

NHRS Board of Trustees, Audit Committee  
June 11, 2019

**NOTE:** These minutes from the June 11, 2019 Audit Committee meeting were approved and executed at the July 9, 2019 regular meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees**

**Public Minutes  
June 11, 2019**

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

Committee Members in attendance: Bill Dwyer, Chair; Christopher Coates; Melvin Friese; Maureen Kelliher. Absent: Timothy Lesko.

Staff: George Lagos, *Executive Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Nancy Cone, *Internal Auditor*; Timothy Crutchfield, Esq., *Chief Legal Counsel*; Heather Fritzky, *Controller/Assistant Director of Finance*; Larry Johansen, *Director of Investments*; and Gerard Murphy, *Director of Finance*.

The Chair called the meeting to order at 9:05 a.m. Upon a request from the Chair, a motion was made by Trustee Friese to accept the public and non-public minutes of the May 14, 2019 Audit Committee meeting as presented. Trustee Kelliher seconded the motion and it carried unanimously.

The Committee then welcomed from audit firm Plante Moran, Michelle Watterworth, Colleague Engagement Partner, and Spencer Tawa, Engagement Manager, to discuss the FY2019 financial audit. Ms. Watterworth then led the discussion with an overview of the FY2019 Pre-Audit Communication letter dated June 11, 2019. She discussed the three components of the audit that will be performed: 1) the NHRS Comprehensive Annual Financial Report (CAFR); 2) the Schedule of Employer Allocations of the NHRS Cost Sharing Multiple-Employers Defined Benefit Pension Plan; and 3) the Schedule of Employer Allocations of the NHRS Cost-Sharing Multiple-Employer Postemployment Medical Subsidy Healthcare Plan (OPEB). Mr. Tawa then discussed the auditors' responsibilities along with their requirement to communicate all noncompliance with laws, regulations, and contracts. They identified five potential areas of significant risk, including alternative (non-marketable) investment valuations, benefit calculations and payments, accuracy of participant data, inputs and benefit terms used to determine the total pension liability, and the total OPEB liability and the methodology used to allocate the pension and OPEB liabilities among employers. Plante Moran will tailor its processes accordingly. Mr. Tawa then discussed their approach to internal controls and their materiality concept. Chair Dwyer asked for further discussion on their FY2018 audit recommendations to enhance controls and increase efficiencies. Ms. Watterworth indicated that those items did not reach the level of an internal control deficiency and were low on the priority level. Mr. Lagos added that the only

item remaining relates to the employer medical subsidy issue, and responses are being discussed with Plante Moran. Ms. Watterworth then asked the Committee members if they have any risks or concerns that they would like the auditors to review. Chair Dwyer indicated that he would like to provide the Committee with an opportunity to meet privately with the auditors.

On a motion by Trustee Kelliher, seconded by Trustee Friese, the Committee entered into a non-public session under RSA 91-A:3, II(c) to discuss a matter which could adversely impact the reputation of someone other than a member of the public body, on a unanimous roll call vote.

At the request of the Chair, representatives from Plante Moran, Michelle Watterworth and Spencer Tawa, along with Ms. Cone, the Internal Auditor, remained for the Committee's non-public session.

On a motion by Trustee Kelliher, seconded by Trustee Friese, the Committee unanimously voted to conclude the non-public session. No votes were taken in the non-public session.

Board Trustee Robert Maloney joined the meeting at 9:30 a.m.

Ms. Cone provided an update on Internal Audit Activities. The GASB 67 & 74 employer census data audits on behalf of Plante Moran are in process. Eleven of the twenty-one employer audits have been completed and provided to Plante Moran. The remaining ten are either in review or in process.

Ms. Cone reviewed the Audit Issues Tracker Report that contains the same two open items as last month, one of which relates to the Employer Contribution Reconciliation Audit that is anticipated to be completed by the end of June when the internal candidate for the Finance Generalist is expected to start. The other issue relates to the QDRO process, a portion of which is scheduled to be completed in July and the remaining portion which will be a long-term implementation in conjunction with the upgrade to PGV3. She then reviewed the status of the FY2019 Audit Plan. The audit of the Finance Vendor Payroll Process is in process. Four planned audits and three internal audit "consulting" items have been completed with three in process.

Ms. Cone then presented for approval the draft FY2020 Internal Audit Plan, which was submitted for review at the May 14, 2019 Audit Committee meeting. Upon a request from the Chair, a motion was made by Trustee Kelliher to approve the FY2020 Internal Audit Plan as presented. Trustee Coates seconded the motion and it carried unanimously. Chair Dwyer reiterated that the Audit Plan is intended to be flexible in response to unanticipated concerns or emerging opportunities to provide essential consulting support to NHRS operations. Chair Dwyer then asked the Committee members their thoughts regarding providing the full Board with the Audit Plan along with the Audit Issues Tracker Report that is already provided to trustees. All Committee members agreed that it would be beneficial.

Next, Ms. Cone provided an update on the Data Security Remediation project. Seventy-nine percent of the items have been completed, which is an increase from seventy percent as reported in May. All thirteen of the medium priority items and

thirteen of the twenty high priority items are completed. Of the remaining seven high priority items, two are targeted to be completed within the next thirty days, three are expected to be completed by December 2019, and two are long term, as they will be addressed in concert with the PGV3 upgrade. Low priority items are currently being reviewed and an update will be provided.

Ms. Cone then discussed the status of Plante Moran's recommendations to strengthen internal controls or increase operating efficiencies. Of the original sixteen suggestions, fifteen have been completed and the remaining item, relating to the administration of insurance premium deductions and medical subsidy benefits that NHRS administers on behalf of certain employers, requires further discussion. Mr. Lagos described the previous manual process and the current process that is automated with employers uploading files to report their insurance rates. Ms. Cone added that the rates are audited with each employer audit; however, employers are only audited every five to seven years on a rotational basis, so if the insurance rate is incorrect, a few years could go by without it being identified. Additionally, when Plante Moran audited selected employer rates with the FY2018 audit, they did discover a few rates that were incorrect. Efforts to address this issue are under consideration and will be discussed with Plante Moran when they return in July for pre-audit work.

Mr. Murphy then discussed the completion of the Actuarial Valuation Audit of GRS by Segal that will be presented to the full Board at its meeting later that morning. He stated that staff are pleased with the results of Segal's audits, which validated that the FY2017 valuation and the most recent experience study performed by GRS were reasonable and produced a result well within an acceptable range. Segal provided three recommendations that have been reviewed by GRS and will be further discussed by GRS and NHRS management.

No further business came before the Committee.

The next meeting is scheduled for Tuesday, July 9, 2019, before the regular Board meeting.

A motion to adjourn made by Trustee Friese and seconded by Trustee Kelliher was carried unanimously.

*Respectfully submitted,*

*Nancy B. Cone*