

NHRS Board of Trustees, Audit Committee  
June 12, 2018

**NOTE:** These minutes from the June 12, 2018 Audit Committee meeting were approved and executed at the July 10, 2018 regular meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees**

**Public Minutes  
June 12, 2018**

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

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

Staff: George Lagos, *Executive Director*; Nina Calkins, *Process Improvement Manager*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Frank Clough, *Director of IT*; Nancy Cone, *Internal Auditor*; Timothy Crutchfield, Esq., *Chief Legal Counsel*; Heather Fritzky, *Director of Finance*; Larry Johansen, *Director of Investments*; and Nancy Miller, *Director of Member Services*.

Chair Dwyer called the meeting to order at 9:00 a.m. Upon a request from the Chair, a motion was made by Trustee McCrillis to accept the public and non-public minutes of the May 8, 2018 Audit Committee meeting as presented. Trustee Kelliher seconded the motion and it carried unanimously.

The Committee then welcomed from Plante Moran, Michelle Watterworth, Colleague Engagement Partner, and Spencer Tawa, Engagement Manager, to discuss the FY2018 Pre-Audit communication. Ms. Watterworth indicated that Bob Dobrowsky, the Engagement Partner, was unable to attend this meeting. Ms. Watterworth then discussed the required Pre-Audit Communication including the planned audit approach, scope, and the opportunity for the Committee to offer input regarding the process. She then provided an overview of Plante Moran, the firm's areas of focus and its experience in performing audits of governmental CAFRs and benefit plans, along with its experience on expert panels for the AICPA. Mr. Tawa then described the three components of the audit that will be performed: the NHRS CAFR, the Schedule of Employer Allocations of the NHRS Cost Sharing Multiple-Employers Defined Benefit Pension Plan and the Schedule of Employer Allocations of the NHRS Cost-Sharing Multiple-Employer Postemployment Medical Subsidy Healthcare Plan or OPEB. The CAFR will be issued in December and the two allocation schedules likely in January. Throughout the audit, Plante Moran will gain an understanding of the NHRS accounting processes and key internal controls and perform testing of their effectiveness. However, Plante Moran will not issue an opinion as to their effectiveness, but will communicate identified deficiencies to management. Ms. Watterworth and Mr. Dobrowsky have already spoken with the Chair and welcome

feedback from the other Committee members. Ms. Watterworth asked the Committee if they have any feedback on risks other than those that have already been identified; however, none were mentioned. The Chair indicated that NHRS is in the initial stage of upgrading its pension administration system, which will be a long-term project. The Chair also encouraged the Committee to contact him and Plante Moran if they have any additional concerns. Trustee McCrillis asked about the process to value alternative investments. Ms. Watterworth indicated that the testing procedures will focus on tests of controls, which emphasizes testing of NHRS controls throughout the year, rather than performing a large sampling of investments at year-end. Director Lagos noted the data security incident in July 2017, along with the reporting and remediation efforts that have been undertaken to enhance controls. As there were no additional questions from the Committee, the Chair noted his appreciation of Ms. Watterworth and Mr. Tawa for attending the meeting and thanked them for their presentation. Ms. Watterworth and Mr. Tawa left the meeting at 9:25 a.m.

Ms. Cone presented the Cash Management/Cash Flow Projections Audit Report noting that the process is well controlled and documented. The Chair inquired regarding controls governing administrative authority for online banking and Ms. Cone indicated that access rights are authorized by the Directors of Investments and Finance who communicate the information to the bank, which then performs the changes resulting in an effective segregation of duties. Additionally, the online banking system will not permit the same individual to initiate and approve funds transfers. An audit of these access rights was performed in 2016. Mr. Johansen indicated that he and Ms. Fritzky have the authority to grant funds movement permissions to their staff and the Cash Management/Cash Flow Projections process is designed to alert the Investment department as to how much money, if any, is needed for the month-end retiree payroll and other administrative costs. The Investment Department then follows a separate process to ensure that the funds are available in the operating account by selling investments, if needed. The capital call process was audited in 2017. There is a clear segregation of duties between forecasting cash needs and ensuring sufficient liquidity for operations. Mr. Johansen also indicated that in a disaster recovery situation, cash movements can be directed from nearly any location with internet access and that authorized staff also has telephonic access in an emergency situation.

Ms. Cone then provided a status of the data security remediation project. Twenty-seven percent of the items have been completed with enhanced controls implemented, while effort continues on the outstanding items. Director Lagos added that NHRS' legal staff has drafted a data incident response plan which is currently under review by the outside counsel.

Ms. Cone provided an update on the FY2018 Audit Plan along with the Audit Issues Tracking Report. Since last month, one issue has been added to the Tracking Report, resulting in four outstanding items which are scheduled to be completed by September.

Ms. Cone then presented for approval the draft FY2019 Internal Audit Plan, which was presented for review at the May 8, 2018 Audit Committee meeting. Ms. Cone pointed out that this plan is meant to be flexible in order to respond to unanticipated issues or risks that may arise during the year. She also indicated that the GASB employer census data audits on behalf of Plante Moran are in process. The Chair inquired as to

the census data audit of the State of NH as a participating NHRS employer. Ms. Cone indicated that it will be handled the same as the other employers, noting that the State's payroll administration for its agencies is centralized. Upon a request from the Chair, a motion was made by Trustee Kelliher to approve the FY2019 Internal Audit Plan as presented. Trustee Martins seconded the motion and it carried unanimously.

Ms. Fritzky then provided an update regarding progress thus far with the FY2018 audit by Plante Moran. She indicated that the firm has been very responsive, good to work with, and information has been provided as requested. Bi-weekly audit status calls have been well organized and documented. Director Lagos also noted that Mr. Tawa had proactively distributed a summary of discussion points and action items following a recent call.

The Chair noted that there did not appear to be any matters requiring non-public session and the Committee members agreed.

No further business came before the meeting.

A motion to adjourn made by Trustee Martins and seconded by Trustee McCrillis was carried unanimously.

*Respectfully submitted,*

*Nancy B. Cone*