

NHRS Board of Trustees, Audit Committee
January 13, 2015

NOTE: These minutes from the January 13, 2015 Audit Committee meeting were approved and executed at the February 10, 2015 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
January 13, 2015**

The Public Minutes

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Maureen Kelliher; Germano Martins; and Jack Wozmak.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; 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; Heather Fritzky, Controller; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; and John Browne, Internal Auditor.

Chair Beardmore 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 Audit Committee meeting of December 9, 2014. Mr. Martins seconded the motion, and it carried with Mr. Dwyer abstaining as he was not present at the meeting.

The Chair then asked Mr. Dianis for an update of the status of audit services for fiscal year 2015. Mr. Dianis explained that while KPMG's five-year audit contract for services had expired in fiscal year 2013, it had been decided by the Committee to keep KPMG on for fiscal years 2014 and 2015 to address the ongoing Government Accounting Standard Board (GASB) changes and their impact on NHRS. Mr. Dianis stated KPMG would be at NHRS the end of January to discuss the scope of audit work to be done for the coming fiscal year. Based on the results of that meeting, Mr. Gagnon, the KPMG Engagement Partner, planned on having a proposal for the fiscal year 2105 audit including all proposed audit fees for the February 2015 Audit Committee Meeting. The Committee agreed with this approach, also noting that for fiscal year 2016 the System would solicit a Request for Proposal for audit services.

Next the Committee had a lengthy discussion on Surry Village Charter School's (SVCS) request to withdraw from NHRS. Attorney Crutchfield started the discussion by summarizing SVCS's December 15th, 2014 withdrawal proposal, and Gabriel Roeder Smith & Company (GRS's) analysis of that proposal. Mr. Wozmak raised the question that after reading GRS's response, he was still unclear of how equivalency is

established between the NHRS plan and the plan to be established by SVCS, and how one measures that. He also asked if a timeframe needed to be established for when SVCS would establish their alternative plan. Mr. Lagos responded no timeframe had been established as it is very difficult for any entity to be held to a deadline in working with the IRS. Mr. Beardmore followed up with a question as to when the unfunded liability would be calculated if the alternative plan may not be approved for a number of years. Mr. Cavanaugh replied that based on his experience in the private sector, the unfunded liability would be established once the motion to withdraw was approved because a replacement plan is usually established and is up and running a number of years before a final IRS determination letter is received. Questions were also raised by Committee members about how this decision is being memorialized and whether it should be reviewed by outside counsel.

Next the Committee debated the motion before them to recommend to the Board that it conditionally approve the request of Surrey Village Charter School to withdraw from the System pursuant to RSA 100-A:43 subject to: (1) receipt of payment of the unfunded accrued liability as calculated by the System's actuaries and (2) receipt of documentation confirming that the alternative benefit plan has been established; including (a) a vote of its governing body to establish such plan; (b) a copy of a duly executed declaration of trust, plan document and summary plan description governing such plan, and, (c) any notice to employees of establishment of the plan as may be required under ERISA or the Internal Revenue Code. The Committee considered whether additional provisions should be added, including specifically that a receipt of the determination letter from the IRS be required.

Based on the lengthy Committee's discussion, Mr. Lagos suggested that it would be prudent for staff to address the various questions which had been raised, document their recommendation to the Committee, and to have the staff recommendation vetted by outside counsel. The Chair then asked for a motion to table this item until next meeting in order to allow staff to proceed as outlined. The Chair noted that this approach was appropriate in that this decision may be precedent setting for future withdrawal applications. Mr. Wozmak moved the motion, Mr. Dwyer seconded it, and it carried unanimously.

Mr. Browne then very briefly reviewed the status of Internal Audit work noting NHRS Management continues to address outstanding audit issues as outlined in the Audit Tracker, and that he continues to work on the Payroll/Personnel Administration audit.

Next Mr. Lagos updated the Committee on initiatives undertaken by Systems Engineering (SE) relative to system security and network administration. He noted that from a macro level it has been a very productive relationship and that the System has been able to benefit from SE's expertise. Also, the way the contract was structured, the amount of time SE is on site is reduced over time as tasks are completed. As future projects are identified, they are priced individually, and reviewed by an internal IT Working Group before being approved. He noted the total expenditure as of December 31, 2014 was approximately \$87,000, the details of which are included in the audit package. Mr. Clough then spoke to individual security and control issues SE had been brought in to address. He noted of the twenty-one outstanding items from a KPMG Information Technology audit, fourteen issues had

been completed, six issues were in progress, and that the last item would be completed at a later date.

Lastly, Chair Beardmore formally thanked Audit Committee member Jack Wozmak, who was stepping down from the Board of Trustees, for his dedication and service to the Committee over the years.

As there being no further business, the Committee scheduled the next meeting for 8:00 AM immediately prior to the Board meeting on Tuesday, February 10, 2015.

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

Respectfully submitted,
John F. Browne