

Minutes of Audit Committee Meeting
June 14, 2011
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of September 13, 2011.

The meeting was convened at approximately 8:30 a.m. on June 14, 2011, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were Chair Catherine Provencher; Mr. Sam Giarrusso, Mr. Keith Hickey, Representative Ken Hawkins, and Mr. Brian Morrissey. NHRS staff members in attendance were Mr. Timothy Crutchfield, Chief Legal Counsel; Mr. Jack Dianis, Director of Finance; Heather Fritzky, Accounting and Finance Supervisor; Mr. Larry Johansen, Director of Investments; and Mr. John Browne, Internal Auditor. Also in attendance were Dave Gagnon, and Meghann Murphy of KPMG.

The Chair opened the meeting by asking Mr. Gagnon to present the 2011 KPMG Audit Plan. Mr. Gagnon explained the plan is very consistent with the plan executed in the past, and the specific scope of this year's plan is to audit the financial statements of the Retirement System, and the two real estate portfolios that the System owns. Next, he went over the objectives of completing the audit of the financial statements, and KPMG's methodology of planning, control evaluation, and substantive testing, resulting in an audit opinion. He outlined major areas of testing, those being real estate, alternative investments, other investments, and the actuarial evaluation. In addition, he discussed other areas of audit emphasis, including conducting fraud interviews to comply with SAS 99, reviewing related-party transactions and legal letters from outside counsel, and working with management on making the CAFR less technical.

Mr. Gagnon concluded his presentation by discussing the expected changes to pension plan accounting from GASB. He expected an exposure draft to be released by June 30, 2011, with an effective date of 2013/2014 for implementation of the new standards. He expected significant changes to pension plan accounting for governments. For example, governments would mirror the private sector in their accounting, doing away with the concept of funding liabilities, resulting in higher System liabilities and pension expenses. Two significant issues that will impact NHRS are: 1) the measurement of the liability will now be on a much lower discount rate, i.e. an AA Muni rate, than the expected rate of return used in the past, and 2) the liability will become part of the balance sheet, where currently it is a footnote to the financial statement. A discussion followed on the effect these new standards will have on the recording of the cost sharing of the State, the Retirement System - a multi-employer plan, and the political subdivision employers. The discussion concluded with the Committee agreeing to monitor these expected changes closely.

At the end of the KPMG presentation, the Committee Chair Catherine Provencher left the meeting and Representative Hawkins chaired the Committee in her absence.

Upon a request from Chair Hawkins, a motion was made by Mr. Giarrusso to accept the minutes of the May 10, 2011 meeting. Mr. Hickey seconded the motion, and it carried unanimously.

Next the Chair asked for an update on the Open Audit Issues Tracking Report. Mr. Browne explained that there were no new items added to the report the past month. There was one item that had gone past the target date of the end of May due to issues with other program modifications in the overall computer build it was part of. All modifications are expected to be completed in June.

Next, the Chair asked Mr. Browne for an update on the status of Internal Audit work. He explained that the focus of his audit work recently had been to perform a review of System vendor contracts at the Retirement System. This had been a special request by the Interim Executive Director that the Committee had approved at the April meeting. He explained this included reviewing everything from the contracts with ADP for NHRS payroll, to contracts for legal counsel, to the different facility agreements, as well as different IT contracts. Based on his work so far, he felt that overall controls in this area needed to be re-evaluated and strengthened. He said he had found a number of examples where contracts were outdated, and schedules did not always agree to paid invoices. However he clarified that no material exceptions were found. Management has concurred with the findings, and has already begun to take action. Mr. Browne said he planned on completing his work over the next month.

There being no further business, the Committee decided the next meeting will be held on July 12th at 8:30 am, prior to the Board meeting.

A motion to adjourn was made by Mr. Giarrusso, and seconded by Mr. Morrissey. The motion carried unanimously.