

NHRS Board of Trustees, Audit Committee
December 12, 2017

NOTE: These minutes from the December 12, 2017 Audit Committee meeting were approved and executed at the January 9, 2018 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
December 12, 2017**

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

Committee Members: Bill Dwyer, Chair *via telephone*; Maureen Kelliher; Germano Martins, David McCrillis.

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

Chair Dwyer called the meeting to order at 9:12 a.m. Upon a request from the Chair, a motion was made by Trustee Kelliher to accept the minutes of the Audit Committee meeting of November 14, 2017 as presented. Trustee McCrillis seconded the motion and it carried unanimously.

The Committee then welcomed from KPMG David Gagnon, Lead Audit Engagement Partner, and Nicholas Stavros, Lead Audit Engagement Manager, to discuss the Fiscal Year-end 2017 Audit. Mr. Gagnon indicated that the FY2017 CAFR has been completed and KPMG will be releasing an unmodified opinion once the CAFR is approved and accepted by the Audit Committee. He then walked the Committee through the Audit Results presentation and indicated that the Audit was conducted in accordance with the Plan presented to the Committee at its April 2017 meeting and that there were no audit findings, misstatements or control deficiencies. Mr. Stavros then discussed the audit results and KPMG's audit procedures. He indicated that Ms. Cone oversees the GASB employer census data audits performed by the NHRS Employer Auditors which went very smoothly. With the implementation of GASB 74, additional testing had to be performed and disclosures were developed. Mr. Gagnon reminded the Committee that it was previously determined that NHRS had a single OPEB (other post-employment benefits) plan as opposed to four separate plans.

Mr. Stavros continued with a discussion of the audit of cash and investments, and contributions and distributions, for all of which no issues were noted. Mr. Gagnon indicated that contributions receive additional attention as they are used as a basis to

allocate the net pension liability and the OPEB liability. Trustee McCrillis inquired as to the change in accounting judgements related to the estimates for fiscal year 2017 versus fiscal year 2016 and Mr. Gagnon indicated that the slight increase in sensitivity was related to the implementation of GASB 74. Trustee McCrillis then inquired about the audit of alternative investments. Mr. Gagnon responded that all the private equity and debt investment funds have their own independent audits which are reviewed by KPMG. Mr. Stavros described the comparison of the investment fund's audit report to the investment statements to identify any differences. Mr. Gagnon indicated that there are no "Other Significant Matters" to discuss with the Committee.

Trustee Kelliher inquired as to KPMG's sampling process. Mr. Stavros described the statistical sampling program that utilizes criteria such as materiality and account balances to determine the sample size for contributions and distributions. For alternative investments, it is a more manual approach and Mr. Gagnon indicated that due to value swings a sample is selected prior to year-end and again post year-end.

Chair Dwyer stated he would like to give the Committee an opportunity to meet privately with KPMG. On a motion by Trustee Martins, seconded by Trustee Kelliher, the Committee entered into a non-public session under RSA 91-A:3, II(c) to discuss a matter which could adversely impact the reputation of someone other than a member of the public body, on a roll call vote, as follows:

Ayes: Trustees Dwyer, Kelliher, Martins and McCrillis.

Nays: None.

At the request of the Chair, KPMG representatives, Mr. Gagnon and Mr. Stavros, along with Ms. Cone, the Internal Auditor, remained for the non-public session.

On a motion by Trustee McCrillis, seconded by Trustee Kelliher, the Committee unanimously voted to conclude the non-public session. No votes were taken in the non-public session.

Upon a request from the Chair, a motion was made by Trustee McCrillis to approve and accept the Comprehensive Annual Financial Report for Fiscal Year 2017 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 auditor's unmodified opinion. Trustee Kelliher seconded the motion and it carried unanimously.

Mr. Gagnon and Mr. Stavros left the meeting at 9:50 a.m.

Ms. Cone reviewed the status of the FY2018 Internal Audit Plan. Three audits have recently been completed and the reports are in process. She then reviewed the Audit Issues Tracking Report indicating that target dates have been updated for the two Gainful Occupation issues in order to account for the process to amend the related Administrative Rules.

Mr. Lagos provided an update on the recently conducted Data Security Risk Assessment for which a report is anticipated by year-end. He then provided a PASE (Pension Administration System Evaluation) update indicating that information has

been sent to the vendor and a preliminary range of cost estimates to upgrade the pension administration system is anticipated by year-end.

Mr. Lagos thanked Heather Fritzky and the Finance team, Larry Johansen and the Investment team and Nancy Cone and the Employer Auditors for meeting the deadlines and for accomplishing a clean audit report. Chair Dwyer acknowledged their efforts.

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