

NHRS Board of Trustees, Audit Committee
December 13, 2016

NOTE: These minutes from the December 13, 2016 Audit Committee meeting were approved and executed at the January 10, 2017 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
December 13, 2016**

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Maureen Kelliher; Germano Martins; and David McCrillis.

Staff: George Lagos, Executive Director; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; Frank Clough, Director of Information Technology; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Nina Calkins, Process Improvement Manager; Heather Fritzky, Controller; Nancy Cone, Internal Auditor.

Chair Beardmore called the meeting to order at 10:00 AM. Upon a request from the Chair, a motion was made by Trustee Martins to accept the minutes of the Audit Committee meeting of November 8, 2016, as amended. Trustee McCrillis seconded the motion and it carried unanimously.

Ms. Cone then updated the Committee as to the status of Internal Audit activity and the FY2017 Audit Plan. Fieldwork is completed for the audit of Member, Retiree and Beneficiary Record Change Control and the report is in process. Ms. Cone is going to postpone two of the audits on the FY2017 Audit Plan as they relate to the recent Employer Services reorganization and replace them with two other audits. Trustee Dwyer requested that the Sequence number from the Audit Issues Tracking Report be included on the respective audits listed on the Audit Plan.

Ms. Cone then provided an update of the outstanding items on the Open Audit Issues Tracking report. Two items were completed and the target date was revised for two other items. The two completed items were outstanding for some time as staff was working with the Department of Administrative Services (DAS) to develop an upload file for contributions from the Judicial Retirement Plan (JRP) and to develop an Employer Audit Plan for various state agencies.

Mr. Dianis then provided an update regarding GASB Statements 74 and 75 which relate to the accounting and financial reporting of "other post-employment benefits" (OPEB). One of the key questions in respect to implementation is whether NHRS

administers one OPEB medical subsidy plan with four subgroups, police/fire, state employees, municipal employees and teachers, or four separate plans. NHRS staff concluded that NHRS administers one OPEB plan with four sub-groups. The question was referred to outside counsel who concurred that "...it is reasonable to conclude that NHRS maintains only one OPEB plan, rather than four separate OPEB plans, for GASB reporting purposes." This conclusion will be presented to NHRS' actuary, GRS, and auditors, KPMG. Trustee McCrillis asked how other systems are handling this issue. Mr. Lagos indicated that it depends solely upon the statutory provisions which govern their OPEB benefits, so each situation is unique in that respect. Mr. Dianis indicated that GASB 74 is effective for FY2017 and GASB 75 is effective for FY2018 at which time the OPEB liability will be allocated to each participating employer.

Mr. Dianis then presented the FY2016 Audited Comprehensive Annual Financial Report (CAFR). He commended Ms. Fritzky, the Controller, for producing the CAFR and to the entire organization for another year with an unmodified opinion and no Management Letter comments. Mr. Dianis indicated that KPMG briefed the Committee on the status of the audit at its last meeting with no issues noted and no issues have arisen since then. Pending completion of the final review, KPMG has indicated that it should be releasing an unmodified audit opinion later this week. Mr. Dianis then discussed the new disclosure for GASB 72 which is the fair value of investments standard. Trustee Beardmore congratulated Ms. Fritzky and Mr. Dianis on another timely audit with no issues.

Upon request from the Chair, a motion was made by Trustee Kelliher to approve and accept the Comprehensive Annual Financial Report for fiscal year 2016 and to recommend to the full Board its acceptance and release of the audited report per RSA 100-A:15, VI(a) subject to receipt of the unmodified auditor's opinion. Trustee Dwyer seconded the motion and it carried unanimously.

Mr. Crutchfield then presented the Annual Ethics Survey Results for FY2016. Responses were received from Service Providers, Trustees, Independent Investment Committee members, employees and former Trustees and employees. He thanked Shannan Hudgins, the Administrative Coordinator, for organizing the project and to Mr. Johansen and his team for contacting the investment-related service providers. Mr. Crutchfield noted there were no survey responses that would necessitate further review by the Committee. There being no further discussion, upon request from the Chair, a motion was made by Trustee McCrillis to recommend the Ethics Report Card to the full Board for approval. Trustee Martins seconded the motion and it carried unanimously.

Mr. Clough then discussed the recent PGSecure disaster recovery mock event. This service is provided by LRS for the purpose of backing-up the data on PensionGold, our pension administration system, in the event of a business interruption. During the event, a process is implemented to confirm that if there was a disaster recovery event at NHRS, LRS would be able to recover the NHRS data required to continue operations and issue pension payments. Mr. Clough indicated that the test was a successful and valuable exercise.

Mr. Dianis informed the Committee that the NHRS banking relationship with Citizens Bank is up for renewal and staff is reviewing whether a 3 or 5 year extension is more beneficial.

No further business came before the meeting.

A motion to adjourn made by Trustee Martins and seconded by Trustee Kelliher was carried unanimously.

Respectfully submitted,

Nancy B. Cone