

Minutes of Audit Committee Meeting
May 10, 2011
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of June 14, 2011.

The meeting was convened at approximately 8:30 a.m. on May 10, 2011, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were Chair Catherine Provencher; Mr. Sam Giarrusso, Mr. Dean Crombie, Mr. Brian Morrissey, Mr. Keith Hickey, and Representative Ken Hawkins. NHRS staff members in attendance were Ms. Kim France, Interim Executive Director; Mr. 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. Giarrusso to accept the minutes of the April 12, 2011 meeting. Representative Hawkins seconded the motion, and it carried unanimously.

Next, Chair Provencher asked Atty. Crutchfield to give the Committee an update on actions taken to address the 9/1/10 Internal Revenue Service's Voluntary Correction Program Compliance Statement. Atty. Crutchfield explained that based on the Committee's request back in December that there be more flexibility provided for amending the demographics, assumptions and Code provisions required by the IRS, the Retirement System had worked with the Groom Law Group on developing a draft policy in place of modifications to RSA 100 or the Administrative Rules to address this need. Atty. Crutchfield noted the draft policy had been distributed as part of the audit package and then introduced Atty. David Levine of the Groom Law Group, who joined the Committee through a conference call to discuss how the IRS interprets policies. Atty. Levine explained that the IRS has realized that as more specific requirements for pension plans have increased, the IRS had to become more flexible as to what it considers a plan document. The Committee then reviewed a number of questions Representative Hawkins had about the draft policy. One question was whether state law would take precedence over the NHRS plan policy, and Atty. Crutchfield and Atty. Levine explained that in cases of conflict, law trumps policy. Another question was whether a reference to death documents is needed where the distribution of death benefits is outlined, and Atty. Levine stated such a reference was not needed. Based on another question from Representative Hawkins, it was agreed to change the word "may" to "will" in section II. C (i) 5 b. (ii), to read, ". . . the board of trustees **will** either reduce the member's contribution to an amount within the limits of that section or refuse the member's contribution."

At the request of the Chair to clarify the next step in finalizing the compliance process, Atty. Crutchfield explained that after the one word modification described above, he would suggest the draft policy be distributed to the full Board for review, feedback, and approval at the next Board meeting. The Chair then accepted a motion from Mr. Morrissey to approve the draft policy for recommendation to the Board, with the one word revision. It was seconded by Mr. Giarrusso, and approved by the full Committee.

Lastly, Atty. Crutchfield suggested, that the NHRS correspond with the IRS after the Board had accepted the Policy. Atty. Levine agreed, saying he was confident that the policy adopted by the Board would be acceptable to the IRS, but if by some chance this issue came up in the future, the Retirement System could document that the IRS was aware that NHRS had addressed these Compliance Statement items in a policy rather than through the statutory provisions of RSA 100 or the NHRS Administrative Rules.

Next, the Chair asked if Mr. Dianis might update the Committee on the KPMG audit for 2011. Mr. Dianis said he had scheduled KPMG to come in and meet with the Committee at next month's meeting. Their actual interim audit work would commence in June, with year end work to be performed in September. He also informed the Committee that KPMG had asked if NHRS would like them to perform separate audits of the two real estate holding companies as they have done in the past. The Chair asked if staff might provide the Committee with additional information as to price, other firms that had bid in the past, timing of the review, etc., so that the Committee could better evaluate this.

Next, the Chair asked if the Committee had any questions on the two Internal Audit reports included in their packets. Mr. Browne explained that the issues noted in the Member Accounting Report were discussed at the two previous Committee meetings and that responses had been received on each, and they had already been added to the audit tracking report. All outstanding tracking report issues had 2011 estimated completion dates, and he noted that a number of issues had already been completed. Mr. Browne also reviewed the results of his Audit of Investment Management Costs. He felt that controls in this area were effective, and the only recommendation was that procedures be updated to provide for a greater separation of duties between Finance and the Investment Unit. Based on no further questions, the Chair asked for a motion from the Committee to accept the Internal Reports on Member Accounting and Investment Management Costs. A motion was made by Mr. Giarrusso, seconded by Mr. Crombie, and it carried unanimously.

There being no further business, the Committee decided the next meeting will be held on June 14th at 8:30 am, prior to the Board meeting.

A motion to adjourn was made by Mr. Morrissey, and seconded by Mr. Hickey. The motion carried unanimously.