

NHRS Board of Trustees, Audit Committee  
June 10, 2014

**NOTE:** These minutes from the June 10, 2014 Audit Committee meeting were approved and executed at the July 8, 2014 regular Meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees  
June 10, 2014**

**The Public Minutes**

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

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

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, Esq., Associate Counsel and Compliance Officer; Heather Fritzky, Controller; and John Browne, Internal Auditor.

Chair Wozmak called the meeting to order at approximately 8:20 AM. Upon a request from the Chair, a motion was made by Mr. Martins to accept the minutes of the May 13, 2014 meeting. Mr. Dwyer seconded the motion, and it carried unanimously.

The Chair then asked Mr. Dianis to provide an update on the effect of the new accounting standards from the Government Accounting Standards Board (GASB) on the System and the KPMG audit this year. Mr. Dianis said that progress has been made but NHRS continues to go back and forth with KPMG on an acceptable approach to the implementation of the new GASB standards. He did note that because of work done over the last year as part of the PIP project on flowcharting employer processing, staff was ahead of schedule in identifying controls. This documentation will be submitted to the auditors shortly for their feedback. Mr. Dianis also noted that management continues to discuss how they would identify the proportional share of the unfunded liability for participating employers; specifically, whether the proportional share would be based on employer contributions or covered payroll. Also management is resolving the measurement date to be used for this processing, either June 30, 2014 or June 30, 2013. Presently there is a concern from KPMG that using the later date may delay the completion of the CAFR.

Next, the Committee discussed proposed revisions to the Employer Withdrawal Policy. Mr. Crutchfield started the discussion by stating that an employer had recently filed a notice of withdrawal in accordance with the statute. He noted this is a first for the System to his knowledge, and because of this, has caused the System to revisit the statute and policy. The System has been working with GRS, the System's consulting actuary, and the Groom Law firm on possible revisions to the policy.

Mr. Lagos then outlined the requirements needed for an employer to withdraw from the System. One being that the employer must have an advisory vote of its vested members, and a second that the employer would have to provide a successor plan with benefits at least equal to those currently provided. Lastly, the employer would have to make the actuarially required payment for any unfunded accrued liability.

Mr. Johansen then briefly reviewed the three documents distributed to the Committee. The first is a memo from GRS outlining their recommendations, the second the proposed revisions to the Policy, and the third an issue brief from the American Academy of Actuaries talking about interest rate assumptions related to measuring pension obligations. Mr. Johansen emphasized that the interest rate along with the mortality rates are the two key assumptions; recognizing that the calculation would be for a one-time payment as the System could not go back to the former participating employer if there was a shortfall in the payment.

Mr. Crutchfield did clarify for the Committee that this opportunity for withdrawal is only available to those employers with members in the employee class and charter schools, due to the optional membership of those two member classes. Employers of police, fire, and teachers on the other hand are required to be participating employers of the System. Lastly, it was noted that this Policy is also being reviewed with the Governance Committee with the plan that the proposed policy revisions will probably come to the Board by its August meeting.

Next Mr. Lagos provided an update on Systems Engineering's (SE) review of the status of information technology (IT) issues raised in the 2010 KPMG audit. Mr. Lagos noted SE had been in at the end of May, and since then he had gotten a verbal status report from them. He felt their feedback is timely with the new IT Director having recently come on board and with another IT staff member having just left. He anticipated having a written report from SE that he would share with the Committee before the next meeting.

Mr. Browne then reviewed the June Audit Tracker noting there were two issues with a scheduled completion date of May, and that both had been completed. He took special note that the contract for a Business Continuity Plan for our pension administrative system had been signed, observing that this issue went back to October of 2009. He also mentioned that management, in closing the Orphan Member Accounts issue, was also committing to giving these accounts more public exposure, by including an orphan account listing as part of the NHRS website redesign/upgrade project. Mr. Wozmak asked for the status on a number of other issues due to be completed over the next few months; i.e. extract file data differences, procedures for documenting administrative appeals, etc., and was informed that all were proceeding satisfactorily.

Next Mr. Browne reviewed the audit report of Investment Operations, which he had completed in May. He noted this was just a one page report and controls had been rated as effective. While there were a few minor issues relating to documentation, they were being addressed and he felt none needed to be brought to the Committee's attention. Mr. Browne then briefly reviewed the ratings process for audits, noting there were three categories: effective, satisfactory, and needs improvement. Mr. Dwyer asked if the custodian's Service Organization Control Reports had been reviewed as

part of the audit, and Mr. Browne explained that he had reviewed them and controls appeared adequate. Mr. Johansen indicated that those reports would also be provided to KPMG.

Mr. Browne then reviewed the draft audit plan for the new fiscal year beginning July 1, 2014. He explained that page one was a list of operational risk areas that have been identified over the years. He then described the process of reviewing the risk areas with members of the Executive and Management teams to get their feedback, and then with the Executive Director to draft a plan that would fit in with the other projects underway at the System. Mr. Browne then went over the five areas selected for review and why they were chosen. Mr. Browne said that based on the Committee's feedback, he would draft a cover letter for the plan, and looked to finalize it at the next meeting. He noted he is working on the last audit of the 2014 Fiscal Year plan, the review of General Ledger Controls and Reconciliation.

Lastly Mr. Wozmak noted he wanted to congratulate the System's Finance Unit for once again having received the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the June 30, 2013 NHRS Comprehensive Annual Financial Report.

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

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

*Respectfully submitted,*  
*John F. Browne*