

Minutes of Audit Committee Meeting
November 8, 2011
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of December 13, 2011.

The meeting was convened at approximately 8:05 a.m. on November 8, 2011, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were: Chair Catherine Provencher, Dr. Lisa Shapiro, Mr. Keith Hickey, Mr. John Wozmak, and Mr. Brian Morrissey. NHRS staff members in attendance were Ms. Kim France, Interim Executive Director; Mr. Timothy Crutchfield, Chief Legal Counsel; Mr. Jack Dianis, Director of Finance; Ms. Heather Fritzky, Accounting and Finance Supervisor; Mr. Larry Johansen, Director of Investments; and Mr. John Browne, Internal Auditor. Also in attendance were Dave Gagnon and Brian Shaughnessy of KPMG.

Upon a request from the Chair, a motion was made by Mr. Morrissey to accept the minutes of the June 14, 2011 meeting. Mr. Hickey seconded the motion, and it carried unanimously.

Next, Chair Provencher requested that Mr. Gagnon, the Engagement Partner with KPMG, present the status of their 2011 Audit and their work on the Unaudited CAFR. Mr. Gagnon noted there was still work to be done, but referred Committee members to their handout and the draft opinion, saying he expected a clean unqualified opinion on the financial statements and the supplemental information in the CAFR. He noted KPMG had reviewed and tested the internal control structure, and concluded there were no significant deficiencies relative to financial reporting. The Chair asked if there had been follow-up performed on the Information Technology control issues identified last year. Mr. Gagnon replied that he was reviewing them, that substantial progress was made, and he expected to report to the Committee by year end. Specifically, Mr. Gagnon discussed work they performed on institutional fund investments as opposed to mutual funds, and the analysis of fixed income investments, real estate and alternate investments they carried out. Next Mr. Gagnon asked Mr. Shaughnessy, KPMG Manager, to review some of the additional audit testing performed. Mr. Shaughnessy specifically noted they had reviewed controls over contributions and benefits, investment activity and custody, and conformity of the presentation with GASB standards. He did mention that receiving the SAS 70 from Northern Trust, obtaining legal confirmations, and tying out the CAFR were pending items. Next Mr. Gagnon noted the required communications between the Audit Committee and KPMG, observing that there were no differences or exceptions, and that they had received the full cooperation of NHRS staff.

The Chair next asked when the completion of the audit could be expected. Mr. Gagnon said he estimated the audit to be completed approximately December 1st. As RSA 100-A calls for the finalized audited financial report of NHRS to be presented to the Audit Committee by December 1st unless that date is extended by the Board, and the Committee will not be meeting till after that, the Chair entertained a motion to recommend to the full Board to extend the presentation of the audited financial report and resulting findings to the Audit Committee at its next meeting on December 13, 2011 as permitted under RSA 100-A:15, VI. This motion was moved by Mr. Wozmak, and seconded by Mr. Hickey. The motion carried unanimously.

As the Audit Committee has encountered the issue of obtaining an audited financial report in time to meet the December 1st date, the Chair suggested consideration needed to be given to changing the target date for the preparation of the unaudited financial statements. Mr. Dianis did note staff is circulating draft language within NHRS and the Legislative Committee to amending the December 1st deadline, and further work will be done.

Next, the Chair asked Attorney Crutchfield to update the Committee on the annual ethics survey sent to Trustees, Independent Investment Committee (IIC) Members, Service Providers, and Employees, as well as former Employee and Trustees. He noted that the survey is conducted as a best practice at NHRS, and there is no statutory requirement, and therefore no Committee action is required. Traditionally, at the November meeting, a draft is reviewed and then finalized for the December or January meeting. He noted the status of responses is about the same as this time last year, and in response to a question from Dr. Shapiro, stated he should have all the Trustee responses by the end of the day.

The Committee then briefly reviewed the status of the System's response/comments on the Government Accounting Standards Board Exposure Draft on Accounting and Financial Reporting for Pensions, and the impact on NHRS. Specifically the members discussed the impact of the standard on the System's accounting and actuarial work, and the effect on the recording of the Towns' liabilities. During this time, Committee Member Crombie joined the meeting.

The Chair next asked Mr. Browne to update the Committee on the status of Internal Audit work. Mr. Browne explained his primary work has been the review of Investment Administration. This is a review of the overall practices of the IIC on behalf of the Board. It included the work of staff and the general investment consultants on behalf of the Committee. Audit testing included the Committee's compliance with RSA 100-A14 b, and A:15, the interaction of the Committee with the Board as far as required reporting, i.e. the investment policy, investment consultants, the Comprehensive Annual Investment Report, etc. Audit also reviewed the process of selecting investment managers, reached out to other pension systems to identify best practice, and sat in on IIC meetings. Mr. Browne said the results of audit work were very positive, as is documented in the interaction between the IIC and the Board at meetings, and the communications between staff and the different parties. The recommendation that would be made, would be to strengthen the documentation of due diligence performed by NHRS in selecting investment managers.

Mr. Browne next updated the Committee on follow-up work he performed on a question from the September meeting on service credit purchases. The primary issue discussed was confirming that all service credit seeking to be purchased exists and is eligible to be purchased through either a former employer or documented by NHRS records before being approved. Based on audit work performed in 2010, and a review of the present forms, Mr. Browne said he felt comfortable saying that staff has in the past and continues presently to confirm a member's eligibility to purchase prior service before the actual purchase is completed. After further discussion by the Committee, Mr. Crombie asked if further clarification could be provided of how the System is administering the crediting of Military Service purchased. Mr. Browne said he would collect

additional information and prepare an updated status for discussion at the next month's Committee meeting.

Next Mr. Crombie asked for a discussion on the need for alternative investment presentations at the IIC meetings to be conducted in non-public session. He noted he had discussed this with a number of trustees from other pension systems, and they indicated their practice was that since these are public funds that are being invested, there should be full transparency and therefore the alternative investment presentations were conducted in public session. After discussion, it was agreed that NHRS would reach out to a number of resources, including legal counsel and the IIC, to get feedback and the issue would be discussed further at the next meeting.

Next the Committee discussed the Audit Tracker Report and reviewed the status of the one item on the report where there was a date change. Management explained because of other priorities requiring the attention of the System's actuary, the target completion date requiring the review of an additional contribution formula was going to be extended two months. Dr. Shapiro then raised a question on report sequence item number 1 – the IRS Voluntary Correction Program, as to whether a procedure had been established regarding whether proposed Board policies would be circulated for stakeholder comment before being finalized. The Committee Chair requested that a calendar be developed to show how this review might be done, and this topic also be scheduled for further discussion at the next Committee meeting. Lastly a question was raised by Mr. Wozmak as to the purpose of the issue sequence numbers on the Audit Tracker, and how best to read which items have been completed and which ones are still outstanding. The Chair explained the sequence number was used simply to as a reference to identify each individual issue added to the Tracker, but did request Mr. Browne provide suggestions at the next meeting as to how the report might be made more readable.

There being no further business, the Committee scheduled the next meeting to be prior to the Board meeting of December 13th.

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