

NHRS Board of Trustees, Audit Committee
January 12, 2016

NOTE: These minutes from the January 12, 2016 Audit Committee meeting were approved and executed at the February 9, 2016 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

January 12, 2016

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

Committee Members: Bill Dwyer, Acting Chair; Maureen Kelliher; and David McCrillis. John Beardmore and Germano Martins, absent.

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; Nina Calkins, Process Improvement Manager; Heather Fritzky, Controller; Mark Cavanaugh, Associate Counsel and Compliance Officer; Nancy Cone, Internal Auditor.

Acting Chair Dwyer indicated that he was filling in for Chair Beardmore who was unable to attend due to legislative commitments and called the meeting to order at approximately 9:30 AM. Upon a request from the Acting Chair, a motion was made by Ms. Kelliher to accept the minutes of the Audit Committee meeting of December 8, 2015. Mr. McCrillis seconded the motion and it carried unanimously.

Jack Dianis, Director of Finance, presented the two June 30, 2015 GASB No. 68 reports to the Committee. KPMG, the external auditors, will opine on the report titled the "Schedule of Employer Allocations and Schedule of Pension Amounts by Employer" (GASB 68 report). GRS, the Plan actuary, prepared the actuary report titled "GASB Statement No. 68 Employer Reporting Accounting Schedules" which forms the basis for the GASB 68 report. Mr. Dianis explained that the figures contained in the GASB 68 report are the ones that employers utilize to prepare their audited financial statements if they have a September 30, 2015, December 31, 2015 or June 30, 2016 year end. The actuary report outlines a detailed calculation to determine if there are sufficient funds in the plan to meet future obligations. The report determined that future obligations are projected to be funded, enabling the System to use the current discount rate of 7.75% in order to calculate the pension liability. Mr. Dianis then walked through the Schedule of Employer Allocations and the Schedules of Pension Amounts by Employer. Mr. Dianis indicated that NHRS would like to provide this Schedule to the employers by the end of the month so staff was requesting that the report be approved contingent upon receipt of an unmodified opinion letter by KPMG, who is nearing completion of its review.

Mr. Dwyer noted that the increase in the unfunded actuarial liability was anticipated due to a temporary period of negative amortization in the closed 30 year amortization schedule. Mr. Dianis agreed and indicated that this would be more evident in the actuarial valuation used to calculate employer contribution rates. Mr. McCrillis added that these are GASB numbers versus the actuarial numbers which also have an effect on the calculations.

Mr. Dwyer then commented on footnote 5c in the Schedule of Employer Allocations reporting the average expected remaining service life of active and inactive members as 5.3941 years and noted that seemed low in spite of the fact that it is weighted by those who are already retired. Mr. Dianis concurred; noting that GASB requires the calculation to include retirees so it distorts the figure.

Mr. McCrillis then made a motion to recommend to the full Board of Trustees that it accept the June 30, 2015 GASB 68 Report, as presented, subject to receipt of an unmodified opinion letter from KPMG. The motion was seconded by Ms. Kelliher and was unanimously approved.

Ms. Cone then reviewed the status of Internal Audit activity and provided an update as of January 1, 2016 for the four outstanding items on the Open Audit Issues Tracking System report. She noted there is no change from the prior month as all items have expected completion dates of sometime in the future. Mr. Lagos provided information regarding Tracker item #94, the payroll audit for the State and item #75 JRP Contribution Processing, commenting that some progress is anticipated within 30 days.

Ms. Cone observed that the fieldwork has been completed on the Annual Member Statement Audit and the report is being written. She then reviewed the remaining items on the FY2016 Approved Audit Plan and discussed plans for the next audit. She offered that she would welcome any ideas, recommendations, requests or suggestions that the Audit Committee may have regarding the Internal Audit process.

Mr. Lagos then presented two IT Sole Source contracts for the Committee's review that do not require a Committee vote, but will be presented to the Board for approval. One relates to an addendum for renewal of the Systems Engineering (SE) Network Administration Agreement and the second agreement is with SE for an offsite back-up co-location ("COLO"). Mr. Clough responded to several questions with regard to the cost of the COLO facility and the benefit of relocating the site to Massachusetts from Texas, with SE's support.

As there being no further business, the Committee tentatively scheduled the next meeting immediately prior to the Board meeting on Tuesday, February 9, 2016 at a time to be determined.

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

Respectfully submitted,
Nancy B. Cone