

NHRS Board of Trustees, Audit Committee
February 14, 2017

NOTE: These minutes from the February 14, 2017 Audit Committee meeting were approved and executed at the March 21, 2017 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
February 14, 2017**

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

Committee Members: John Beardmore, chair; Bill Dwyer; Maureen Kelliher; Germano Martins. Absent: 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 9:30 AM. Upon a request from the Chair, a motion was made by Trustee Kelliher to accept the minutes of the Audit Committee meeting of January 10, 2017 as presented. Trustee Dwyer seconded the motion and it carried 3-0 with Trustee Beardmore abstaining.

Ms. Cone then updated the Committee as to the status of Internal Audit activity. She presented the final report of the Succession Planning Audit. Management has identified key positions and developed plans should there be a vacancy in those positions. Two issues were noted along with recommendations to enhance controls and these will be addressed by Management.

Ms. Cone then presented the updated the FY2017 Audit Plan. Six audits are completed and one is in process. She then provided an update on the nine outstanding items listed on the Open Audit Issues Tracking report of which there was no change from last month as the Target Dates have yet to occur.

Mr. Dianis then discussed the draft June 30, 2016 GASB 68 Audit Report, Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, which provides employers with their proportionate share of the net pension liability and expenses that they are required to report on their financial statements. GRS, the Plan actuary, prepares the base report which calculates the proportionate shares for each employer based on their contributions. KMPG, the Plan external auditor, then audits that report and also utilizes the employer census data audits, which are performed by

NHRS, to provide them with the basis to sign off on the details of the GRS report. Mr. Dianis indicated that he expected that KPMG would complete a preliminary review on or before February 20th and the completed audit by March 10th. NHRS would like to provide this Schedule to the employers by the end of the month so staff is requesting that the report be approved contingent upon receipt of an unmodified opinion letter by KPMG, who is nearing completion of its review. Mr. Dianis then walked through the Schedule of Employer Allocations, which determines the proportionate percentage of each employer's contributions to the total contributions, and the Schedule of Pension Amounts by Employer, which allocates the pension expense and net pension liability to each employer based on their respective proportionate share of contributions. In response to Trustee Dwyer's question, Mr. Johansen indicated that the method to calculate the weighted average long-term expected real rate of return in Note 4 includes not only the expected return, but also the standard deviation.

Upon a request from the Chair, a motion was made by Trustee Dwyer to recommend to the full Board that it accept the June 30, 2016 GASB 68 Report, as presented, subject to receipt of an unmodified opinion letter from KPMG. Trustee Kelliher seconded the motion and it carried unanimously.

Mr. Dianis then provided an update regarding the Citizen's Bank contract renewal. Changes were negotiated that will save NHRS approximately 10% in transactional fees and the contract will be renewed for three years.

Mr. Lagos then updated the Committee as to the status of the PASE RFI (Pension Administration System Evaluation Request for Information) that will be provided to vendors within the next week who will have approximately 60 days to respond. This is only an information gathering process and no decision has been made to upgrade the current system which is supported by the current vendor and meets our needs.

Mr. Lagos then provided an update regarding GASB Statements 74 and 75 which relate to the accounting and financial reporting of "other post-employment benefits" (OPEB). The key issue is the determination of whether NHRS administers one OPEB medical subsidy plan with four subgroups, police/fire, state employees, municipal employees and teachers, or four separate plans. Mr. Lagos reported that KPMG had provided its written confirmation that it concurs with the determination made by NHRS staff and its outside counsel that for purposes of complying with GASB 74, it is reasonable to conclude that NHRS administers one OPEB plan with four subgroups.

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