

Minutes of Audit Committee Meeting
February 14, 2012
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of April 10, 2012.

The meeting was convened at approximately 8:35 a.m. on February 14, 2012, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were: Mr. Keith Hickey (Acting Chair), Mr. Dean Crombie, Mr. Brian Morrissey, and Mr. John Wozmak, who joined the meeting at approximately 8:40 a.m. It was noted that Committee Chair Provencher was unavailable due to a previously scheduled meeting with the Governor. NHRS staff members in attendance were Mr. George Lagos, Executive Director; Mr. Timothy Crutchfield, Esq., Chief Legal Counsel; Mr. Jack Dianis, Director of Finance; Mr. Larry Johansen, Director of Investments; and Mr. John Browne, Internal Auditor.

Mr. Hickey opened the meeting, by making a motion to accept the minutes of the January 10, 2012 meeting. Mr. Crombie seconded the motion, and it carried unanimously.

The first item on the agenda was a review of the Annual Ethics Survey for the 2011 fiscal year. Attorney Crutchfield explained that while this survey is not required by statute or administrative rule, it has been a good governance practice of the System. It is sent out to all service providers, trustees, investment committee members, employees, former employees, and former trustees, and they acknowledge being aware of the existence of the Code of Ethics of the Retirement System and their responsibility for adherence to the provisions of the Code. Attorney Crutchfield took note that for the first time in five years, there had been 100% response from the service providers at the time the survey was presented for Committee action, and he wanted to thank Mr. Johansen and his staff for their efforts in accomplishing this with the investment providers. There being no further discussion, Mr. Crombie made a motion to recommend the Report Card to the full Board for approval. Mr. Morrissey seconded the motion, and it carried unanimously.

Mr. Hickey then asked Mr. Browne for an update on Internal Audit work. Mr. Browne started by reviewing the audit of the Issuance of 1099's. This report and issues list was included in the audit package distributed to Committee members. He noted that he had found controls over this process to be effective. He briefly explained how payment information is collected at year-end on NHRS' primary computer system – PensionGold, how data fields are edited and control totals balanced, and a file generated for the web-based application - OneSource, which creates the actual 1099's that are mailed. Mr. Browne then went over the specific issues identified; noting that while balancing was certainly being performed before mailing out the approximately twenty eight thousand 1099's, there was no formal secondary review. Management had agreed to formalize this process, much like what is done for the monthly pension payments. In testing one hundred and fifty individual 1099's, Mr. Browne explained exceptions he identified where a taxable distribution was calculated on a duty disability payment, which should be always be non-taxable, and an exception where a 1099 was inappropriately suppressed. He said he had reviewed these with management, and he felt appropriate action was being taken to further research and correct the exceptions. Based on a question from Mr. Hickey, Mr. Browne

explained one of the options being studied is a report to identify those 1099's that were being improperly suppressed.

Next, Mr. Browne updated the Committee on the status of the audit of Retiree Death Benefits. This work included testing the process for substantiating death claims of retirees and beneficiaries, verifying payment options, and the calculation of payments. He explained he had tested thirty files at random and had reviewed them with no exceptions. He outlined he was going to select additional files focusing on options that had not come up in his random sample, and planned on having the audit completed for the next meeting. Lastly, Mr. Browne reviewed the current Audit Tracker included in the audit package. He explained the list of audit issues was presently twelve, with the completion of work on the Voluntary Compliance Program and the process for verifying receipt of the Statement of Financial Interests forms from the State. He did note he will be adding the issues from the 1099 review next month.

Mr. Dianis then gave a very brief status of the GASB Government Pension Reporting Exposure Draft, explaining there were no changes, and he next expected to hear something in May or June.

There being no further business, the Committee scheduled the next meeting to be prior to the Board meeting at 8:30 a.m., March 13th.

A motion to adjourn was made by Mr. Morrissey, seconded by Mr. Crombie, and it carried unanimously.