

Minutes of Audit Committee Meeting
March 8, 2011
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of April 12, 2011.

The meeting was convened at approximately 8:15 a.m. on March 8, 2011, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were Chair Catherine Provencher, Mr. Sam Giarrusso, Mr. Brian Morrissey, Mr. Dean Crombie, Representative Ken Hawkins, and Senator Jeb Bradley. NHRS Board Member Germano Martins also attended. NHRS staff members in attendance were Ms. Kim France, Interim Executive Director, Timothy Crutchfield, Chief Legal Counsel; Mr. Jack Dianis, Director of Finance; Mr. Larry Johansen, Director of Investments; Ms. Nancy Miller, Director of Member Services; and Mr. John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Crombie to accept the minutes of the December 14, 2010 meeting. Mr. Morrissey seconded the motion, and it carried unanimously.

Next, Chair Provencher asked Mr. Crutchfield to give the Committee an update on the remaining action items needed to address the VCP Compliance Statement. Mr. Crutchfield stated the NHRS is working with the Groom Law Group to address the remaining corrections through Board-adopted policies. Mr. Crutchfield said Groom was confident that this approach would be acceptable to the IRS based upon similar actions with other clients. Representative Hawkins asked if a further distinction could be made as to why these might belong in policy rather than the rules or statute. Mr. Johansen stated that these were all tasks that in the statute give the Board specific authority to take these actions. Mr. Johansen gave as an example the Board's authority to set actuarial assumptions. This authority is clearly set out in the statute and as Groom develops these policies they will reference the statute. The Chair asked what a realistic date would be to review these draft policies, and Mr. Crutchfield was optimistic they would be available for the May meeting.

The status of the Open Audit Issues Tracking System was addressed next. It was planned to have this updated for this March meeting but the Chair stated Management is still working through the issues, and she will have a work session with them the following week to further resolve any additional questions. Kim Francis also noted that the Executive Team had not always been directly involved with the audit tracker and they wanted to come to a better understanding of the control issues involved. The Chair also reiterated one of the primary goals of the work session is to address the issue raised by the Board of having realistic target dates to resolve the control weakness identified in the audits.

Next, Mr. Browne provided the committee with a status of the 2011 Internal Audit work plan. He briefly went over the overall process that per the Audit Committee Policy Internal Audit provides a yearly plan to the committee of audits to be completed for their review and approval. The Fiscal Year 2011 Plan had been approved at the September 2010 committee meeting. He outlined how all reviews go through the same process of Internal Audit meeting with the auditees, planning the work, testing, and reporting, with the control issues identified being added to the Open Audit Issues Tracker discussed above.

The first audit Mr. Browne reviewed was the Field Audit Services review. Field Audit at NHRS conducts random reviews of participating employers to assess their compliance with NHRS Rules and statutes. These audit services had been suspended at the time of the implementation of the PensionGold computer system, but were recently started again with two new field auditors focusing on problem employers and small employers. Mr. Browne went through with the Committee the four primary issues identified. That is that the present Field Audit Plan does not address the forty largest employers who make up a third of the members. And that the State, the largest employer with approximately 12,000 members, appears to never have been audited. He also explained that the scope of the Field Auditors' work, while identifying exceptions, was too detailed oriented. One of his recommendations was to go to sampling in reviewing members to speed up the audits, and therefore the number of employers reviewed. In addition, he recommended the Field Auditors just test current contributions to see that employers are processing them properly. A question was raised by Representative Hawkins as to how contributions are recovered when differences are identified. A general discussion followed and it was explained that both contributions plus interest are recovered from both the employer and the member. Mr. Browne then went over the remaining issues, outlining that workpaper standards need to be formalized and reports should be more concise.

The second audit discussed by Mr. Browne was the Member Accounting review. This unit is primarily responsible for posting interest and additional contributions, and performing member record reviews, which are performed either at the request of a member or NHRS staff, usually around the time of retirement. The review involves examining the member's history of service credit, analyzing any differences, and resolving discrepancies, which may sometimes entail requesting back contributions from members and employers. He explained he is in the process of finalizing this report, and there were three issues he wanted to bring to the attention of the committee. The first audit issue involved the need for the separation of duties in Member Accounting when posting interest to contributions for the fifty thousand members. A brief discussion followed of what interest rates are used, and how they are applied. The next issue identified involved the need to have the spreadsheets used in calculating Additional Contributions verified by our current actuary. This calculation used for estimating additional contributions has not been reviewed since the system changed actuaries approximately five years. The last control issue outlined the need for there to be a log and written procedures when a member record review is performed and missing contributions are identified so that the recovery of contributions are monitored.

Mr. Browne then briefly updated the committee on the Audit of Investment Management Costs in progress. This will include a review and testing of investment management fees for marketable securities and alternative investments, as well as consultant and other fees paid relative to NHRS investments. However, in addition to a straight review of investment costs, at the suggestion of Mr. Giarrusso and Senator Janeway he was going to look at the costs of changing Investment Managers, and the analysis performed of Transaction Costs.

Next, Mr. Browne reviewed the remaining audits in the Audit plan yet to be started, the General Ledger Controls/Reconciliations and the Member Records review. The Member Records review will include testing NHRS's compliance with Administrative rules and policies, retention schedules for member records, and that procedures have been updated for image processing. The Chair asked for clarification that this audit would address all member records, i.e. active, inactive, etc. Mr. Browne confirmed that it would. Lastly he noted the last audit called for reviewing the accounts payable system. Presently enhancements to the system have not taken place because of other higher priorities for staff. The Committee Chair and Mr. Giarrusso felt this was something that should be pursued however, and Ms. France and Mr. Dianis said they will follow up on this when they next meet with the Director of Administrative Services.

There being no further business, the Committee decided the next meeting will be held on April 12th at 8:15 am, prior to the Board meeting.

A motion to adjourn was made by Mr. Crombie, and seconded by Mr. Giarrusso. The motion carried unanimously.