

NHRS Board of Trustees, Audit Committee  
December 10, 2013

**NOTE:** These minutes from the December 10, 2013 Audit Committee meeting were approved and executed at the January 14, 2014 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; John Beardmore; Germano Martins. Karen McDonough, absent.

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; Mark Cavanaugh, Regulatory Compliance Officer/Staff Attorney; Heather Fritzky, Controller; John Browne, Internal Auditor.

Chair Provencher called the meeting to order at approximately 8:00 AM. Upon a request from the Chair, a motion was made by Mr. Beardmore to accept the minutes of the November 12, 2013 meeting. Mr. Wozmak seconded the motion, and it carried unanimously.

Next, the Chair requested that Mr. Dianis present the status of the Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2013. Mr. Dianis identified the five required sections of the CAFR: Introductory, Financial, Investment, Actuarial, and Statistical, but focused his presentation on the Financial Section. The Financial section being made up of the Auditor's Opinion, Management Discussion and Analysis, Basic Financials, and Required Supplemental Information. He stated that the auditor's opinion has been redone to meet the new clarified auditing standards, noting that what was previously referred to as an unqualified or a clean opinion is now called an unmodified opinion.

Mr. Dianis briefly reviewed the basic financial statements, and directed the Committee's attention to the page on "Notes to Financial Statements". He noted KPMG was not at this meeting as they had provided all the required communications and disclosures to the Committee at the November Meeting, and they would be delivering a signed opinion once the Committee and Board had approved the CAFR.

Mr. Beardmore raised a question about the status of the pension funding ratio now that four years of the thirty year closed period have past. Mr. Johansen noted that while the actuarial gains and losses have not been significant, this is consistent with the expectations of the actuaries as indicated in the most recently completed valuation.

On behalf of the Committee, Chair Provencher thanked and congratulated Mr. Dianis, Ms. Fritzky and the Finance staff on the timely completion of the CAFR. Following discussion, a motion was made by Mr. Beardmore to approve and accept the Comprehensive Annual Financial Report for fiscal year 2013 and the unmodified 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 when the auditor's opinion is available. The motion was seconded by Mr. Martins, and unanimously approved.

Next, the Chair asked Mr. Dianis for an update on the proposal received from KPMG in regard to the audit of NHRS financial statements and review of the CAFR for the year ending June 30, 2014. Mr. Dianis stated staff had reviewed the revised cost estimate, and expressed the view that their concerns which had been discussed have now been addressed. He noted the following as reasons for continuing with KPMG: the 2014 fees and rates for the base audit will not change from the 2013 audit; the estimated costs of any expected incremental audit effort in 2014 associated with the System's adoption of GASB Statement No. 67, Accounting and Financial Reporting for Pension Plans, were reasonable (range \$10,000-\$20,000); and that KPMG was willing to work with NHRS in 2015 on the pricing for services in connection with the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Per a question from Mr. Beardmore, Mr. Dianis explained this agreement would only lock the System into work for 2014, and fees for 2015 would still be negotiable.

The Chair inquired about how other pension systems were handling audit services for GASB implementation, Mr. Dianis explained he had reached out to other systems which had indicated that they were also extending their agreements with their present auditors until information and professional guidance were more clearly defined on these GASB statements. Based on the above discussions, the Chair asked for a motion, pursuant to the authority vested with the Audit Committee under RSA 100-A:15, VI(b), to authorize staff to enter into an agreement with KPMG for fiscal year 2014 subject to the satisfactory negotiation and conclusion of contract terms as outlined in the proposal dated December 3, 2013. Upon motion by Mr. Beardmore, and seconded by Mr. Wozmak, it carried unanimously.

The Chair then asked Mr. Dianis for an update on the Actuarial Funding Policy. Mr. Dianis explained that in the past NHRS has relied upon the New Hampshire constitutional and statutory provisions as its funding policy. After review, and in consultation with our consulting actuary, staff stated that as a best practice that they would develop a more formal written pension funding policy and present it first to the Audit Committee, then to the Board for review and approval. In particular staff believed this was necessary because of the new GASB accounting standards, which changed the relationship between pension accounting and the funding of the actuarially determined annual required contribution. Also, because of the expected closer audit scrutiny of verifying NHRS' determination of using the current assumed rate of return (7.75%) rather than a "blended" rate of return for determining the System's pension liability for accounting purposes. The Chair thought this an excellent idea, and did suggest staff take this opportunity to better educate stakeholders on the two different sets of numbers that will be generated by the accounting policy and the funding policy. The Chair also suggested a draft written policy be put on the Committee agenda for January 2014.

The next item on the agenda was a review of the Annual Ethics Survey for the 2013 fiscal year. Attorney Crutchfield explained that this survey is not required by administrative rule or statute, but rather is a best practice of the system. He specifically thanked the Investment Team for their work in following up with the investment related Service Providers. He noted there was a response of a hundred percent for the three areas that the System can control: Service Providers, Trustees/Independent Investment Committee Members, and Employees. Per a question of the Chair, he noted there were no comments that would necessitate further review by the Committee. There being no further discussion, Mr. Martins made a motion to recommend the Report Card to the full Board for approval. Mr. Beardmore seconded the motion, and it carried unanimously.

Mr. Browne then reviewed the December Audit Tracker. He explained there was just one item with a scheduled completion date of November, and that item was closed. He described briefly that it related to the communication within the retirement system to follow up on questions received by the field auditors outside of their specific audits. He explained that they have developed something similar to the audit tracker that can be monitored within the Employer Services area.

The Chair asked how completed issues are deleted from the audit tracker. Mr. Browne noted there was no formal process but would develop a procedure to address this. Mr. Lagos then called to the Committee's attention that the Business Continuity Plan which is scheduled to be completed in December is behind schedule. Mr. Lagos reported that staff was going to revisit the strategy of being located in Dallas, due to the dependency on local IT staff. He mentioned two other possibilities: one being working with LRS, the PensionGold vendor, providing this backup service, or a consultant – Systems Engineering, who we have worked with in the past, and who provide a similar service to the Maine pension system.

Next Mr. Browne reviewed the audit of Actuarial Administration that he had completed. This audit was part of the 2014 Audit Plan approved by the Committee. He explained this was a review of the actuarial data contained in two files NHRS annually submits to GRS as part of the annual valuation. One of the files was the member file, which includes all active, inactive, and deferred vested members as of June 30, 2013. The other file was the payee file; those members or member beneficiaries who are receiving payments. He described the audit work performed, including meeting and discussing the process with management and editing, sorting, and reviewing file data values to defined criteria. As a result of testing, he said a number of differences were identified, however in reviewing them with Finance and GRS, the exceptions were identified as not being material. In response to questions from the Chair relative to how exceptions were to be addressed, Mr. Browne explained that management is going to implement a project to review all data fields sent to GRS, first by verifying that all fields are truly required and then with LRS to ensure the fields requested by GRS are being extracted from the correct data elements within the PensionGold database. In addition, management is going to strengthen reconciliation procedures before the member/payee files are sent to GRS. He noted these issues will be added to the audit tracker next month.

Mr. Browne then gave an update on the remaining Internal Audit work for Fiscal Year 2014. He said he had started the next audit, a review of Inactive and Deferred Vested

Members, and he hoped to complete the audit by the beginning of January. The following audit would be a review of the hearings process, which would keep him on track for completing the plan as approved.

Next Mr. Dianis gave a very brief update on the status of the new GASB Governmental Reporting Standards, noting public plans are still awaiting guidance from the American Institute of Certified Public Accountants, which is expected to be published shortly.

There being no further business, the Committee scheduled the next meeting for 8:00 AM immediately prior to the Board meeting on January 14, 2014.

A motion to adjourn was made by Mr. Beardmore, seconded by Mr. Martins, and it carried unanimously.

*Respectfully submitted,  
John F. Browne*