

Minutes of Audit Committee Meeting
May 8, 2012
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of June 12, 2012.

The meeting was convened at approximately 8:30 a.m. on May 8, 2012, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were: Chair Catherine Provencher, Mr. Dean Crombie, and Mr. Brian Morrissey. NHRS staff members in attendance were: Mr. George Lagos, Executive Director; Mr. Timothy Crutchfield, Esq., Chief Legal Counsel; Mr. Jack Dianis, Director of Finance; Mr. Larry Johansen, Director of Investments; Ms. Nancy Miller, Director of Member Services; Paul Zahensky, Director of Information Technology, Ms. Heather Fritzky, Accounting and Financial Reporting Supervisor; and Mr. John Browne, Internal Auditor. Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Brian Shaughnessy, KPMG Audit Manager.

Upon a request from the Chair, a motion was made by Mr. Crombie to accept the minutes of the February 14, 2012 meeting. Mr. Morrissey seconded the motion, and it carried unanimously.

The Chair asked Mr. Gagnon and Mr. Shaughnessy to present the 2012 KPMG Audit Plan. Mr. Gagnon started by referring the Committee to the handout provided and explained the audit plan is designed to address the specific financial statement risks of the Retirement System and is consistent with the plans executed in prior years. He noted KPMG staffing would be the same as last year providing continuity on the audit, and that they would work with senior management and internal audit in evaluating audit risks. Mr. Gagnon then explained that one of the objectives of completing the audit of the financial statements was to perform it in accordance with both Generally Accepted Auditing Standards and also Government Auditing Standards, as the Retirement System's financial statements feed into the State's financial statements. KPMG's goal is to issue a report on the CAFR to the Audit Committee by December 1st 2012.

Mr. Shaughnessy next walked the Committee through the KPMG audit methodology and process of planning, control evaluation, and substantive testing, resulting in an audit opinion, the Required Communications Letter to the Audit Committee, and a management letter on controls if required. He noted that again this year KPMG is using electronic audit workpapers, which provides many benefits to the client in that KPMG staff does not have to be onsite to perform and review work, and it allows KPMG more easily to contrast this year's work to prior years in evaluating risk. Mr. Shaughnessy then outlined the process of how risks are identified, controls evaluated, and then selectively tested to determine their operating effectiveness. He gave examples of control testing, including using analytical procedures to confirm expectations of balances, vouching individual documents to supporting documentation, and confirming balances with third parties. He further explained how all their work is summarized to allow them to form their audit opinion. The Chair asked about the audit timetable considering the delays typically experienced in obtaining actuarial and custodian reports. While the timetable was aggressive, Mr. Gagnon felt this process was not uncommon in auditing retirement systems and that the timetable was achievable.

Mr. Gagnon then discussed overall audit work: the testing of contributions, distributions, and the evaluation of the actuarial process, making sure the methodology is consistent and assumptions are reasonable. He noted that in testing investments, there will not be separate audits of the real estate portfolio, however he observed greater work will be performed on this asset class within the overall audit.

Mr. Gagnon next updated the committee on the status of changes to plan accounting in the measurement of the pension liability proposed by GASB a year ago. He felt that while there has been much feedback on this proposal, there has not been much progress due to the current fiscal challenges facing state and local governments. He said he thought a status on the implementation of the proposed changes, which had been scheduled for fiscal year 2014/15, should be made shortly. Mr. Gagnon closed by pointing out that the audit package also included the Engagement Letter, the Fees for Services schedule, and the AICPA Peer Review Report.

Mr. Browne then gave an update on the NHRS Audit Issues Tracker. While no issues were scheduled for completion, he noted the typographical error in Administrative Rule 304.05 was corrected, and that the Executive Director had prepared for the Governance Committee a memo outlining a plan to address the audit issue of delegation of authority. Per a question from the Chair, Mr. Browne stated no new issues had been added to the Tracker but the two issues in the Retiree Death Benefits Audit Report would be added next month.

Next Mr. Browne updated the Committee on the status of the audit of Retiree Death Benefits. He explained the audit was now complete. There were two issues, one being NHRS is not clear in its correspondence to the beneficiary upon the death of a retiree as to whether the beneficiary may qualify for the medical subsidy. Management is going to review the letters to beneficiaries and implement a procedure to address this. Secondly, Audit recommended that the Legal team review and verify the schedule used by Retiree Services to pay death benefits to Group II retirees. Mr. Lagos then provided an update on the research staff had performed on the question of the payment of the pre-65 benefit to beneficiaries of Group I retirees who die at 65 or thereafter. Mr. Lagos said they had spoken to outside counsel, and it was found that while the statute was loosely worded, there was nothing incorrect with the present process for making payments. Staff had also contacted the System's actuaries and they also concluded pensions were being properly funded for the way payments were being administered. Mr. Lagos said staff was going to continue evaluate all options for these payments and would memorialize their decision.

Lastly, Mr. Browne gave a very brief review of the status of the Qualified Domestic Relations Orders, noting he was working on a number of control issues.

There being no further business, the Committee scheduled the next meeting to be prior to the Board meeting at 8:30 a.m., June 12th.

A motion to adjourn was made by Mr. Morrissey, seconded by Mr. Crombie, and it carried unanimously.