

NHRS Board of Trustees, Audit Committee  
November 12, 2013

**NOTE:** These minutes from the November 12, 2013 Audit Committee meeting were approved and executed at the December 10, 2013 regular Meeting of the NHRS Audit Committee

**Audit Committee  
Board of Trustees**

**The Public Minutes**

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

Committee Members: Catherine Provencher, Chair; Jack Wozmak; Karen McDonough; John Beardmore; Germano Martins.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Mark Cavanaugh, Regulatory Compliance Officer/Staff Attorney; Heather Fritzky, Controller; John Browne, Internal Auditor. Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Brian Shaughnessy, KPMG Senior Audit Manager.

Chair Provencher called the meeting to order at approximately 8:00 AM. Upon a request from the Chair, a motion was made by Ms. McDonough to accept the minutes of the August 13, 2013 meeting. Mr. Beardmore seconded the motion, and it carried unanimously.

Next, the Chair requested that Mr. Gagnon present the status of KPMG's 2013 audit. Trustees Wozmak and Martins arrived during Mr. Gagnon's presentation. Mr. Gagnon started out by referring the Committee members to KPMG's handout outlining the specific responsibilities of management during the audit, and then he spoke of the new Governmental Accounting Standards Board (GASB) requirements. Specifically, he discussed GASB No. 63 - Financial Reporting of Deferred Outflows of Resources and Deferred Inflows of Resources. NHRS was not impacted by the first part of the standard, but was affected by some of the changes in the names of the financial statements. For example, the report describing the Financial Statement of Changes in Fiduciary Net Assets will now be called the Statement of Changes in Net Position. Other changes this year per Mr. Gagnon are the format of KPMG's - Independent Auditor's Report, and the Report on Internal Control over Financial Reporting. These modifications were made by KPMG to meet the new requirements of the American Institute of Certified Public Accountants for 2013, called the Clarity Standards.

Mr. Gagnon then noted that based on the audit work they had performed this year there would be no management comments, and that their clean audit opinion, which would have been called unqualified in the past, under the new Clarity Standards - will

be called unmodified. The Chair on behalf of the Committee gave her congratulations to the Finance staff on this notable accomplishment. Mr. Gagnon also stated that in response to KPMG's management comments from last year, NHRS's financial and investment staff had put in place a strong process for documenting both the selection of new alternative investments and the monitoring of these investments going forward. Per a question from the Chair relative to when the audit would be complete, Mr. Gagnon stated they hoped to wrap up the review by the end of the month, provided they receive the necessary actuarial data.

Mr. Shaughnessy then briefly reviewed their audit process, noting particular areas of emphasis of their work, i.e. assessing controls over investments, confirming prices of securities, testing contributions and distributions to/from the System. The Chair asked if there were changes/challenges to the investment evaluations based on their work, and Mr. Shaughnessy said there were none. The Chair also asked if KPMG might have any special concerns with the new custodian NHRS had selected for Fiscal Year 2014. Mr. Gagnon noted that he felt the custodian was well qualified to perform the function. Mr. Shaughnessy finished by noting other significant pending items necessary to complete their work, which included a number of legal confirmations, and KPMG's review and tie-out of the Comprehensive Annual Financial Report (CAFR).

Lastly, Mr. Gagnon reviewed a recently issued accounting standard he expected to be implemented shortly. This standard would require NHRS to have an expanded level of detail in the footnotes of the financial statements about the fair value of the System's financial instruments/investments. Mr. Gagnon summarized his presentation by reviewing with the Committee KPMG's Required Communications, i.e. disagreements with management, illegal acts or fraud, etc., noting there were no matters to report, and that there were no audit adjustments. Mr. Gagnon and Mr. Shaughnessy subsequently left the meeting.

Next as there had been revisions to the Audit Committee Charter to make it consistent with the other charters of the System in the Board's Governance manual, the Chair entertained a motion to recommend to the full Board that it approve the proposed revisions of the Audit Committee Charter as presented. The motion was moved by Mr. Wozmak, seconded by Ms. McDonough, and it carried unanimously.

Mr. Dianis then presented the unaudited CAFR as required by RSA 100-A:15. He noted that the core financial statements were present, with the actuarial opinion, and other documentation soon to be completed. Mr. Dianis said he would be giving a formal presentation of the completed CAFR to the Committee in December.

Mr. Crutchfield then briefly gave an update on the Ethics Report Card that summarizes responses to the annual NHRS Standard of Conduct Questionnaire. He noted that responses are still being received and he expected to have a final Ethics Report Card next month. Per a question from the Chair, he stated he had received no responses that he felt needed to be brought to the attention of the Audit Committee.

Next, the Chair entertained a motion by Mr. Beardmore, seconded by Mr. Martins, to enter into non-public session under RSA 91-A:3, II(c) to discuss a matter, which, if discussed in public, could adversely affect the reputation of someone other than a member of the public body.

The roll call vote was as follows:

Ayes: Chair Provencher, Mr. Beardmore, Ms. McDonough, Mr. Martins, Mr. Wozmak.

Nays: None.

During the non-public session the Committee discussed the upcoming RFP for Audit Services.

On a motion by Mr. Martins, seconded by Ms. McDonough the Committee unanimously voted to conclude the non-public session.

Mr. Browne then provided a very brief update to the Audit Committee on the status of items on the Audit Tracking Report. He stated all items are being addressed by management. He also noted he continues to work on two separate audits, Actuarial Administration and Inactive/Deferred Vested Members. On a question from the Chair, he noted that he hadn't identified any exceptions needing to be called to the Committee's attention.

There being no further business, the Committee scheduled the next meeting for 8:00 AM immediately prior to the Board meeting on December 10, 2013.

A motion to adjourn was made by Mr. Wozmak, seconded by Ms. McDonough, and it carried unanimously.

*Respectfully submitted,*  
*John F. Browne*