

NHRS Board of Trustees, Audit Committee  
August 12, 2014

**NOTE:** These minutes from the August 12, 2014 Audit Committee meeting were approved and executed at the September 9, 2014 regular Meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees  
August 12, 2014**

**The Public Minutes**

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

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

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; Marty Karlon, Public Information Officer; and John Browne, Internal Auditor. Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Brian Shaughnessy, KPMG Audit Senior Manager.

Chair Beardmore called the meeting to order at approximately 8:00 AM. Upon a request from the Chair, a motion was made by Mr. Wozmak to accept the minutes of the July 8, 2014 meeting. Ms. Kelliher seconded the motion, and it carried unanimously, with a minor amendment.

The Chair then asked Mr. Gagnon and Mr. Shaughnessy to discuss the proposed adjustments to the scope and fees for KPMG's audit of the Retirement System's financial statements for fiscal year 2014. Specifically, to outline those changes relating to the new Government Accounting Standards Board (GASB) Statement No. 67 – Financial Reporting for Pension Plans, and GASB 68 - Accounting and Financial Reporting for Pensions. Mr. Gagnon started by explaining that an additional focus of their audit this year will be the payroll census data, i.e. member name, birthdate, salary, etc., maintained at each of the employers that will impact the benefits to be paid, as well as the System's overall pension liability. He noted that prior to these standards this data had been considered in their audits, but was not a primary focus. He noted that the American Institute of Certified Public Accountants (AICPA) had only recently issued guidance on the auditing of this data, and Management and KPMG have been working on an approach to testing this data. He identified that the census data to be tested will be as of fiscal year June 2013 as this provides data for a completed fiscal year. This data will be used by the actuary rolled forward to determine the Plan's pension liability at June 30, 2014. He said this approach to testing is consistent with how other systems that KPMG audits will approach their audit work. He went on to note that the allocation of the net pension liability to employers will be based on employer pension contributions, which he felt was

consistent with the design of a cost sharing plan. Referencing their attachment of estimated fees, Mr. Wozmak asked whether the fees outlined would be annual fees. Mr. Gagnon explained that yes, the census data will need to be tested annually. However, he did note that once the process was in place, he felt there would be efficiencies to be gained to address the amount of work involved. Also, based on a question from the Chair, Mr. Gagnon explained under the new standard, a new report will be required from the actuary that KPMG will review and test each year. He noted there were other one-time fees, including a review of their work by the KPMG national office to ensure the initial process is proper, and the audits are consistent, and a one-time review of the adequacy of census controls.

Following the above discussion, and based on a request from the Chair, Mr. Wozmak moved a motion that pursuant to the authority vested with the Audit Committee under RSA 100-A:15, VI(b), staff be authorized to enter into an addendum to the audit engagement agreement of March 20, 2014, specifically option 2, with KPMG, subject to satisfactory conclusion of contract terms. The motion was seconded by Mr. Dwyer, and it carried unanimously.

Next, Mr. Johansen briefly updated the Committee on the draft revisions to the Employer Withdrawal Policy, explaining there were no changes from the draft policy presented at the July meeting. Mr. Johansen did mention that a memo in the audit package from the Groom Law Group, NHRS's fiduciary counsel, noted that the revisions to the policy were consistent with the statute. The Chair did raise a question regarding the interpretation of the requirement that a successor plan provide benefits 'equal to the benefits' of the NHRS defined benefit plan, noting that not all plans are alike. Mr. Johansen explained that it would have to be a defined benefit plan in order to be comparable benefits, i.e., a pension based on final salary or the average of last three years of salary, disability benefits, death benefits, etc. In response to a question from Mr. Wozmak relating to how the administrative cost allocation of five percent was determined, Mr. Johansen explained this was a reasonable estimate of the costs that would be incurred for processing an employer withdrawal, i.e., GRS's actuarial calculations, etc. Based on a request from the Chair, Ms. Kelliher made a motion to recommend that the full Board approve the proposed revisions to the Employer Withdrawal Policy as presented. Mr. Martins seconded the motion, and it was unanimously approved.

Mr. Lagos then presented the results of Systems Engineering's (SE) review of the issues identified in the 2010 KPMG Audit Report. SE determined there are still a number of operational areas within Information Technology (IT) that need to be addressed, and that these issues are presently being consolidated into a strategic plan that is in development by the IT Working Group. This group chaired by the Executive Director, and consisting of members of IT, Member Services and Internal Audit, is in the process of requesting proposals from SE to address the three primary issues identified: 1) NHRS network switching needs, 2) overall System security, and 3) ongoing network administration. Mr. Lagos believes the cost of this work would be contained within the current IT budget without going out to bid, and two other priorities to be addressed, an updated telecommunications system and a long term disaster recovery plan, would require Requests for Proposals to be approved by the Board.

Next Mr. Browne reviewed the August Audit Tracker noting there were two issues with a scheduled completion date of July. The first issue had been completed. This related to the development of a stronger review/reconciliation process at NHRS, governing the creation of the actuarial files each year before they are released to Gabriel Roeder Smith & Company (GRS). The second issue related to the development of policies/procedures for the processing of Inactive / Deferred Vested Members. Mr. Browne noted the processing for these transactions is still being updated. When completed - estimated October 2014 - procedures will be established. Other audit issues continue to be addressed and are on schedule for completion in the coming months.

Mr. Browne then reviewed the Internal Audit report summarizing his assessment of General Ledger Controls and Reconciliations. He rated the overall controls as effective, and briefly outlined the audit work performed, which included evaluating procedures for processing transactions, defining accounts to the System, how entries are recorded and checked, and the testing of data imports. He noted there was one issue related to controls over the defining of accounts to the General Ledger, and management was already taking actions to address that issue. He also noted this was the last audit related the 2014 fiscal year Internal Audit plan, and that he would be starting to review of Employer Records as part of the audit sharing work he would be performing with KPMG to address GASB 68 very soon.

Lastly, Mr. Beardmore congratulated the System's Finance Team and the Public Information Office for once again receiving the Government Finance Officers Association's award for outstanding achievement in popular annual financial reporting for the June 30, 2013 Summary Comprehensive Annual Financial Report (CAFR) report. He noted the System had previously been notified of receiving the same award for the NHRS CAFR.

As there being no further business, the Committee tentatively scheduled the next meeting for 8:30 AM immediately prior to the Board meeting on September 9, 2014.

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

*Respectfully submitted,  
John F. Browne*