

NHRS Board of Trustees, Audit Committee
June 11, 2013

NOTE: These minutes from the June 11, 2013 Audit Committee meeting were approved and executed at the August 13, 2013 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

The Public Minutes

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

Committee Members: Catherine Provencher, Chair; John Beardmore; Karen McDonough; Dean Crombie.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Mark Cavanaugh, Regulatory Compliance Officer/Staff Attorney; Heather Fritzky, Controller; John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Crombie to accept the minutes of the May 14, 2013 meeting. Mr. Beardmore seconded the motion, and it carried unanimously.

The Chair then asked Mr. Browne to update the Audit Committee on the status of items on the Audit Tracking Report. He noted there were two items with May target dates. One item was closed. This related to controls for processing JRP retiree / beneficiary payments. Member Services and Employer Services had updated procedures to address the control issue. The second issue, JRP contribution processing, had its target date pushed back because of delays at the State in generating the appropriate payroll files. Mr. Browne also noted that while audit control issues relating to Employer Reconciliation were not closed, there has been significant progress in improving the current process resulting in more timely recognition of errors, and better communication with employers.

Next the Committee went over two closed items from the audit tracker. One was a memo prepared by Mark Cavanaugh, the System's new Regulatory Compliance Officer, revisiting why the New Hampshire escheat law does not apply to the refund of unclaimed member contributions. The Committee all agreed the memo was very well written and informative, however the Chair did ask that the memo be expanded to include uncashed annuity payments. The Chair also requested that while she agreed that contributions need not be escheated, she would like to see a process in place to reach out to former members to return these funds. The Executive Director said he would create an action item for this, and he would get back to the Committee. The

Committee also briefly discussed a memo on the Call Firefighters benefit, which would also be going before the Board. The memo was included as a follow-up to an item that had been identified as an audit issue a number of months ago.

Next Mr. Browne gave a status on internal audit work. He started off by reviewing the recently completed Insurance Benefits audit as part of the 2013 Audit Plan. He explained that Insurance Benefits, like Employer Processing and Retiree Payment processing, is another area that the Executive Director is having the Management Team review as part of the Process Improvement Process (PIP). He clarified that as part of his audit work he focused on the testing of processing. He explained there are really two parts to the benefit. The first being employers are required under RSA 100-A to continue to offer health insurance to all retirees as they did when they were members. If the retiree chooses this benefit then the retiree typically has a premium deduction withdrawn from their monthly retirement benefit here at NHRS, and NHRS will pass that deduction on to the employer or to the healthcare administrator. The second part of the benefit relates to eligibility for the medical subsidy. Based on a question from the Chair as to who is responsible for making the retiree aware of this benefit, and then keeping retirees up-to-date as to their status in the future, the Executive Director replied that this was one of many questions that had come up in performing the PIP review that they were presently evaluating, and they would be reporting back on this and other issues in the near future. The Chair followed up her question by noting the audit report seemed to identify a number of issues with how the insurance benefit is processed at the State, and she offered her help in working through and resolving those issues, which would probably result in a benefit to both NHRS and the State. In response to a question from the Chair as to the one particular control issue the Committee should be made aware of, Mr. Browne explained that there was never a master log/system field identifying all retirees entitled to the subsidy. This meant that to research the issue of subsidy entitlement, one had to literally look through each member's records to determine that. Mr. Browne noted this is presently being addressed with a data field on the PensionGold system. Mr. Lagos closed the discussion noting the Committee would be hearing much more on this topic over the next few months.

Next Mr. Browne briefly went over the next audit he had started that being a follow up review of NHRS Field Auditing. This audit is also part of the 2013 Audit Plan. He said he had held a kickoff meeting, and that work would include reviewing how staff plan and document their audits, and in particular how they follow up on issues identified. He noted they had an issues tracker similar to the one used by the Audit Committee. Mr. Browne then discussed the remaining audits on the 2013 plan. In particular he noted that the last scheduled audit, the review of investment operations, may need to be postponed in light of the System selecting a new custodian, which would be starting in the next few weeks. Per a question from the Chair, Mr. Browne noted he will be working over the next couple of months on preparing a draft 2014 Audit Universe/Plan for presentation to the Committee at its August meeting. The Chair asked the Committee to give consideration to any business areas they would like to see included in the audit plan.

Mr. Dianis next gave a status of the June 30, 2013 fiscal year end audit being performed by KPMG. He noted that up to four auditors had been in over the last two weeks performing interim work, and so far all had been going well. He said he did not

expect them back till late summer to complete their work. Related to that, Mr. Dianis answered a question from the Chair that he had not heard yet from the Government Finance Officers Association on the submission of the CAFR for the Certificate of Achievement in Financial Reporting.

Next Mr. Dianis gave an update on the implementation of the new GASB Governmental Reporting Standards. He noted that the System had an excellent discussion with a member of the GASB staff, arranged by the Audit Chair, on whether NHRS could use the 7.75 interest rate to figure our liabilities going forward rather than a discount rate based on a cross-over date. The GASB staff member said based on what was in GASB, an argument could be made that the actuarial assumption rate and thirty year amortization could justify using the 7.75 interest rate. This interpretation reaffirmed staff's interpretation, but they will continue to monitor the issue. Keeping the rate at 7.75% prevents the liability from rising sharply if the discount rate had to be used.

There being no further business, the Committee tentatively scheduled the next meeting for 8:30 AM immediately prior to the Board meeting on July 9, 2013.

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