

NHRS Board of Trustees, Audit Committee
January 14, 2020

NOTE: These minutes from the January 14, 2020 Audit Committee meeting were approved and executed at the February 11, 2020 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
January 14, 2020**

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

Committee Members in attendance: Bill Dwyer, Chair; Melvin Friese; Maureen Kelliher; Timothy Lesko. Absent: Christopher Coates. Also attending: Trustees Benjamin Jean and Robert Maloney.

Staff: George Lagos, *Executive Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Frank Clough, *Director of IT*; Nancy Cone, *Internal Auditor*; Timothy Crutchfield, Esq., *Chief Legal Counsel*; Heather Fritzky, *Controller/Assistant Director of Finance*; Larry Johansen, *Director of Investments*; Nancy Miller, *Director of Member Services*; and Gerard Murphy, *Director of Finance*.

The Chair called the meeting to order at 9:45 a.m. Upon a request from the Chair, a motion was made by Trustee Lesko to accept the public and non-public minutes of the December 10, 2019 Audit Committee meeting as amended. Trustee Kelliher seconded the motion and it passed unanimously.

Trustee Maloney entered the meeting at 9:50 a.m.

Ms. Cone presented the Employer Audit Record Adjustment Audit Report that involves both the Member Services and Legal/Compliance operations. These are issues identified in the course of an employer audit that usually relate to incorrect payroll reporting or incorrect service credit for their employees who are NHRS members. Payroll reporting errors require an employer to upload a file to NHRS to correct the issue. Issues such as service credit adjustments are corrected internally upon notification to Member Services by the Employer Auditor. The record adjustment process continues to experience considerable processing delays and backlogs even though the process was automated in PensionGold. Employers contribute to the delay at times, as they are not always responsive in providing the corrections file to NHRS; and, often the files are submitted in an incorrect format and cannot be processed without additional communication with and remediation by the employer. A program to provide additional training resources for employers is nearing completion and an action plan to remedy the situation by Member Services and Legal/Compliance will be developed. The Chair inquired whether Ms. Cone will be involved in developing the new procedures and helping define NHRS roles and responsibilities to ensure that the

backlog will be resolved and appropriate controls will be implemented. Ms. Cone responded that she will be monitoring progress and has offered her services to the functional areas involved.

By way of perspective, Mr. Lagos noted that HB2 legislation in 2011 created significant reporting challenges for employers with respect to determining earnable compensation for members following statutory changes. As a result, one identified audit issue may result in multiple corrections for many members over a period of years. While the automation was intended as a solution, it was not implemented seamlessly and additional issues arose. Longer term, the expectation is that the conversion to Pension Gold Version 3 (“PGV3”) will minimize this issue on a go-forward basis.

The Audit Issues Tracker report has six outstanding items in the Member Services and Legal/Compliance areas. Three items were completed this month and four were added relating to the Employer Audit Record Adjustment Audit Report. Of the six outstanding items, five are expected to be completed by June 2020 and one will be addressed in conjunction with the upgrade to PGV3.

Trustee Jean entered the meeting at 10:05 a.m.

A review of the FY2020 Internal Audit Plan noted that four audits are completed, along with four consulting activity items, while five consulting items are in process, including testing for the Business Continuity Plan. The next internal audit will be the Employer Penalty process. Mr. Lagos indicated that NHRS has the statutory authority to assess and waive penalties under certain circumstances and that quite a bit of time and effort is spent administering the process, despite the fact that most penalties are waived.

Ms. Cone provided an update on the Data Security Remediation project. In the aggregate, eighty-two percent of the high, medium, and low priority items have been completed. All thirteen of the medium priority items, fifteen of the twenty high priority items, and twenty-eight of the thirty-five low priority items have been completed. Of the remaining twelve items, five are targeted to be completed within the next thirty days and seven are long term, as they will be addressed as a part of the PGV3 upgrade. Two of the five items should be completed by February 1, 2020. Mr. Cavanaugh indicated that staff has been successful in requiring vendors to execute information security agreements.

Mr. Murphy discussed the FY2019 GASB 68/75 audit reports. He indicated that one item has been identified by Plante Moran and forwarded to GRS, the NHRS consulting actuary, for review. The item involved calculating the deferred inflow/outflow related to the change in employer proportion under GASB 68 for fiscal year 2019. GRS made an error in the amortization of the historical fiscal years prior to 2019, and they have provided NHRS with a revised GASB 68 report for the allocation of the unfunded liability to participating employers. The OPEB liability allocated to employers was not affected, as the calculation was correct for prior fiscal years. Plante Moran will perform a final review and sign off on the GASB audits with an unmodified opinion. Plante Moran has agreed to provide NRHS with the tool they use to review these calculations going forward.

Upon request of the Chair, a motion was made by Trustee Kelliher to recommend to the full Board that it accept the June 30, 2019 GASB 68 and 75 Reports, as presented, subject to receipt of an unmodified opinion letter from Plante Moran. Trustee Lesko seconded the motion and it carried unanimously.

As a follow-up to the observation identified by Plante Moran in concert with the FY2019 CAFR audit, Mr. Murphy indicated that the actuarial extract information provided to GRS for their FY2019 valuation has been revised and provided to them for review. A review will be performed by GRS, LRS (PensionGold vendor), and NHRS of all three actuarial extracts to ensure an understanding of the information contained in the extracts and to propose any needed changes to LRS for modification in PensionGold. This is anticipated to be completed by March.

Mr. Murphy then discussed Plante Moran's FY2019 Control Opportunities recommendations. There are seven items, of which five are repeats from last year. NHRS will either concur on each recommendation and provide a response, or indicate that there are sufficient controls in place to mitigate control concerns.

Mr. Murphy then reviewed the updated actuarial calendar for the period December 2019 through January 2021, noting the inclusion of an experience study and the Actuarial Consulting Services RFP, as the GRS contract expires at the end of calendar year 2020.

The Chair then summarized the proposed revision to the Actuarial Funding Policy, which would require an actuarial experience study every four years. Mr. Murphy explained that this change would ensure that these studies would be conducted in conjunction with every other two-year rate setting actuarial valuation, thus eliminating the six-year lag between the update of the assumptions, which occurs under the current policy whenever the five-year experience study period ends in an even year. This change would maintain compliance with RSA 100-A:14, IX, which requires an investigation into actuarial experience at least every five years.

The Chair noted that there did not appear to be any matters requiring an additional non-public session today and the Committee members agreed.

No further business came before the Committee.

A motion to adjourn made by Trustee Kelliher and seconded by Trustee Friese was carried unanimously.

Respectfully submitted,

Nancy B. Cone