

NHRS Board of Trustees, Audit Committee
January 8, 2013

NOTE: These minutes from the January 8, 2013 Audit Committee meeting were approved and executed at the April 9, 2013 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

The Public Minutes

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

Committee Members: Catherine Provencher, Chair; John Beardmore; Karen McDonough; Dean Crombie.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Heather Fritzky, Accounting and Financial Reporting Supervisor; Nina Calkins, Project Specialist; John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Crombie to accept the minutes of the December 11, 2012 meeting. Mr. Beardmore seconded the motion, and it carried unanimously.

The first item on the agenda was a review of the Annual Ethics Survey for the 2012 fiscal year. Attorney Crutchfield explained that this survey is sent out to all service providers, trustees, investment committee members, employees, former employees, and former trustees, as a best practice to confirm compliance with the NHRS Code of Ethics, or alternatively, report any perceived violation of the Code. Attorney Crutchfield noted that there were a high percentage of respondents and that there were no comments that would require further review. Based on a question from Mr. Beardmore, Mr. Crutchfield explained that this review is coordinated by the Administrative Coordinator Shannan Hudgins and that he and Ms. Hudgins review the surveys, with assistance as necessary from Mr. Johansen on investment-related surveys. There being no further discussion, Mr. Crombie made a motion to recommend the Report Card to the full Board for approval. Mr. Beardmore seconded the motion, and it carried.

Next Mr. Lagos gave a brief update on the Policies and Procedures Project presently being worked on at NHRS. He explained that this is an effort to consolidate and create a central data base for all the different policies and procedures that were in place at NHRS when he came on board, and those that have since been developed. For many of the existing procedures, there were often different versions, with some online and some hard copy. Ms. Calkins, the Project Manager, then provided a demonstration of the program used. It is called Policies and

Procedures Manager (PPM) from Polices Technology International. Ms. Calkins described how there are a number of different statuses as policies/procedures are developed, from 'draft' to 'in review' to 'approved'. She explained how the program will distribute the documents to writers, reviewers, and approvers before it is finalized. She also explained the required sections of the template; from purpose and scope, to definitions and the procedural steps and also showed how the program automatically links procedures to policies. Presently there are approximately sixty policies and sixty procedures. The Chair asked if there were automatic triggers on the documents when they needed to be reviewed, and Ms. Calkins explained that the program provides that option, and once an approved document is updated, the old version is moved to an archives folder, so there is a history. She also described how the program can be used to distribute required documents to all staff for their review. Based on the presentation, there was general Committee agreement that this was an excellent tool for managing the System's policies and procedures.

Next Mr. Browne gave an update on the Audit Issues Tracking Report for January 2013. He noted that the System had made substantial progress in addressing outstanding issues on the tracker with eleven issues being closed during the past month. Resolution of these issues covered everything from policies and procedures developed for IT and QDRO processing, to a reconciliation process for 1099's, to clarifying the process of calculating death benefits for members with less than one year of service. Mr. Browne also clarified the status of the outstanding issue of Unclaimed Member Refunds that goes back to 2010 that the Committee discussed at its December meeting. He explained he had not gotten the new target date in time to add it to the tracker, but Finance, Legal, and Member Benefits had met on the issue over the past month and planned to have it completed in February 2013. He also noted that as the tracker had grown to twenty six pages with a good portion of items listed as completed, he was going to remove these issues so that the tracker would only contain open items.

Mr. Browne then went over the status of the Internal Audit plan for 2013. He noted the audit of Monthly Retiree Annuity Payments had been completed, and he summarized the primary controls in place. Those controls included the reconciliation by two staff people of the current month's payments, to the changes made throughout the month, and the prior month's balance, before being reviewed by a Director prior to the release of payments. He also reviewed the procedures for verifying the monthly changes. He identified three control issues, two of which, staff members documenting their transaction review and procedures for monitoring the Payroll Alert Report, were also discussed at the December meeting. The third issue related to NHRS implementing a control framework for managing critical Excel spreadsheets used throughout the organization and particularly within Retiree Services. He felt all issues were being addressed. Based on a question from the Chair, staff explained that of the twenty-eight thousand payments made monthly, less than three thousand are made by check, and for new retirees the default process is to have all payments made through direct deposit.

Finally Mr. Browne went over his current audit, a review of the work performed by the NHRS for the NH Judicial Retirement Plan as the result of a service agreement. This work includes

collecting contributions, processing requests for retirement, and maintaining member records. He noted no major concerns at the moment other than the agreement and the fee schedule go back to July of 2008. Per a question from Mr. Beardmore, he explained the term of the agreement was open ended in that it would terminate only at the request of one of the parties; that the work of NHRS was strictly administrative, and; that any appeal of a JRP member/retiree would be heard by the separate JRP Board of Trustees.

Next, Mr. Dianis updated the Committee on work being done to implement the new GASB reporting standards. He said GRS, the System's Actuary, was coming in during the week to have a strategy session with NHRS, and he would be presenting an update on this topic to the finance directors of cities, towns, and schools at the NH Government Finance Officers Association meeting later that week.

There being no further business, the Committee scheduled the next meeting for 8:30 AM immediately prior to the Board meeting on February 12, 2013.

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