

NHRS Board of Trustees, Audit Committee  
July 8, 2014

**NOTE:** These minutes from the July 8, 2014 Audit Committee meeting were approved and executed at the August 12, 2014 regular Meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees  
July 8, 2014**

**The Public Minutes**

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

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

Staff: 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. Also in attendance was David Kausch, Gabriel Roeder Smith & Company (GRS), Consulting Actuary.

Chair Beardmore called the meeting to order at approximately 8:15 AM. Upon a request from the Chair, a motion was made by Mr. Martins to accept the minutes of the June 10, 2014 meeting. Mr. Dwyer seconded the motion, and it carried unanimously with one abstention, Mr. Beardmore.

The Chair then asked Mr. Dianis to provide an update on the changes in Government Pension Reporting taking place. Mr. Dianis started by explaining that the System continues to work with KPMG on an acceptable approach to the implementation of the new Government Accounting Standards Board (GASB) standards 67/68. Presently, KPMG has been provided with the System's decision on how we propose to divide the proportional share of the liability among employers by using employer contributions, and the System's decision on the single discount rate (7.75%) and the measurement date. He said we are currently awaiting KPMG's formal confirmation.

Next, Mr. Dianis disclosed KPMG would like to appear before the Committee at its next meeting to review an updated engagement letter. He noted there are four segments to the audit this year. At the December meeting the Audit Committee approved two of the four segments: the base audit (\$152,000) and the GASB 67 Plan related implementation (\$10-\$20,000). At the August meeting, KPMG would like to present a proposal for the other two segments of the audit: the GASB 68 Employer related implementation, and also the segment related to American Institute of Certified Public Accountants employer census audit requirements. The Chair asked if KPMG would be

providing different options with dollar amounts and a recommendation for the Committee. Mr. Dianis said that was his understanding.

Lastly, Mr. Dianis briefly discussed the new GASB exposure drafts relating to Other Post-Employment Benefits (OPEB). These are scheduled to be effective in 2017/2018. He explained these changes will be similar to the pension changes of GASB 67/68.

Next, Mr. Johansen updated the Committee on the proposed revisions to the Employer Withdrawal Policy. He explained the document presented to the Committee reflected the collaborative effort of staff, the Groom law firm, and GRS. Mr. Johansen explained that a review of the policy had come about as the System had recently received its first notice of withdrawal from an employer. Mr. Johansen introduced Mr. Kausch of GRS, as he thought the Committee might want to discuss the market rate interest assumption being used to calculate the liability payment. Mr. Kausch explained that there are two different ways to look at a liability for funding purposes and for termination purposes. For a going concern liability calculation, a plan would use a long-term expected rate of return interest rate, presently 7.75% for NHRS, as a plan could always go back to an employer to recover additional funds if there was a shortfall. On the other hand, for a termination liability calculation such as an employer withdrawal where there was a one-time payment and a plan could not go back to an employer to recover any shortfall, as a solvency measure it is appropriate for a System to use the market interest rate, which is currently approximately 3.5%. Based on a question from the Chair as to when work on this policy would be completed, Mr. Johansen said staff hopes to have feedback from Groom shortly. Staff plans on presenting it to the Audit and the Governance Committees for action in August, and to the Board in September.

Mr. Clough then provided an update on Systems Engineering's (SE) review of the status of the information technology (IT) issues identified in the 2010 KPMG audit. Mr. Clough said he hoped to have a completed report for the August meeting. He briefly reviewed a few items that require attention. In particular he noted that our network infrastructure still needed to be redesigned to better protect the System's resources; that IT Policies and Procedures still needed to be updated; and that some older hardware needs to be replaced, such as the phone system and network switches.

Mr. Browne then reviewed the July Audit Tracker noting there were three issues with a scheduled completion date of June, two of which had been completed. One issue related to differences that had been identified in the testing of the member and payee extract files during the Actuarial Audit. He explained NHRS staff had met with the System's actuary over the past months to review the computer logic for creating these files, and have updated the process for generating and testing the files. The second issue related to the strengthening of the procedures for documenting member administrative appeals, which came out of the Audit of the Hearings Process. This has been addressed by Legal. For the third issue, missing interest accrual dates, Mr. Browne noted that while the completion date has been postponed, the fix provided by the vendor is being tested and the System does have a manual work-around process in place to address the issue. Mr. Dwyer asked for the status of controls over the manual entry of JRP Contributions, which was listed on the tracker. Ms. Miller assured the Committee that a secondary review was being performed until an automated fix could be implemented.

Next Mr. Browne reviewed the status of the Internal Audit plan for the past fiscal year ending June 30th. He noted he was working on the last audit in the plan, a review of general ledger controls. He explained he had met with Mr. Dianis and Ms. Fritzky to review procedures, and had selected the financial statements of March 31, 2014 for his testing. He planned on completing this review in July, which would complete the 2014 audit plan, as testing of Spreadsheet Controls was being postponed to a later date.

Mr. Browne then reviewed with the Committee the proposed Audit Plan for Fiscal Year 2015. He explained how the NHRS Audit Policy calls for an Internal Audit function, and also charges the Internal Auditor with evaluating all significant control systems and developing a plan to evaluate them on a regular basis. He briefly reviewed the summary list of operational risk areas that had been identified over the years, and that were reconsidered again this year. He described how he monitors the Public Pension Audit website to assist him in identifying risk areas, met with members of the Executive Team to discuss control concerns, and worked with the Executive Director to draft a plan to address the risk exposures at NHRS. Mr. Browne then went over the five areas selected for the plan and why they were chosen. Based on the above, the Chair then accepted a motion from Mr. Dwyer to approve the 2015 Internal Audit Plan as submitted. Mr. Martins seconded the motion, which carried unanimously.

Lastly Mr. Browne reviewed an informational item, the Internal Audit Ratings memo he had included in the Committee package. He explained this memo goes back to 2009, at a time when the Committee was made up of different members, and NHRS was operating under a previous Executive Director. The idea of the memo was to provide the Committee with a context of how the three audit ratings - effective, satisfactory, or needs improvement, - are assigned as part of the process of preparing an audit report.

As there being no further business, the Committee scheduled the next meeting for 8:15 AM immediately prior to the Board meeting on August 12, 2014.

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

*Respectfully submitted,*  
*John F. Browne*