

NHRS Board of Trustees, Audit Committee
March 20, 2018

NOTE: These minutes from the March 20, 2018 Audit Committee meeting were approved and executed at the April 10, 2018 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
March 20, 2018**

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

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

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

Chair Dwyer called the meeting to order at 8:35 a.m. Upon a request from the Chair, a motion was made by Trustee Kelliher to accept the public minutes of the February 13, 2018 Audit Committee meeting as presented. Trustee Martins seconded the motion and it carried unanimously.

Ms. Cone reviewed the status of the FY2018 Internal Audit Plan noting that eight audits have been completed including the GASB 68 and 74 employer census data audits performed on behalf of KPMG. Since last month, six issues have been closed and no issues have been added to the Audit Issues Tracking Report, resulting in eight outstanding issues.

Ms. Cone then discussed the PensionGold Direct Deposit and Demographic Changes Audit Report which was presented at the February Audit Committee meeting. It was decided to table discussion at that time until the follow-up report was available and to allow for sufficient discussion time. The original audit was performed subsequent to the data security incident in July 2017. Ms. Cone indicated that direct deposit changes are well controlled by Finance including user access rights that correlate to user's authorizations, adequate segregation of duties, and management oversight review. She noted that due to inherent access rights limitations in PensionGold for demographic information changes (primary contact for member, retiree, or beneficiary; physical mailing address; email address, or; phone number), some individuals may have the ability to change demographic information for which they are not authorized. Trustee Dwyer noted that there is a reduced financial risk in processing changes to a

member as opposed to changes for a retiree who is receiving monthly benefit checks. Trustee Kelliher added that there is a higher sensitivity with retirees. Currently, if a staff member is authorized to change any of the following information: address, phone, contact or email, he/she has the ability to change all of those demographic fields. Ms. Merrill indicated that a request has been submitted to LRS, the vendor for PensionGold (PG), to develop a system enhancement that will allow for individual permissions for each of the individual demographic change fields and a cost estimate of approximately \$5,000 has been provided, noting that this customization would have also been required if PG version 3 were the operating system. Trustee Kelliher expressed the view that any additional protections that can be provided would be very helpful. The Committee agreed that staff should move forward with the enhancement.

Ms. Cone indicated that the Member Services Administrative Assistant performs a limited monthly review of demographic changes, with exceptions being reported to management. Additional controls have been instituted in PensionGold whereby a letter is sent to both the new and former address of any member or retiree when a change of address is requested, however the request to send the verification letter must be initiated by the individual who processed the change, which is another control weakness. Staff will discuss with LRS the possibility of automating this process so that letters are triggered immediately upon the change, with no additional action required by the staff member.

Ms. Fritzky discussed the transition of external audit services from KPMG to Plante Moran. Plante Moran will meet with KPMG in Boston in April to launch the transition and will also schedule a visit to NHRS at the same time for an audit kick-off meeting.

Trustee Dwyer noted that there were no matters requiring non-public session and the Committee members agreed.

As part of the meeting this morning, a joint meeting of the Audit and Governance Committees had been scheduled for the discussion of the Pension Administration System Evaluation (PASE) project. However, the Governance Committee was unable to convene a quorum; therefore the Audit Committee proceeded with its own discussion and evaluation of the PASE project. An informational binder was developed and presented to the Committee members. The binder will also be provided to the entire Board of Trustees. Mr. Lagos described the information presented in the binder including comparing the estimated project costs of upgrading to version 3 (PGV3) versus the cost of the current maintenance, support, and enhancements for version 2 (PGV2). Although staff would like to begin the project in January 2019, he indicated that there are several factors affecting timing, including the engagement of LRS and the state's administrative budget process. Mr. Lagos would like to have these factors addressed prior to obtaining the Board vote. Trustee Dwyer described considerations regarding the state budgeting process and engaging LRS; noting that the NHRS budget is not supported by the state's general fund and is handled differently than general funded executive branch state agencies.

Richard Gustafson, Ph.D., Board Chair and member of the Governance Committee, entered the meeting at 9:20 a.m. and the discussion of PASE continued.

Marty Karlon, *Public Information Officer*, joined the meeting at 9:30 a.m.

Mr. Lagos then walked the Trustees through the PensionGold Version 3 Project Plan Proposal Binder. Tabs 12-14 are background and due diligence information including feedback from other state retirement systems that have recently or are in the process of a pension administration upgrade or conversion. Most engaged a third party to manage the project to varying degrees and all indicated that adequately staffing the project with dedicated staff was a key to success. He also reviewed the proposed timeline and discussed the importance of bringing in additional staff at the start of the process in order to free up existing staff who will be dedicated to the project. It is not yet known if these positions would be integrated into the organization at the completion of the project if approved by the Board. The draft RFP for Pension Administration Project Oversight and Consulting was reviewed. The consultant will function at a high level to assist with contract negotiations and pricing, assist with development of a project plan, provide oversight project management, and be available for consulting and advice as warranted.

Mr. Lagos then reviewed the 10 year estimated annual costs to operate PGV2, including software maintenance and support, and potential system enhancements needed to strengthen controls and increase efficiencies. These costs include an assumption that LRS will continue to support PGV2, which operates on an older technology platform. He commented that there is no indication that LRS will discontinue support for this older version of the product. Trustee Kelliher inquired as to how many of LRS's clients are on PGV2. Ms. Merrill responded that there are currently 16; however, that number is declining.

Mr. Lagos reviewed the various licensing, support, and implementation cost options for upgrading to PGV3. It is anticipated that there will be a four year implementation phase with a one year warranty period after the go-live date. The Committee discussed the various options including the implementation costs. Trustee Kelliher indicated that the longer the upgrade is postponed the costlier and more difficult it will be, as PGV2 is built on old technology and the system is cumbersome and inefficient. She also noted that significant costs would be incurred to implement system enhancements for PGV2 in order to strengthen controls and increase efficiencies, some of which are built into PGV3. Post implementation, the ongoing maintenance, support, and operating costs of PGV3 and PGV2 are very similar.

Although not requested, Trustee Dwyer recommended that the Audit Committee vote on the recommendation to upgrade to PGV3, with the Governance Committee voting at a later time. Committee members agreed.

Upon request from the Audit Committee Chair, a motion was made by Trustee Martins to recommend to the full Board that it approve staff's recommendation to move forward with upgrading from PensionGold Version 2 to PensionGold Version 3, as presented today, subject to subsequent approval from the Governance Committee and successful contract negotiations. Trustee Kelliher seconded the motion and it carried unanimously.

No further business came before the meeting.

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

Respectfully submitted,

Nancy B. Cone