

NHRS Board of Trustees, Audit Committee
May 12, 2015

NOTE: These minutes from the May 12, 2015 Audit Committee meeting were approved and executed at the June 9, 2015 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
May 12, 2015**

The Public Minutes

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Maureen Kelliher; Germano Martins; and David McCrillis.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; Frank Clough, Director of information Technology; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Heather Fritzky, Controller; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; and John Browne, Internal Auditor.

Chair Beardmore called the meeting to order at 8:15 AM. Upon a request from the Chair, a motion was made by Mr. McCrillis to accept the minutes of the Audit Committee meeting of March 10, 2015. Ms. Kelliher seconded the motion and it carried unanimously with a friendly amendment.

The Chair asked NHRS Staff to review the proposed revisions to the Employer Withdrawal Policy. Mr. Crutchfield explained that based on the request from Surry Village Charter School, it was identified that a significant amount of work must be performed by the System's actuaries in determining whether an employer may withdraw from NHRS pursuant to RSA 100-A:43. Specifically, the actuary must calculate the employer's unfunded accrued liability (UAL) as well as complete an analysis of the proposed alternative retirement plan. It was the consensus of staff and the Committee that because a withdrawal is a voluntary action requested by an individual employer, the associated costs should not be borne by all employers of the plan. Based on this, Staff recommended that Section D, Payment of Actuarial Analysis and Cost Calculation, be added to the policy. Mr. Dwyer then raised a question as to whether the revised policy needed to be clearer regarding the options of an employer proceeding with the withdrawal upon receipt of the UAL cost calculation. After discussion it was decided once an employer makes the decision to go forward with the withdrawal, the process must follow the statutory provisions of RSA 100-A:43. Mr. McCrillis then suggested that the phrase, "upon receipt of a deposit", be added to Section D.2, before an unfunded accrued liability calculation would be performed. The Chair then entertained a motion to recommend to the full Board that it approve the revised

Employer Withdrawal Policy as amended today by the Committee. Mr. Martins moved the motion, it was seconded by Mr. Dwyer, and it carried unanimously.

Mr. Dianis then provided a status update on the Government Accounting Standard Board (GASB) Statement 68. He stated the System's actuary, Gabriel, Roeder, Smith & Company, is presently working on the report that will be audited by KPMG. He also noted KPMG would be visiting NHRS shortly to perform audit work on the employer contributions, which will be the basis for the actuary's report. Mr. Dianis noted this report will need to be available by approximately the end of the 2015 fiscal year, and he is planning on presenting it to the Committee in July so they will have a chance to review it and accept it before it is released to the employers for preparation of their June 30, 2015 CAFR's.

Mr. Browne next provided a brief status on audit work performed on the GASB 67 census data. He outlined that KPMG had selected the thirty two employers, many where both the Group I and Group II employers were in the same town. This has enabled the System's Compliance Auditors to plan their work so they can visit two employers in one trip. Four GASB audits had already been performed. Mr. Cavanaugh added that the Compliance Auditors are further trying to take advantage of these visits by performing a regular compliance review at the same time, noting that recently three audits were performed in a single trip.

Next Mr. Clough gave an update on the System's progress in strengthening Information Technology (IT) security and controls over the past year, referencing the two IT memos included in the audit committee package. Specifically he spoke to how the IT infrastructure has been built up through the installation of a new firewall and additional security software, as well as stronger policies and procedures. Mr. Lagos also spoke to two additional application systems, SE CleanMail, which allows the System to better filter emails and enables individual users to monitor their own email for spam, and the ZIX email security system to be implemented shortly, which will allow for the encryption of email. Lastly Mr. Lagos gave an update on the steps being taken to address business interruption and disaster recovery, particularly referencing the memo on the status of PGSecure, which is an application used to back up the PensionGold System, and ultimately would be used to issue the monthly retiree checks if that was to become necessary. He also mentioned this is the first part of an updated disaster recovery plan, and noted Systems Engineering would be visiting the office that week to review a backup plan for the non-PensionGold systems. Based on a question from Mr. Beardmore, Mr. Lagos noted this will include a new co-location data center facility to replace the present one in Dallas.

Next Mr. Browne reviewed the current Audit Tracker, noting there were no updates to the four existing outstanding issues. Mr. Browne did follow up on a question raised by Mr. McCrillis at the last meeting as to the status of audit item #66 relating to missing interest accrual dates. Mr. Browne noted Ms. Miller had revised the item to show this is on the Member Services current "To Do" list, and is scheduled to be addressed later in the year. Mr. Browne also noted that while the status shows it impacting 12,000 records, he wanted to be clear that this was not 12,000 individual member records. Ms. Miller clarified that rather it affects multiple records of individual members, only about five members a month, and there are manual controls in place to assure that there is no financial impact on members.

Mr. Cavanaugh gave an update on audit item 95 – the Field Audit Plan to address the largest employers. He noted because of changes at the State, in particular the Lean project being undertaken and the changeover in staff, the Employer Auditors would not be performing planned audit work there in the near future. However he did observe that about eighteen months ago, he had changed the focus of the auditors so that they have been concentrating on performing audits of the large political subdivision employers, those with over fifty members or so. Based on this new approach, he said there are only three large cities, towns or counties that have not been audited in the last four years, and that the focus will now be on school districts. Mr. Cavanaugh also noted that thanks to the work of Tamre McCrea, the Team Lead, audit procedures and processes within the unit have been improved and strengthened. Based on the above status, the Chair invited Mr. Cavanaugh to come back to the Committee in the near future to provide a presentation on their procedures, sampling methods, common findings, etc.

Mr. Browne then reported on the member refunds audit he had completed. Based on his audit work testing that the appropriate documentation was being collected, applications were signed and notarized, and proper interest had been posted for both cash refunds and trustee to trustee transfers, he felt controls were effective. He also noted that while the statute calls for refunds to be made within ninety days, in testing he saw Member Services was consistently completing them within sixty days. He said he identified two issues, which management is working on. One being how termination pay information received from employers is documented, and the other being what date is used as the member termination date when a refund is finalized. Neither issue he felt impacted payments being made to a member, but both would be added to the audit tracker for follow- up.

Lastly, Mr. Browne updated the Committee on the status of the 2015 Audit Plan. He advised that the next planned audit was Member Retirement Processing but as the busiest time in Member Services is May and June with teachers retiring at the end of the school year, it was decided that the testing of this processing would be rescheduled to the 2016 fiscal year. In place of that audit, Mr. Browne said that he had already started the thirty two GASB audits for fiscal year 2014, which had not been included in the Plan. He said that he would provide a draft of the fiscal year 2016 Internal Audit Universe/Plan at the next scheduled meeting.

As there being no further business, the Committee tentatively scheduled the next meeting for prior to the Board meeting on Tuesday, June 9, 2015.

A motion to adjourn was made by Mr. Dwyer, seconded by Mr. Martins, and it carried unanimously.

Respectfully submitted,
John F. Browne