

NHRS Board of Trustees, Audit Committee
August 13, 2013

NOTE: These minutes from the August 13, 2013 Audit Committee meeting were approved and executed at the November 12, 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; Jack Wozmak; Karen McDonough; Dean Crombie.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Mark Cavanaugh, Regulatory Compliance Officer/Staff Attorney; Heather Fritzky, Controller; John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Ms. McDonough to accept the minutes of the June 11, 2013 meeting. Mr. Wozmak seconded the motion, and it carried unanimously.

The Chair then asked Mr. Browne to update the Audit Committee on the status of items on the Audit Tracking Report. He noted there was just one issue that should have been closed in the month of July. That issue was to confirm that all State retirees who are eligible for the medical subsidy are receiving it. He explained that work on the issue was temporarily suspended so that Employer Services could focus on implementing a new medical subsidy indicator flag within the PensionGold system to enhance actuarial extract reporting. However, work on this issue should start again shortly and should be completed next month. Mr. Wozmak raised a question as to how content the System was with the PensionGold system. Mr. Lagos responded that NHRS continues to evaluate the system but also noted quite often the problems are process problems, which are being identified through the Process Improvement Project, as much as they are a PensionGold problem. Mr. Browne called to the Committee's attention one other item related to the Audit Tracker that was included in the Audit Package. That was a memo on Unclaimed Funds and the New Hampshire Escheat Law that the Compliance Unit had updated at the request of the Audit Committee Chair to address Unclaimed Benefit Checks. The Compliance Officer had reached the same conclusion as before that the NH Escheat Law does not apply to NHRS funds.

Next Mr. Browne went over the report and issues list for his review of Field Audit Services. He explained that he had performed this audit approximately two and a half years ago, and at that time there were a number of control issues identified. They included everything from workpapers not being adequately documented, to testing all members at an employer rather than a sample, to reports being issued with comments that were not relevant to employer controls. In this year's audit, Mr. Browne stated he saw improvements in almost all areas however he felt there are still two key issues that need to be addressed. The first being to reevaluate and update the annual field audit plan to address the review of the largest employers so that the System gets the greatest coverage that it is receiving the proper contributions from the greatest number of members. He noted that this hasn't happened in the last three years, with only three large employers having been reviewed. Mr. Browne also noted that an audit has yet to be done of the approximately eleven thousand State members, which needs to be worked into the plan. The Chair did note that the State had implemented a new payroll system in March which has been problematic, and suggested consideration might be given to including this State review as part of the 2014 field audit plan. Mr. Wozmak then raised the question of what are the standards used in selecting employers for audits. It was discussed that a number of factors enter into the selection process, from last time the employer was audited, to control issues that have recently come up at the employer. It was noted there are no special metrics in selecting the employers to be reviewed. Mr. Browne stated the System has already taken action to address this issue, noting that the present Board package outlines that there are ten field audits scheduled to address approximately seventeen members, a sizeable increase in members to be reviewed.

Next, based on a question from Mr. Wozmak the Committee discussed the second issue raised as part of the audit, that being the time spent by Field Auditors on non-audit work. Mr. Browne explained that while resolving these call-in questions from both employers and NHRS staff helps expand their knowledge of the system that this additional work coupled with the employer education training they perform impacts the time they have for performing field. Mr. Lagos noted the System is presently reevaluating how best to address these inquires across the organization. Mr. Browne did note the System has implemented procedures to document questions that come up into Interpretive Memos that are then circulated among all staff to keep them current. Mr. Browne also briefly touched on the other two issues identified. Those being the need to enhance procedures for tracking Field Audit Issues between business units, and resolving whether there is a need to track Group II certification numbers within NHRS. Mr. Browne felt all items were being addressed.

Mr. Browne then presented the status of the 2013 Audit Plan and the draft 2014 Audit Universe and Plan. He reviewed the cover memo included in the Audit Committee package noting per the Board Audit policy, Internal Audit is charged with identifying all significant control systems, developing long-term and short-term audit plans, and assessing and examining these systems. Mr. Browne then went over how he has met this charge over the past year, by performing comprehensive audits, by participating in NHRS System Projects providing recommendations for control improvements, and by reporting to the Audit Committee on a regular basis as to control issues identified and recorded on the Audit Tracker. Based on a question from the Chair as to audits completed that were part of the Fiscal Year 2013 Plan, Mr. Browne explained that four of the six audits had been completed. He explained that the other two audits,

Investment Operations and Investment Management Accounting, had been postponed till Fiscal Year 2014, when the conversion to the new custodian, Bank of New York, is scheduled to be completed. Mr. Browne then described the process he used in developing the Fiscal Year 2014 plan; including meetings with members of the Executive Team to understand their operations, reviewing the materiality of transactions, and discussions with the Executive Director to assign risk ratings of high, medium, and low. Based on a question from Mr. Wozmak as to the frequency of a review, Mr. Browne explained that he also factors into his selection of audits for the plan, the work performed by the outside auditors, as well as work presently being performed internally like the Process Improvement Project. Based on a question from the Chair as to the planned audit of Actuarial Administration, Mr. Browne explained he would not only be testing the data sent to the actuaries but also the underlying data in PensionGold. Based on the above discussion, the Chair then accepted a motion from Mr. Wozmak to approve the 2014 Internal Audit Plan as submitted. Ms. McDonough seconded the motion, which carried unanimously.

Next Mr. Dianis provided a status on the KPMG Fiscal Year 2013 Audit. Mr. Dianis noted staff was busy closing the books of the System in preparation for KPMG's return the day after Labor Day, and that no control issues had been identified.

The Chair then noted the Committee wanted to congratulate Mr. Dianis, Ms. Fritzky and the Finance Staff for once again receiving the Government Finance Officers Association award for Outstanding Achievement in Popular Annual Financial Reporting. The Chair did make special note that NHRS has been recognized for its standard CAFR for 21 of the past 22 years and the Popular (Summary) CAFR every year since it began issuing them in 2007. The Chair did ask if there were many comments for improvements. Mr. Dianis said not many and nothing that surprised them, and that they would be sharing them with the external auditors going forward.

Next Mr. Dianis gave a brief update on the status of the new GASB Governmental Reporting Standards. He noted there had not been much activity over the past two months, but did expect more action on this in the fall.

There being no further business, the Committee tentatively scheduled the next meeting for 8:30 AM immediately prior to the Board meeting on September 10, 2013.

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