

NHRS Board of Trustees, Audit Committee
June 9, 2015

NOTE: These minutes from the June 9, 2015 Audit Committee meeting were approved and executed at the July 14, 2015 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
June 9, 2015**

The Public Minutes

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Maureen Kelliher; Germano Martins; and David McCrillis.

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; Heather Fritzky, Controller; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; and John Browne, Internal Auditor. Dave Gagnon, KPMG Engagement Partner, and Nate White, KPMG Audit Manager, participated in the meeting telephonically.

Chair Beardmore called the meeting to order at 8:15 AM. Upon a request from the Chair, a motion was made by Mr. Dwyer to accept the minutes of the Audit Committee meeting of May 12, 2015. Mr. McCrillis seconded the motion and it carried unanimously.

The Chair then asked KPMG to provide their update on the Government Accounting Standard Board (GASB) changes that would be affecting NHRS over the next few years. Mr. White started off by discussing the audit work that is being done at NHRS to address the GASB 68 implementation. Specifically he reviewed the test work that was in process to address the fiscal year 2103 and 2014 employer contribution schedules and allocations. He noted that the draft Gabriel, Roeder, Smith & Company (GRS) GASB 68 report had been received last week, and that the KPMG actuary was reviewing it. Mr. White explained that once the schedules and footnotes are complete, there will be an additional review of their work by KPMG's national office. However no surprises were expected in this review and the plan was to have the pension allocation schedules and pension liability report ready for NHRS by the end of June. Mr. Gagnon finished up on the discussion of GASB 68 by answering a couple of questions from the Chair. One was the difference between the contribution testing and the testing of schedule data. Mr. Gagnon explained that the testing of contributions was the testing of individual employer contributions using a low materiality factor. While the testing of schedule data, was the testing of the components of the liability, i.e. deferred outflows and inflows, changes of assumptions, etc. Mr. Gagnon also explained that

the actuary review and the national office review were KPMG requirements, not a GASB or AICPA requirement for this first year of work. KPMG believes it is important to have an independent actuary review the GASB 68 individual schedules, and also to ensure the report was prepared uniformly and properly across client pension plans. He stated both reviews have already started and should not slow down the process.

Mr. Gagnon then went on to review emerging industry issues with the Committee. Specifically Standards 74 and 75, which had just been passed and released by GASB June 2, 2015, that address enhanced financial reporting for Other Post-Employment Benefits (OPEB). He said these standards were a replication of those that applied to pensions; GASB 74 will address a System's reporting and GASB 75 will address employer reporting. He said GASB 74 is effective starting in fiscal 2017 and GASB 75 is effective in fiscal 2018. Prior to that however, he noted GASB Standard 72, Fair Value Measurement and Application, will become effective in fiscal 2016. The effect of this standard is that NHRS will have to significantly expand investment disclosures regarding liquidity and valuation. He noted that the Financial Accounting Standards Board (FASB) has had similar standards for public companies for a number of years. Per a question from Mr. Dwyer, Mr. Gagnon noted this standard will impact all investments of the System, both marketable and non-liquid investments. Lastly Mr. Gagnon wanted to make the Committee aware of a recently issued publication by the Government Finance Officers Association that describes control concepts applicable to governmental entities. He thought the publication, "Internal Control – An Elected Official's Guide," might be particularly helpful for those who were seeking a basic understanding of controls.

Mr. Dianis then updated the Committee on finance work. He noted that the System has already put in an order for the internal control guide referenced by Mr. Gagnon. He then commented that the GASB 72 disclosures for investments would be a challenge in terms of segmenting investments into the proper disclosure buckets, particularly for the alternative investments. For GASB 68, he explained that they had received a seventy-two page report from GRS with disclosures that would be consolidated into a forty page System report, which will be accompanied by KPMG's opinion. He expected to have this completed by the end of June 2015, and would be presenting it to the Audit Committee and the Board at the July 2015 meeting for acceptance, after which it would be released to employers. Per a question from Mr. Beardmore, Mr. Dianis stated there have no surprises so far in doing the GASB work.

Mr. Browne reviewed the June 2015 Audit Tracker, noting there was one issue completed in the month of May: Rosamond Cain, the Human Resources (HR) Manager, had closed the issue relating to NHRS employee documentation. Included in the review, HR also updated the electronic files that employees would reference on the HR shared drive. Mr. Browne stated with the one issue closed, and the two issues added from the Member Refund audit completed the prior month, there were now five outstanding issues on the Audit Tracker.

Mr. Browne then reviewed internal audit activity for the past month, stating that the focus of his work in May was reviewing the GASB 67 employer testing the Compliance auditors had performed. He noted they had visited fifteen employers, almost half of the thirty-two to be tested, and he had completed his review of thirteen sets of the audit workpapers with only minor comments. He remarked that thanks to Tamre

McCrea, the Team Leader who streamlined procedures for requesting audit information from employers this year, the audits were being performed more efficiently with few surprises. Mr. Cavanaugh, Associate Counsel and Compliance Officer, seconded this comment and commended Ms. McCrea for developing model control procedures that a number of employers have adopted leading to smaller sample sizes in performing testing. Mr. Browne closed the discussion by noting that KPMG had notified him that they would not need his assistance in performing GASB 68 testing.

Mr. Browne presented the draft audit plan for the new fiscal year beginning July 1, 2015. He briefly reviewed the cover memo, noting that the NHRS audit policy calls for an internal audit function, and that it charges the Internal Auditor with evaluating all significant control systems and developing a plan to evaluate them on a regular basis. He then reviewed a summary list of operational risk areas that have been identified over the years, and the reasoning for including some in the plan and excluding others, discussing the five areas selected for audit. He also noted he had reviewed these risk areas with members of the Executive Team and the Executive Director to draft a plan that would fit in with the other projects underway at the System. Mr. Browne said that based on the Committee's feedback, he looked to finalize the plan at the next meeting.

Mr. Lagos then briefly provided an Information Technology (IT) update. He stated the ZIX Email Encryption software had been implemented and based on feedback the introduction had gone smoothly. Per a question from the Chair, he explained it was being used for external email where the software automatically identifies confidential data, i.e. social security information, etc. The software however does allow for any email to be encrypted by the sender. He noted the cost of the software was \$6,000.00. He updated the Committee on the status of the implementation of Systems Engineering's EventWatch, which will monitor the security of NHRS's systems and will identify and respond to any system attacks. He expected it to be up and running in the next thirty to sixty days. He also noted a formal IT Security Awareness training program will be introduced shortly. Lastly, he explained that the telephone RFP vendor selection process had gone well, however the final decision would be delayed a couple of weeks while the System resolves a number of questions.

As there being no further business, the Committee scheduled the next meeting for 8:00 AM immediately prior to the Board meeting on Tuesday, July 14, 2015.

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

Respectfully submitted,
John F. Browne