

NHRS Board of Trustees, Audit Committee
December 10, 2019

NOTE: These minutes from the December 10, 2019 Audit Committee meeting were approved and executed at the January 14, 2020 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
December 10, 2019**

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

Committee Members in attendance: Bill Dwyer, Chair; Melvin Friese; Maureen Kelliher; Timothy Lesko. Absent: Christopher Coates. Also attending: 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*; Heather Fritzky, *Controller/Assistant Director of Finance*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; and Gerard Murphy, *Director of Finance*.

The Chair 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 12, 2019 Audit Committee meeting as presented. Trustee Kelliher seconded the motion and it passed unanimously.

The Committee welcomed Plante Moran engagement partners Bob Dobrowsky and Michelle Watterworth, and Spencer Tawa, engagement manager, to discuss the FY 2019 Audit. Mr. Dobrowsky began by acknowledging that their second year audit has resulted in significant efficiencies and they appreciate the cooperation and assistance provided by staff throughout the audit. Ms. Watterworth then discussed the Audit Opinion Letter. They are pleased to provide an “unmodified opinion”, which is the highest level of assurance that can be received on audited financial statements. Mr. Tawa then discussed the Report on Internal Control over Financial Reporting. A Significant Deficiency in terms of controls and communications was reported that relates to one demographic group within the census data that is provided to the NHRS actuary. The accrued benefit calculation amount for approximately half of the system’s 2,400 deferred vested members (out of approximately 102,000 members and retirees) was discounted in Pension Gold to reflect the assumption of early retirement payouts having been elected by this group. As a result, an estimated \$15 million, representing 0.1 percent of the total pension liability and 0.3 percent of the net pension liability, was not included in the total pension liability reported to the NHRS actuary, GRS. Both parties agreed that this amount is immaterial and not at a level that warrants the delay that would be necessary in order to recalculate the financial

statements, therefore, no adjusting entry was necessary. NHRS management has formally responded that it will address the communication deficiencies that resulted in GRS' interpretation of the data extract as reflecting the full retirement benefits, rather than the discounted benefits, for this subset.

Mr. Tawa indicated there were no corrected misstatements and discussed management estimates including hard to value investments (such as alternative investments) and actuarial assumptions. He also noted that there were no difficulties or disagreements with management, nor noncompliance issues. Plante Moran commended Management for implementing the control and efficiency enhancement suggestions provided with the FY2018 audit and has provided a similar list of suggestions or best practices to enhance controls as a result of their work done during this audit. Additionally, Ms. Watterworth indicated that based on statistical data from NASRA, NHRS is in line with other pension systems regarding its long-term rate of return assumption.

The Chair 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 Lesko, 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, Friese, Kelliher and Lesko.

Nays: None.

At the request of the Chair, Plante Moran representatives, Mr. Dobrowsky, Ms. Watterworth and Mr. Tawa, along with Trustee 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.

Mr. Dobrowsky, Ms. Watterworth and Mr. Tawa left the meeting at 10:03 a.m.

Upon a request from the Chair, a motion was made by Trustee Kelliher to approve and accept the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2019 along with the unmodified opinion and to recommend to the full Board its acceptance and release of the audited report per RSA 100-A:15, VI(a). Trustee Lesko seconded the motion and it carried unanimously.

Ms. Cone provided an update on the Audit Issues Tracker report that showed five outstanding items in the Finance and Member Services areas. Four are expected to be completed by year-end and one will be addressed in conjunction with the update to PGV3.

A review of the FY2020 Internal Audit Plan noted that two audits are completed, along with three consulting activity items, and two internal audits are in process, along with five consulting activities. Staff has begun testing selected aspects of the Business

Continuity Plan. The audit of Employer Audit Record Adjustments is in process with the Legal/Compliance and Member Services Departments.

Ms. Cone provided an update on the Data Security Remediation project. In the aggregate, eighty-two percent of the high, medium, and low priority items have been completed. All thirteen of the medium priority items, fifteen of the twenty high priority items, and twenty-eight of the thirty-five low priority items have been completed. Of the remaining twelve items, five are targeted to be completed within the next ninety days and seven are long term, as they will be addressed as a part of the PGV3 upgrade. The Chair commended staff for its effectiveness and responsiveness in remediating the majority of items.

Mr. Murphy then provided an update on the conclusion of the FY2019 external audit. He stated that an action plan is being developed to address the audit finding and that staff are reviewing Plante Moran's FY2019 draft of opportunities for control enhancements. He indicated that the Committee would receive regular progress reports on steps taken to address the opportunities for control enhancements, similar to the process that was followed for the FY 2018 audit.

Mr. Murphy also mentioned possible revisions to the proposed actuarial calendar for the next eighteen months that was presented to the Committee in September. If the Board takes action on changes proposed by GRS with respect to the timing of the experience study, the proposed changes to the actuarial calendar will be brought to the Committee.

The Chair noted that there did not appear to be any matters requiring an additional non-public session today and the Committee members agreed.

No further business came before the Committee.

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

Respectfully submitted,

Nancy B. Cone