

Minutes of Audit Committee Meeting  
December 13, 2011  
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of January 10, 2012.

The meeting was convened at approximately 8:30 a.m. on December 13, 2011, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were: Chair Catherine Provencher, Mr. John Wozmak, Mr. Dean Crombie, and Mr. Brian Morrissey. NHRS staff members in attendance were Ms. Kim France, Interim Executive Director; Mr. Timothy Crutchfield, Esq., Chief Legal Counsel; Mr. Bill Spead, Regulatory Compliance Officer; Mr. Jack Dianis, Director of Finance; Mr. Larry Johansen, Director of Investments; and Mr. John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Wozmak to accept the minutes of the November 8, 2011 meeting. Mr. Crombie seconded the motion, and it carried unanimously.

Next, Chair Provencher requested Mr. Dianis provide an update on the status of the audit of the 2011 Comprehensive Annual Financial Report. Mr. Dianis said he had spoken to Mr. Dave Gagnon, the Engagement Partner with KPMG, and Mr. Gagnon stated KPMG would shortly be issuing an unqualified audit opinion with no management comments. A brief discussion followed that this was believed to be the first time since the 1980's that there were no management comments, and it was particularly noteworthy considering all the changes that had taken place over the past fiscal year. Mr. Gagnon had also conveyed to Mr. Dianis that the Required Audit Communications from KPMG shared with the Committee at their last meeting had not changed, and that KPMG's signed opinion letter would be provided once the NHRS Representation Letter was received. A motion was then made by Mr. Morrissey and seconded by Mr. Wozmak for the Audit Committee to approve and accept the Comprehensive Annual Financial Report for fiscal year 2011 and the unqualified auditor's opinion per RSA 100-A:15, VI(a), and to recommend to the full Board their acceptance and release of the audited report. The motion carried unanimously.

The Chair next asked Mr. Johansen to summarize the research he had performed on the issue of the Independent Investment Committee (IIC) going into non-public sessions to discuss alternative investments as brought up at the November 8, 2011 Audit Committee meeting. Mr. Johansen explained he had spoken to Senator Janeway – Chair of the IIC, Atty. Crutchfield, and investment counsel Foster Pepper, and Atty. Crutchfield spoke with external NH counsel Sulloway and Hollis. The conclusion was that this is standard industry practice, and is permissible under the NH Right-to-Know Law, RSA 91-A. Per further research of Board committee minutes, Mr. Crutchfield also explained that this was common practice going back to June 2007 when the Board handled all investment responsibilities for the System before the establishment of the IIC in January 2009. A brief discussion followed where Mr. Crombie and the Chair raised the question that the IIC consider being more selective in going into non-public session. Mr. Johansen noted the IIC is being more conscious of that, and gave as an example that the presentation of the Private Equity Work Plan, that would traditionally be discussed in a non-public session, will be discussed in a public session at the IIC's December meeting as there

is no proprietary or confidential information in the presentation or expected to be discussed. However, Mr. Johansen noted further that the Townsend presentation will be in a non-public session because it discusses the sale of specific properties.

The Committee also discussed the use of outside counsel in resolving Board and Committee questions. The Chair recommended this topic be added to the Executive Director's file for further review at the Board level.

The Chair next asked Mr. Browne for an update on Internal Audit work. The first issue discussed was follow up performed at the request of the Committee on processing Military Service Credit Purchases. Mr. Browne explained how he had met with Atty. Crutchfield and Mr. Spead, to review how the Internal Revenue Code impacts the purchase of this credit. Mr. Spead clarified that the purchase of military service is an exception within the Code, in that a member can purchase this service, considered Qualified Permissive Service, under more than one retirement system, without having to clear it from a prior system. This distinguishes this service from other types of service purchases, e.g. Out of State service, that required the service to be refunded from the prior retirement system before being purchased, and why the question – verifying that the member has withdrawn the funds from the out of state system - is not included on the Military Service Credit application.

Mr. Browne then gave a brief status on the Investment Administration Audit. He was in the process of wrapping up the audit, and draft copies of the report and issues list were with Mr. Johansen and Ms. France to be finalized. There are two control issues. One, discussed at the previous meeting, was the documenting of work by the Investment staff in performing due diligence in selecting new investment managers/alternative investments. He noted the Investment Staff had already begun work on providing such documentation. The second issue related to collecting the Oath and the Statement of Financial Interests that each Investment Committee Member must complete before participating in meetings. The State administers the collection of these documents, but due to an oversight at the State, forms were not collected and NHRS was not notified in a limited number of cases over the past few months. Ms. France explained a similar issue had come up in processing paper work for new Board Members. She noted the System was going to implement a process for a better separation of duties so that one area collects the statements, and a second area verifies compliance at NHRS. Also, the System will reach out to the State if documents are not received timely.

Lastly, Mr. Browne noted he has worked with Ms. France on enhancing the Audit Tracker, and will have an updated report for the next meeting.

There being no further business, the Committee scheduled the next meeting to be prior to the Board meeting at 8:30 a.m., January 10<sup>th</sup>.

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