

NHRS Board of Trustees, Audit Committee  
November 14, 2017

**NOTE:** These minutes from the November 14, 2017 Audit Committee meeting were approved and executed at the December 12, 2017 regular meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees**

**Public Minutes  
November 14, 2017**

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

Committee Members: Bill Dwyer, Chair; 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; Heather Fritzky, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Nina Calkins, Process Improvement Manager; Nancy Cone, Internal Auditor.

Chair Dwyer called the meeting to order at 10:00 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 October 10, 2017 as presented. Trustee McCrillis seconded the motion and it carried 3-0 with Trustee Dwyer abstaining.

Ms. Cone reviewed the status of the FY2018 Internal Audit Plan. The fieldwork for the Telephone System Reporting & Analytics Audit has been completed and the report is being written. As a result of the data security incident, she reviewed demographic and direct deposit changes for the periods July through September 2017. Memos for the July and August reviews have been issued and fieldwork has been completed for the September changes. Trustee Dwyer inquired as to the next audit, to which Ms. Cone replied the Member Services Insurance Rate Processing is scheduled to be next unless the Committee has any other preferences. None were noted. There has been no change in the Audit Issues Tracking Report since last month which indicated four outstanding items remain targeted to be completed by the end of December 2017. Trustee Dwyer suggested that the date may need to be pushed out for the issues relating to administrative rule changes for the Gainful Occupation process. Mr. Cavanaugh indicated that the changes will be presented to the Board at its meeting later today and if approved by the Board, then the changes will be presented to the state JLCAR for review and approval. Ms. Cone will provide Mr. Cavanaugh with the Tracking Report to be updated.

Ms. Fritzky then provided the Committee with an update of the FY2017 financial audit by KPMG. The unaudited draft FY2017 CAFR was provided to KPMG on November 2,

2017 and some comments were received. She will incorporate those comments and provide KPMG with a revised draft on November 15<sup>th</sup> which will also be presented to the concurring partner for review at the same time. KPMG has not raised any issues of concern to-date and Ms. Fritzky indicated that the weekly status calls have been very helpful to keep the process on track. KPMG is scheduled to meet with the Audit Committee on December 12, 2017 to present the final audit and sign-off on the Opinion Letter that day.

Mr. Lagos provided an update on the cost of the data security incident in July including attorney and cybersecurity professional fees. He noted there was no cost for the security enhancements to My Account from LRS.

Mr. Lagos then discussed the data security risk assessment that is being performed by the same consultants who assisted with the data security incident. They have been meeting with staff to discuss processes and have been reviewing network security. Upon completion, they will issue a report along with their findings and recommendations to enhance data security. Trustee Dwyer inquired about the other pension systems that have experienced similar incidents. Mr. Lagos indicated that he has discussed the incidents with the other systems and obtained information from them when designing NHRS's enhanced self-service portal, My Account. Fortunately, NHRS identified the attempt to re-direct pension funds prior to processing monthly payroll so no funds were misdirected. Ms. Cone recently attended a conference of public pension system internal auditors at which other security incidents were discussed along with security measures undertaken to strengthen controls for self-service online portals. Mr. Lagos indicated that a similar incident was experienced by a financial services company that manages deferred compensation programs.

Trustee McCrillis inquired as to the timeline for the RFP for external audit services. Ms. Fritzky indicated that a draft has been prepared and is scheduled to be issued on or before November 30, 2017. The intent is to make a selection and issue a 5-year contact at the end of February 2018. Trustee Dwyer indicated that the new contract would be effective with the FY2018 audit.

Mr. Lagos also discussed the in-depth demonstration of the newest version of the Pension Gold (PG) administration system that is utilized by NHRS. There are significant improvements in functionality, integration, intuitiveness and reporting capabilities with the updated PG Version 3 as compared to Version 2, which is currently utilized by NHRS. The new version would significantly improve efficiencies and require much less custom modification than is presently required with Version 2. The vendor, LRS, will provide a cost range estimate to upgrade to the new system at which time it will be necessary to determine whether or not remain with Version 2, upgrade the system to Version 3, or issue an RFP to solicit presentations from other vendors. Trustee Dwyer commented that it should be easier to convert our data to an upgrade of the same system than to convert to an entirely new system.

Chair Dwyer noted that there were no matters requiring non-public session and the remaining Committee members agreed.

No further business came before the meeting.

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

*Respectfully submitted,*

*Nancy B. Cone*