

NHRS Board of Trustees, Audit Committee
November 8, 2016

NOTE: These minutes from the November 8, 2016 Audit Committee meeting were approved and executed at the December 13, 2016 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
November 8, 2016**

**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; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; 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; Nina Calkins, Process Improvement Manager; Heather Fritzky, Controller; Nancy Cone, Internal Auditor.

Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Nicholas Stavros, KPMG Senior Audit Manager.

Chair Beardmore called the meeting to order at 8:45 AM. Upon a request from the Chair, a motion was made by Trustee McCrillis to accept the minutes of the Audit Committee meeting of October 11, 2016, as amended. Trustee Martins seconded the motion and it carried unanimously.

The Chair then asked Mr. Gagnon to update the Committee on the status of KPMG's fiscal year (FY) 2016 audit. Mr. Gagnon introduced Mr. Stavros as the KPMG Senior Audit Manager and referred the Committee to the KPMG June 30, 2016 Audit Results Presentation, which outlined the responsibilities of the parties in the audit, the audit status, areas covered in the audit, and emerging issues to be addressed in future years. He indicated that the majority of audit work has been completed and there have been no audit adjustments or deficiencies. Mr. Stavros then reviewed areas of emphasis including employer census data audits, contributions, distributions, review of underlying actuarial assumptions, investments, subsequent events and GASB reporting. He confirmed that all investments are reported at fair value in accordance with GASB No. 72 and no changes were needed. Mr. Stavros then reviewed their required communications to the Audit Committee and no exceptions or findings were noted. Mr. Gagnon indicated that there were no changes to the original audit plan and they expect to issue an unmodified opinion on the financial statements for the year ended June 30, 2016.

Mr. Beardmore inquired as to how many employer census data audits were completed for GASB 67. Mr. Gagnon and Ms. Cone responded that KPMG selected 30 audits including municipalities, schools and the State of New Hampshire. Of which, 29 were completed by NHRS staff and reviewed by KPMG, while the State was completed by KPMG staff. The process was streamlined and refined this year which enabled the audits to be completed sooner than usual.

Mr. Gagnon then reviewed the new GASB accounting standards that will be in effect in subsequent years. Trustee McCrillis inquired as to GASB 74 which relates to financial reporting for postemployment benefit plans other than pension plans (OPEB). Mr. Lagos indicated that staff was consulting with outside counsel regarding whether NHRS has one OPEB plan with four sub-plans or if there are four separate plans. Trustee Martins asked if GASB 74 would have any effect on contributions. Mr. Lagos indicated that there should be no effect as the medical subsidy would continue to be administered as it is now.

Mr. Gagnon and Mr. Stavros left the meeting at 9:05 AM.

Ms. Cone then updated the Committee as to the status of Internal Audit activity and the FY2017 Audit Plan. The audit of Member, Retiree and Beneficiary Record Change Control is in process. The two scheduled audits relating to the former Employer Services area will be revisited with Ms. Miller.

Ms. Cone then provided an update of the outstanding items on the Open Audit Issues Tracking System. One item was completed and the target date was revised for the State of New Hampshire Field Audit Plan. Mr. Cavanaugh indicated that staff recently met with the Department of Administrative Services (DAS) to review the results of the Department of Education Audit, that went very well, and there were only two minor issues that are common amongst other employers. NHRS will work with DAS to schedule other audits and determine the best method going forward to audit other State agencies.

Mr. Clough then discussed the results of the recent Penetration Testing. The vendor was unsuccessful in its attempt to “hack” NHRS’ network and gain access to NHRS data. The vendor did discover one minor vulnerability which was considered to be insignificant. Mr. Lagos added that the test validated the work that has been performed over the past 18 months to enhance the security of NHRS’ outward facing systems.

Mr. Lagos then discussed the Pension Administration System Evaluation (“PASE”) Proposal and draft Action Plan which was unanimously approved by the Audit Committee in a prior meeting and will be presented to the Board for approval at today’s meeting. He indicated that this is a plan to investigate, analyze and evaluate the possibility of updating the current benefit administration system. Mr. Lagos reviewed the results of surveys received from other public pension systems that have recently undergone a system conversion or are in the process of upgrading their benefit administration systems.

No further business came before the meeting.

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

Respectfully submitted,

Nancy B. Cone