

NHRS Board of Trustees, Audit Committee  
January 14, 2014

**NOTE:** These minutes from the January 14, 2014 Audit Committee meeting were approved and executed at the February 11, 2014 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; Germano Martins; Jack Wozmak. Karen McDonough, absent.

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; Mark Cavanaugh, Regulatory Compliance Officer/Staff Attorney; Heather Fritzky, Controller; John Browne, Internal Auditor.

Guest: David Kausch, Gabriel Roeder Smith & Company (GRS), Consulting Actuaries

Chair Provencher called the meeting to order at approximately 8:15 AM. Upon a request from the Chair, a motion was made by Mr. Wozmak to accept the minutes of the December 10, 2013 meeting. Mr. Beardmore seconded the motion, and it carried unanimously.

Next, the Chair requested that Mr. Dianis provide an update on the status of audit services for fiscal year 2014. Mr. Dianis informed the Committee that a conference call had been held with KPMG's audit partner and actuary, and NHRS to discuss the approach GRS, the System's actuary, was proposing for computing the GASB 67-68 discount rate and to determine whether a blended rate was required. KPMG agreed with the approach and GRS will begin the project.

The Chair then asked Mr. Kausch from Gabriel Roeder Smith (GRS) to comment on the draft Actuarial Funding Policy developed by staff and GRS. Mr. Kausch said he felt it was a very strong policy that his firm may use as a model for other clients. He explained that it was organized the way the statute is laid out so that it could be used as a reference tool to differentiate between the law and the Board policies.

He noted some of the things included in the policy are: a clear statement of the amortization period as a closed period, which was not particularly well-defined in the statute; a discussion about risk management; a listing of items that will be included in the valuation report, i.e. retirement rates, mortality rates, etc., that will allow the

Board to better track the health of the System. He also noted there is a separate section in the policy for the funding of the medical subsidy.

Based on a concern raised by the Chair that the description of the setting of the discount rate and demographic assumptions appeared in general terms without specificity, the Committee had a discussion of how much detail describing this process should be included in the policy. Based on this discussion of the interaction of the Board, and the Actuaries, the Independent Investment Committee and investment consultants in making actuarial decisions, the Chair asked that the policy be updated to be more specific as to the role the Board plays in making these decisions.

The Chair then thanked staff and GRS for their work, and reviewed the plan for bringing this policy to the Board. It was decided that if the policy was approved by the Audit Committee in February following staff updates, it would be presented to the Board in February for a one-month review and then seek approval at the March Board meeting.

Next the Chair asked in reviewing the statute for this policy if there was anything in the statute that should be modified. Mr. Dianis noted that in RSA 100-A:16, Method of Financing, there is a reference to determining the level annual contribution per GASB standards, and that with the change last year to the GASB standards this section of the statute is no longer appropriate. It was agreed that this modification should be put on the list for future statutory amendments.

Mr. Browne then reviewed the January Audit Tracker. He explained there were six audit issues with a scheduled completion date of December. He noted four of the issues were completed and closed, however two issues had to be postponed. Those two issues were: a recommendation for the first phase of the Business Continuity Plan that will be delayed a couple of months for further evaluation, and the automation of processing Judicial Retirement Plan (JRP) contributions that will be delayed until March because of competing Information Technology resources. Per a question from the Chair, it was explained the control issue relating to JRP was not a fatal flaw but rather a strengthening of controls over contributions. It was also noted that two new issues associated with the actuarial administration audit had also been added to the Audit Tracker. Mr. Browne also reviewed a memo he had prepared for the committee noting there were 68 new audit issues opened and 84 audit issues closed, over the past three years, as well as a new procedure for deleting completed issues from the Audit Tracker. The Chair complemented management on their good work in addressing these control issues.

Next Mr. Browne reviewed the status of Internal Audits. He noted he was in the process of completing the audit of Inactive/Deferred Vested Members, which was part of the 2014 Internal Audit Plan. He stated that aided by the System's Process Improvement Project, he was able to start the audit with current policies, procedures, and flowcharts created as part of that project. Per a question from the Chair, he noted based on his audit work there were no critical findings to bring to the attention of the Committee, but did state he was working on an issue with Member Services to strengthen controls over the process of notifying vested members or any members who become inactive after the age of sixty of their pension benefit. He stated that it is not a requirement of RSA 100 or an administrative rule, but that it had been a practice of

the system to annually notify members of their benefit, and presently staff was behind in generating these letters. A lengthy discussion followed about the difficulties of getting some members to take advantage of this benefit, as well as keeping in contact with these members. Ms. Miller stated she would be meeting with the NHRS Legal team shortly to discuss the subject further. Mr. Browne said he planned on having the final report, which would include management's responses to this issue, for the next Committee meeting. Mr. Browne also noted that he would be starting the next audit, a review of the Administrative Hearing process, in the coming week.

Mr. Dianis then gave a brief update on the status of the new GASB Governmental Pension Reporting Standards. He noted first that GRS is working on developing GASB 67-68 pro forma required disclosures using the June 30, 2013 valuation. GRS is estimating that there will be a draft ready in six to eight weeks to share with staff and the Committee, and eventually the Board. The Chair suggested that as part of this disclosure, staff work on a plan to share this information with political subs/employers. Mr. Dianis said they were planning to start with a pilot group of employers. Mr. Dianis also noted that he had hoped the American Institute of Certified Public Accountants Task Force Implementation Guide would be available by December 31, 2013, however the Task Force has still not completed their work.

There being no further business, the Committee scheduled the next meeting for 8:15 AM immediately prior to the Board meeting on February 11, 2014.

A motion to adjourn was made by Mr. Martins, seconded by Mr. Beardmore, and it carried unanimously.

*Respectfully submitted,*  
*John F. Browne*