

NHRS Board of Trustees, Audit Committee
June 8, 2021

NOTE: These minutes from the June 8, 2021 Audit Committee meeting were approved and executed at the July 13, 2021 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
June 8, 2021**

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

The NHRS office was closed to the public as a result of COVID-19 and the meeting was held via video conferencing. Pursuant to RSA 91-A, all votes were by roll call.

Participating Committee Members: Monica Mezzapelle, Chair; Christopher Coates; Maureen Kelliher; and Tim Lesko. Absent: Melvin Friese. Also attending: Trustee Robert Maloney.

Staff participating: Jan Goodwin, Executive Director; Timothy Crutchfield, Deputy Executive Director and Chief Legal Counsel; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; Frank Clough, Director of IT; Nancy Cone, Internal Auditor; David Crepeault, Information Systems Security Officer; Larry Johansen, Director of Investments; Cecile Merrill, Project Manager; Nancy Miller, Director of Member Services; and Gerard Murphy, Director of Finance.

Upon ascertainment of a quorum, the Chair called the meeting to order at 8:45 a.m.

The Committee then welcomed, via video conference, from the audit firm Plante Moran, Bob Dobrowsky, Engagement Partner, Michelle Watterworth, Colleague Partner, and Spencer Tawa, Senior Engagement Manager, to discuss the FY2021 financial audit. Mr. Dobrowsky indicated that he and Mr. Tawa had a discussion last week with Chair Mezzapelle to discuss the FY2021 Audit Plan. Their presentation included a summary of what was discussed on the call along with their thoughts on matters that they feel are important to discuss with the Committee and significant risks that they will cover during the audit.

Ms. Watterworth then discussed the three components of the audits that will be performed along with expressing an opinion on each of the following statements as of June 30, 2021: 1) the NHRS Annual Comprehensive Financial Report (ACFR); 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). The last two are primarily used by the NHRS employers to complete their financial statements. Ms. Watterworth then discussed the Auditor's responsibility to express an opinion on whether the financial statements prepared by management,

with the Committee's oversight, are fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles and government auditing standards. In addition to expressing an opinion, the auditors have a responsibility to communicate to the Committee any noncompliance with laws, regulations, contracts and internal control deficiencies that might have a material effect on the financial statements. Depending on the value of the alternative investments at June 30, 2021, Plante Moran may include an emphasis-of-matter paragraph informing the financial statement users about the significance and level of estimation involved in valuing the alternative investments held by NHRS that do not have a readily determinable fair value. This does not change the audit opinion and merely emphasizes to the reader the importance of the estimation process.

Mr. Tawa discussed significant risks for NHRS including: 1) investment valuations, particularly the alternative investments that do not have an established market value; 2) accuracy of benefit calculations and payments; 3) accuracy of active participant data and employer submitted payroll information; 4) inputs, benefit terms and underlying assumptions used to determine the total pension liability and the total OPEB liability; and 5) the methodology used to allocate the pension and OPEB liabilities among participating employers. Mr. Tawa then discussed his firm's approach to internal controls and their materiality concept. He then asked the Committee members if they have any risks or concerns that they would like the auditors to review. The Committee did not have any questions, risks or concerns at this time.

Chair Mezzapelle thanked the Plante Moran representatives for their presentation and indicated that she would like to provide the Committee with an opportunity to meet privately with the auditors.

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

At the request of the Chair, Plante Moran representatives, Mr. Dobrowsky, Ms. Watterworth and Mr. Tawa, along with the Committee members, Trustee Maloney, Ms. Goodwin, Mr. Crutchfield, and Ms. Cone remained for the non-public session.

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

The Committee thanked the Plante Moran representative and they left the meeting.

Upon a request from the Chair, a motion was made by Trustee Kelliher to accept the public minutes of the May 11, 2021 Audit Committee meeting. Trustee Lesko seconded the motion and it passed unanimously.

Ms. Cone discussed the Audit Issues Tracker report which has the same four items outstanding as last month. One is long term that will be addressed with the conversion to PGV3 and one issue for Legal/Compliance item relating to the employer

audit process is anticipated to be completed by December 2021. Two are related to Member Services responsibilities for processing employer audit adjustments and have been outstanding since the audit report was issued in January 2020. Ms. Cone discussed the graphs that were developed this month to compare processing expectations established January 1, 2021 to actual progress for the adjustments that either require a file to be submitted by the employer or are manual adjustments to a member's record. The backlog is comprised of adjustments from 2017 through 2020 as a result of employer audits performed prior to January 1, 2021 and the current adjustments are the result of employer audits performed post January 1, 2021. The scenarios have different processing expectations as the Employer Compliance Auditors assumed more responsibility for audit adjustment processing post January 1, 2021. For January through April 2021, Member Services has made progress; however, previously set expectations have not been met, even with approved overtime and staff members dedicated to processing these items.

Ms. Cone then discussed the FY2021 Internal Audit Plan. The GASB employer census data audits are in process with twenty-one of twenty-three audits completed and eleven have been reviewed and submitted to Plante Moran. The FY2022 Risk Assessment and draft Internal Audit Plan will be presented at the July meeting.

Ms. Cone then discussed the Data Security Risk Reassessment update. Seven items remain of which two are under review and five will be on-going. Mr. Crutchfield added that outside counsel is reviewing our Information Security Policy, Incident Response Plan and the Business Continuity Plan.

Mr. Murphy discussed the FY2021 Plante Moran audit. Finance has been storing documents electronically that will be needed for the audit and has started to gather information for Plante Moran. As with last year, interim work in July will be performed remotely and fieldwork performed in October has yet to be determined. The actuarial audit performed last year proved valuable and staff are working on formalizing the process in the Audit Committee Charter and the Actuarial Funding Policy so that these audits will be regularly scheduled.

Ms. Merrill then provided an overview of the PGM3 implementation project. The overall project is 41% complete and Deliverable 3 (D3) Benefit Calculation is 66% complete. LRS is currently testing D3 and there are no issues to date. LRS will be onsite for D3 User Acceptance Training by NHRS staff beginning the week of August 16th. Work continues on data conversion issues, workflows and correspondences. NHRS, Segal, and LRS continue to work on the employer reporting rollout and communication plan.

No further business came before the Committee.

A motion was made by Trustee Kelliher to adjourn the meeting. Trustee Lesko seconded the motion and it passed unanimously.

Respectfully submitted,

Nancy B. Cone