

NHRS Board of Trustees, Audit Committee  
December 11, 2012

**NOTE:** These minutes from the December 11, 2012 Audit Committee meeting were approved and executed at the January 8, 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; 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. Brian Shaughnessy, KPMG Audit Manager, participated telephonically.

Upon a request from the Chair, a motion was made by Ms. McDonough to accept the minutes of the November 13, 2012 meeting. Mr. Wozmak seconded the motion, and it carried unanimously.

The Chair next asked Mr. Shaughnessy, KPMG Audit Manager, for any comments on the 2012 financial audit. He explained that KPMG had issued an unqualified, clean opinion on the audit of the CAFR and issued a report on the internal controls over financial reporting in place at NHRS that identified two management letter comments. He said management had reviewed these comments and have provided responses, which KPMG agreed with. He noted management has already started working on plans to address both issues. He also noted that through the help of the NHRS Finance staff, the audit was completed earlier than in prior years. Mr. Shaughnessy then left the meeting.

Based on the above unqualified opinion from KPMG, a motion was then made by Mr. Wozmak and seconded by Ms. McDonough for the Audit Committee to approve and accept the Comprehensive Annual Financial Report for fiscal year 2012 and the auditor's unqualified opinion per RSA 100-A:15, VI(a), and to recommend to the full Board their acceptance and release of the audited report.

Next, the Chair asked Mr. Johansen to review the response to KPMG Management Letter comments relating to the System's monitoring of Real Estate and Alternative Investments. Mr. Johansen explained that there are really three issues. The first two relate to the evaluation of new

alternative investments and then the ongoing monitoring of existing alternative investments. Mr. Johansen explained that he had provided Mr. Lagos with documentation outlining all that staff and NEPC do in evaluating new investments, and he would be meeting with Mr. Lagos shortly to review it. For the monitoring of existing alternative investments, he explained that he was presently working with staff to formalize a process so that this review is well documented. For the third issue, he referred the Committee to exhibits in the audit package summarizing the sale of nine Hart and LaSalle properties since January of 2010. He explained that these exhibits demonstrate that the value at which NHRS was holding real estate properties were consistent with their ultimate sales price. There was one exception where a property sold significantly higher than what NHRS had valued the property, but he felt that it was sold in an isolated high rising market. He felt these exhibits, going back three quarters prior to the sales, document that the process in place is adequately addressing property valuations. He did note that the remaining properties that have not been appraised since June 2010 would be appraised by June 2013 as part of a three year cycle review. The Chair stated these responses sounded appropriate and she just asked that when these procedures are completed that KMPG review them.

Trustee Crombie arrived at this time.

Next the Chair asked Mr. Zahensky to give a summary of the December 11, 2012 memo he had provided the Committee in responding to the KPMG Information Technology (IT) Audit Management Letter dated December 9, 2010. Mr. Zahensky explained that he had used the Management Letter comments as a roadmap to address control issues when he joined NHRS in May 2012. He then confirmed that NHRS has either addressed or has a comprehensive plan to address all the issues noted in the report. He went on to outline the different areas updated, including security issues, policies and procedures, software licensing, unsupported software/hardware and operating systems. Mr. Zahensky did note that for the last issue – permissions to execute registry extended store procedures - that while he agrees with the concern of KPMG, for the moment he cannot revoke these permissions with the present system software. He said he will review this exposure again when the software is updated in the coming year. The Committee Chair then thanked Mr. Zahensky for his outstanding work, appreciating the extent of the control exposures that had been identified in the audit. The Committee then discussed where the System should go as far as further follow-up relating to Information Technology controls. The Committee considered having another IT audit performed, and Mr. Wozmak also suggested that as part of this review system penetration testing again be included. It was decided this topic will be revisited in the coming year.

Mr. Crutchfield then gave a brief update on the Ethics Report Card, which summarizes responses to the annual NHRS Standard of Conduct Questionnaire. He stated that responses are still being received, however he stated that all Trustees and Independent Investment Committee members have responded. He had received no responses that he felt needed to be brought to the attention of the Committee, and he will have the final Ethics Report Card next month for review by the Committee and for presentation to the Board.

Next Mr. Browne gave an update on the Audit Issues Tracking Report for December 2012. He commented there were fourteen issues from the prior month and five were added from the Employer Reconciliation Audit for a total of nineteen issues presently outstanding. He stated

there were no items on the tracker with November completion dates, and there were no changes to dates. He said he felt comfortable management is addressing the issues, with a special emphasis on policies and procedures, and checks and verifications within the system. The Chair did raise a question as to the two audit issues outstanding from Fiscal Year 2010. Mr. Lagos addressed the first issue, the Business Continuity Plan, noting that this Plan was something that would not be completed till approximately July of next year because of its complexity. He indicated he would be meeting with Mr. Zahensky next week to establish a two phase approach to finalizing a plan. The first phase is to have a short term plan to address any immediate disaster at NHRS. The second phase is to have a more extensive plan to address the overall needs of the organization, i.e. staffing and resources, including an offsite back up for computer processing, going forward.

In responding to the question relating to member refunds, Mr. Browne explained this issued related to refunds required by statute, going back to 2006 and prior. The Committee had a brief discussion as to the problems involved in tracking members who could not be found by address, and how funds were recorded. Mr. Browne noted procedures were being worked on to address this issue, which was the only issue on the Tracker without an assigned completion date.

Mr. Browne then reviewed Internal Audit work. He had provided a status of the Audit Plan in the audit package, which he will include in each audit package going forward, outlining work that has been performed against the plan. He stated he was wrapping up the Monthly Retiree Annuity Payments audit of which there were a couple of issues relating to staff's documentation of daily reviews they performed, and also the distribution of a monthly report to Accounting for payments that had been suspended. He also noted he had summarized control issues for the Executive Director as they relate to image processing at the System, specifically noting differences identified between NHRS and the Maine Retirement System. Lastly, he stated he would be starting shortly an audit of system processing performed by NHRS for the NH Judicial Retirement Plan.

Next, Mr. Dianis updated the Committee on work being done to implement the new GASB Governmental Pension Reporting Standards. He said he had attended two Webinars, one put on by KPMG that was accounting based, and the second put on by GRS that was actuarial based. He said he has been working with Treasurer Provencher, the State Controller, and the Local Government Center (LGC) to fine tune the plan to implement the standards, and would be participating in an event in early January with the LGC to get the word out to employers. The Chair closed the discussion by noting that she sits on the Government Accounting Standards Advisory Counsel and that based on discussion with other members of the counsel from around the country, New Hampshire is ahead many other governmental entities in addressing these standards.

There being no further business, the Committee scheduled the next meeting to be prior to the Board meeting on January 8, 2013, at 8:30 AM.

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