

NHRS Board of Trustees, Audit Committee
May 9, 2017

NOTE: These minutes from the May 9, 2017 Audit Committee meeting were approved and executed at the July 11, 2017 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
May 9, 2017**

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

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

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

Chair Beardmore called the meeting to order at 9:17 a.m. Upon a request from the Chair, a motion was made by Trustee Kelliher to accept the minutes of the Audit Committee meeting of April 11, 2017 as presented. Trustee Martins seconded the motion and it carried unanimously.

Ms. Cone then updated the Committee as to the status of Internal Audit activity and presented the final report of the Gainful Occupation (GO) Audit. As section Ret 309.01(h) can be considered ambiguous, Legal Staff will propose amendments to the Rule so that it more clearly aligns with longstanding practices. Mr. Lagos added that since Mark Cavanaugh has taken responsibility for the annual GO process, the process has been automated and administration has improved substantially.

Ms. Cone then presented the updated FY2017 Audit Plan. All eight audits on the approved Plan are completed and an additional one, Board of Trustees Governance Manual and Delegation of Authority, is in process. She then provided an update on the four outstanding items listed on the Open Audit Issues Tracking report. Since last month's meeting, one issue was completed and three will be added next month related to the GO Audit.

Ms. Cone then presented the FY2018 Risk Assessment and the draft FY2018 Audit Plan. She explained the methodology of the risk assessment process and the collaborative work performed with the NHRS Directors and Managers. As noted in comparison with the FY2017 Risk Assessment, the level of risk has decreased for many auditable functions and operations which can be attributed to increased automation and enhanced controls.

Ms. Cone then reviewed the draft FY2018 Internal Audit Plan. Those areas with a high risk rating, recent automation, process reorganizations, manual processes and high financial or operational impact were selected for review. Approval of the FY2018 Internal Audit Plan is scheduled for the next Audit Committee meeting. Trustees Beardmore and Dwyer inquired as to the risk rating related to the telephone system. Mr. Clough explained that a new phone system was installed in 2015 to address the instability of the old system. The higher risk rating relates to the inability of the current system to provide relevant reporting as to call tracking, monitoring, and management. Mr. Lagos added that while the inadequacy of the current reporting system is not a material risk to NHRS, it is an ineffective tool to monitor and manage phone system utilization. A new reporting system is being implemented that will provide improved analytics.

Mr. Dianis then provided the Committee with an update of the FY2017 audit by KPMG. The engagement letter has been signed and ongoing planning conference calls scheduled. Last week a conference call with KPMG and NHRS's Actuary, GRS, related to implementation of GASB 74 and 75 was held. The call was to explain to KPMG why NHRS intended to use a discount rate of 7.25% for GASB 74-75 calculations instead of the NH municipal bond rate. Mr. Johansen made the point on the call that cash flow projections for the OPEB were provided to KPMG in March, demonstrating adequate funding of the subsidy and confirming that there would be no "cross over" point, meaning that there was no scenario by which the subsidy could "run out of money," and therefore, using the 7.25% discount rate is appropriate. Mr. Lagos then described the additional steps being taken this year together with KPMG to manage the FY2017 audit process. Mr. Dianis also discussed a letter received from KPMG which included observations regarding the FY2016 GASB 67 and 68 audit and suggested future work paper documentation.

Mr. Lagos then provided an update on the PASE (Pension Administration System Evaluation) process. Five vendors responded to the RFI (Request for Information) and are in the process of being reviewed. A few responses were also received from vendors who provide implementation services for pension administration systems. Staff will review the RFI responses and determine which, if any vendors will be invited in to make presentations.

Chair Beardmore recommended that the Committee skip the non-public session and the remaining Committee members agreed.

No further business came before the meeting.

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

Respectfully submitted,

Nancy B. Cone