to reflect this statutory change. This motion was moved by Mr. Wozmak, and seconded by Ms. McDonough. The motion carried unanimously.

Mr. Browne then gave an update on the NHRS Audit Issues Tracker. He noted there had been three issues with July target dates. One had been completed by the Compliance Team – verifying the benefits schedule in Retiree Services for paying Group II benefits under prior statutes (Tracker issue #51). Completion dates for two other issues were postponed; however the Committee reviewed the progress on each. The Committee was pleased with the automated solution being implemented by Finance to address administration procedures for the review and approval of contracts and agreements (Issue # 40). This process includes managers making use of links to go directly from the invoice to the contract and payment schedule to verify information before approving disbursements. Mr. Lagos then briefly reviewed the documentation/flowcharts created by the Executive Team to support the delegation of authority to and from the Board, the Executive Director, and the Executive Team (Issue # 11).

He clarified the distinction between the delegation of authority documents that he would be asking the Board of Trustees for approval on next month, and the flowcharts that are still being finalized by Finance and Investments. He explained that as this is an item on the Audit Tracker, he was looking for feedback from the Audit Committee, as he had from the Personnel Performance and Compensation Committee, and would be from the Governance Committee.

Mr. Browne then gave a status of Internal Audit work. He started by reviewing the Audit of Active Member Death Benefits nearing completion. He said he would be meeting with Tim Crutchfield and Nancy Miller to finalize target dates shortly, and would have this report for the next Committee meeting. He stated there were good controls in this processing, with checks and balances built into the daily work of paying benefits, and a quality control review performed before a payment, or even the specifics of the death benefit options, were forwarded to the beneficiary. Mr. Browne reviewed issues identified in his work. In one case the named beneficiary was a minor and an election form was accepted with only the minor having signed the form. It was determined that this was an isolated incident, and procedures confirming the authorized signatory should be reinforced. In the second issue, the practice at the System has been to return employer contributions when a member died within the first six months of employment. In reviewing the statute it would appear it provides for returning contributions if the member takes a refund within the first six months of employment, however it does not address death. The System is presently researching the genesis of this practice.

Mr. Browne then briefly reviewed the status of the Fiscal Year 2012 Audit Plan. He said he had started the last audit in the plan, the Audit of Employer Account Contributions, and expected to complete it in September. This is a review of the process for collecting and recording employer and member contributions, the reconciling of monthly wages and contribution reports, and the follow up performed of reconciling items. Mr. Crombie arrived at 8:25 during this portion of the meeting.

Mr. Browne then reviewed the draft FY 2013 Audit Plan and related memo that had been included in the Committee meeting package. He explained the NHRS Audit Policy requires the Internal Auditor to regularly report to the Audit Committee on the plans of Internal Audit, specifically identifying significant control systems at NHRS and developing long term and short term plans to examine these control systems. He described the process he used in developing the plan; including meetings with members of the Executive Team, examining documentation on the Public Pension Fund Auditor's website, and reviewing Audit Committee and NHRS Board documents. He explained that throughout the process he had discussed the plan with the Executive Director before finalizing the draft. He briefly reviewed each of the audits in the plan, explaining that two of the six audits were repeat audits that he had performed within the past four years. There were a number of questions from the Chair and Mr. Wozmak on the planned Judicial Retirement System audit, asking that the scope of the audit not only include the controls over processing but also the cost of operations. The Chair also requested that as part of the planned review of Field Auditing, the audit scope include an evaluation of follow-up procedures performed by the Field Auditors to verify issues are being addressed by the employers. As part of the overall Audit Plan discussion, Mr. Wozmak raised a question as to the status of unclaimed refunds at the Retirement System. It was explained that the majority of these refunds dated back to when the System was statutorily required to refund contributions to members who were absent

from service for more than two years. The primary difficulty in processing those refunds was that the address on record at the System was no longer current for the member. The Chair explained that while one would think the funds should be escheated to the State, outside legal counsel had determined this was not the case for Retirement System funds. Mr. Wozmak also raised a question as to the offsite storage of System records, inquiring as to procedures and the conversion from paper documents to digital records. The Executive Director assured the Committee that the whole topic of the retention and imaging of documents was high on his list of priorities to address. Based on the above discussion, the Chair then accepted a motion from Mr. Wozmak to approve the 2013 Internal Audit Plan as submitted. Ms. McDonough seconded the motion, which carried unanimously.

Next Mr. Dianis provided a status on the KPMG Fiscal Year 2012 Audit. Mr. Dianis said KPMG's preliminary fieldwork was completed in the spring, confirmations have been sent out, and Finance is now waiting for KPMG to come back to complete its fieldwork. On a question from the Chair, he said no issues have been identified that warrant being brought to the Committee.

Mr. Dianis said the final GASB Statements have been issued, but he is waiting for them to come out in print. Since the last meeting, Mr. Dianis said he has met with Treasurer Provencher and representatives from the Local Government Center (LGC) to develop a strategy to distribute this information. This will include rolling out information in the fall to LGC members at their annual conference, and then having follow-up conferences in January and April to educate first the finance community, then the public and legislators.

There being no further business, the Committee scheduled the next meeting to be prior to the Board meeting at 8:15 a.m., October 9th.

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