

NHRS Board of Trustees, Audit Committee
December 11, 2018

NOTE: These minutes from the December 11, 2018 Audit Committee meeting were approved and executed at the January 8, 2019 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
December 11, 2018**

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

Committee Members in attendance: Bill Dwyer, Chair; Christopher Coates; Melvin Friese; Maureen Kelliher; Timothy Lesko. Also attending, Trustee Dick Gustafson, Ph.D., *Board Chair*, and Trustee Robert Maloney.

Staff: George Lagos, *Executive Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Frank Clough, *Director of IT*; Nancy Cone, *Internal Auditor*; Timothy Crutchfield, Esq., *Chief Legal Counsel*; Jack Dianis, *Interim Director of Finance*; Heather Fritzky, *Controller/Assistant Director of Finance*; Larry Johansen, *Director of Investments*; Cecile Merrill, *Project Manager*; and Nancy Miller, *Director of Member Services*.

Chair Dwyer called the meeting to order at 9:30 a.m. Upon a request from the Chair, a motion was made by Trustee Lesko to accept the public minutes of the November 13, 2018 Audit Committee meeting as presented. Trustee Kelliher seconded the motion and it carried unanimously.

The Committee then welcomed Plante Moran engagement partners Bob Dobrowsky and Michelle Watterworth, and Spencer Tawa, engagement manager, to discuss the 2018 Audit. Mr. Dobrowsky discussed audit roles played by Ms. Watterworth and Mr. Tawa and thanked the Committee for the opportunity to present the audit and Management for their role in supporting the audit. Ms. Watterworth then discussed the Opinion Letter. Plante Moran has issued an unmodified opinion, indicating that the financial statements present fairly, in all material respects, the fiduciary net position of NHRS as of June 30, 2018 in accordance with generally accepted accounting principles. Mr. Tawa then discussed the Report on Internal Control over Financial Reporting. No significant deficiencies or material weaknesses in internal control were identified and there were no instances of noncompliance identified that are required to be reported under Governmental Audit Standards. In addition, there were no adjusting entries proposed, which he described as a significant accomplishment in the initial audit of a state pension plan. He then discussed the AU 260 End of Audit Letter, indicating that there were no financial issues identified. He also reviewed the adequacy of Management estimates of investments (including non-

marketable or alternative investments) and actuarial assumptions and noted that there were no issues with Management during the audit. Mr. Tawa then discussed other recommendations that were provided to Management in a separate letter. He emphasized that these are items to consider that are generally best practices and not deficiencies in internal control. Mr. Tawa and Ms. Watterworth indicated that the audit went very smoothly for a first year audit with a new firm and commended Management and staff for their assistance.

Chair Dwyer stated he would like to give the Committee an opportunity to meet in non-public session with Plante Moran to discuss the audit and resulting communications. On a motion by Trustee Kelliher, seconded by Trustee Friese, 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, Coates, Friese, Kelliher and Lesko.

Nays: None.

At the request of the Chair, Plante Moran representatives, Mr. Dobrowsky, Ms. Watterworth and Mr. Tawa, along with Trustees Gustafson and Maloney, and Ms. Cone, the Internal Auditor, remained for the Committee's non-public session.

On a motion by Trustee Lesko, seconded by Trustee Friese, 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 Coates to approve and accept the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2018 and to recommend to the full Board its acceptance and release of the audited report per RSA 100-A:15, VI(a). Trustee Kelliher seconded the motion and it carried unanimously.

Mr. Dobrowsky, Ms. Watterworth and Mr. Tawa left the meeting at 9:50 a.m.

Ms. Cone then presented the Employer Contribution Reconciliation Audit Report and discussed the opportunities for control enhancements that were identified, all of which have been scheduled for March 2019.

Ms. Cone provided an update of the data security remediation project. Fifty-eight percent of the items have been completed, an increase from fifty-two percent as reported at the November Audit Committee meeting, through implementation of various enhanced controls. Remediation efforts continue on the outstanding items, several of which will remain long term as they are planned to be addressed in conjunction with the PGV3 project. She also reported that meetings with the individuals responsible for each item are scheduled for next week.

Ms. Cone then reviewed the FY2019 Audit Plan. As noted, the Employer Contribution Reconciliation Audit is completed and the IT Employee Hire/Separation Procedures Audit is in process. The Chair inquired about the QDRO Qualification Audit that is on the Plan. Ms. Cone responded that it is not a high priority item and will remain on the Audit Plan.

Ms. Cone then reviewed the Audit Issues Tracking Report that includes four items. The Chair inquired about the QDRO Member Retirement Process that has a target completion date of December 2018. Ms. Miller indicated that it is being actively worked on, but the completion date will need to be extended in order to ensure the accuracy of the calculation. The other three items on the Tracking Report relate to the recently completed Employer Contribution Reconciliation Audit.

Mr. Dianis indicated that the FY2018 CAFR audit is complete and the GASB 68 and 75 audit reports are in process and are expected to be available in January.

Ms. Merrill provided an update regarding the PGV3 project. She discussed staffing progress and reported that 34 of the 35 data cleansing issues have been completed with the remaining one in process. LRS was on site on Monday December 10th to provide a demo of PGV3 to all staff.

Mr. Lagos indicated that the LRS contract for the upgrade to PGV3 has been signed. A decision was made to select the perpetual license option as opposed to the subscription license as it is more cost effective to do so since it is anticipated that NHRS is likely to utilize this system for 15-20 years. He also noted that pricing negotiations resulted in a 7% reduction of implementation costs, no maintenance and support (“M&S”) costs for the first year, along with reduced M&S costs for 6 years post-implementation. The result is a total savings, from what was originally quoted, of approximately \$1,300,000, taking into consideration the previously negotiated reduction in the consultant project management fees.

No further business came before the meeting.

The next meeting is scheduled for Tuesday, January 8, 2019, before the regular Board meeting.

A motion to adjourn made by Trustee Lesko and seconded by Trustee Friese was carried unanimously.

Respectfully submitted,

Nancy B. Cone