

NHRS Board of Trustees, Audit Committee  
November 13, 2018

**NOTE:** These minutes from the November 13, 2018 Audit Committee meeting were approved and executed at the December 11, 2018 regular meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees**

**Public Minutes  
November 13, 2018**

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

Committee Members in attendance: Bill Dwyer, Chair; Melvin Friese; Maureen Kelliher; Timothy Lesko. Also attending: Trustee Christopher Coates.

Staff: George Lagos, *Executive Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Frank Clough, *Director of IT*; Nancy Cone, *Internal Auditor*; Timothy Crutchfield, Esq., *Chief Legal Counsel*; Jack Dianis, *Interim Director of Finance*; Heather Fritzky, *Controller/Assistant Director of Finance*; Larry Johansen, *Director of Investments*; Cecile Merrill, *Project Manager*; and Nancy Miller, *Director of Member Services*.

Chair Dwyer called the meeting to order at 9:00 a.m. Upon a request from the Chair, a motion was made by Trustee Lesko to accept the public minutes of the October 9, 2018 Audit Committee meeting as presented. Trustee Friese seconded the motion and it carried unanimously.

Ms. Cone then reviewed the FY2019 Audit Plan and noted that the Employer Contribution Reconciliation Audit has been completed and is awaiting responses from Finance to the observations noted on the draft report. Trustee Dwyer inquired as to the next audit to be undertaken and Ms. Cone responded that the IT Employee Hire/Separation procedures may be next as several new hires are in process due to the pending upgrade of the pension administration system. Ms. Cone also noted that the QDRO qualification audit is being considered for the pipeline.

Ms. Cone provided an update of the data security remediation project. Fifty two percent of the items have been completed through implementation of enhanced controls, while remediation efforts continue on the outstanding items. Several issues would remain long term as they are planned to be addressed in conjunction with the PGV3 project.

The Audit Issues Tracking Report contains only one item (QDRO Member Retirement Process), which is scheduled for completion in December.

Mr. Crutchfield then presented the FY2018 Annual Code of Ethics Report Card that has been implemented for the last twelve years as a best practice. The survey is sent to all service providers (including investment managers), current and former Trustees, Independent Investment Committee members, and NHRS employees. Responses were received from eighty-five of eighty-eight service providers, and one of the three non-respondents no longer provides services to NHRS. Mr. Crutchfield indicated that all respondents stated that they are in compliance with the NHRS Code of Conduct, no exceptions were noted, and that all of these outcomes are in line with recent years. Trustee Dwyer inquired as to the process. Mr. Crutchfield responded that the Executive Assistant sends out the first and second requests. If no response is received, Mr. Crutchfield sends out subsequent requests to the non-investment providers and Mr. Johansen contacts the investment providers.

Upon a request from the Chair, a motion was made by Trustee Kelliher to recommend the Ethics Report Card to the full Board for approval. Trustee Lesko seconded the motion and it carried unanimously.

Mr. Dianis provided an update on the FY2018 external audit. The auditors, Plante Moran, were onsite most of October and have completed their fieldwork. They expect to sign-off on the audit with an “unmodified” opinion on November 14, 2018, which is much earlier than previous years, and there will not be a Management Letter. The auditors are required to make certain communications to the Committee and will attend the December 11, 2018 Audit Committee meeting to present the audit and review the Comprehensive Annual Financial Report (CAFR). It is anticipated that the two Partners in charge of the NHRS audit, along with the Audit Manager, will attend. Trustee Dwyer indicated that the Committee will have an opportunity to meet privately with the Auditors and will vote to accept the CAFR and recommend its acceptance and release to the full Board at the December meeting. Mr. Dianis noted that the Plante Moran team was very professional and performed their audit efficiently, which is noteworthy since this was their first year working with NHRS. Mr. Johansen agreed that the same was true with respect to the audit of the system’s non-marketable/alternative investments in particular.

Ms. Merrill provided an update regarding the PGV3 project. She discussed staffing progress, LRS contract review, and space planning for current and long-term space needs during the project. LRS has provided responses to NHRS comments on the contract and Statement of Work and those documents are being reviewed. LRS will be providing a demo of PGV3 at an all staff meeting in December. Process workflows for Member Services are completed and one remains for Finance. Thirty-five data conversion issues were identified, thirty-four have been closed, and the remaining item is in process.

Mr. Lagos noted that the initial decision to utilize subscription licensing, the cost of which is spread out over the life of PGV3 at NHRS, as opposed to the perpetual licensing, whereby the cost is paid up front, is being reviewed. Further analysis indicates that subscription licensing would be more expensive assuming a longer term of use of 15 years versus 10. Also, LRS does not appear to have any other clients utilizing the subscription model, nor is there another platform in development to succeed PGV3. Given that NHRS has been using PGV2 for fifteen years and will most likely use PGV3 for at least fifteen years, it may be more cost effective to select the

perpetual licensing purchase option. Mr. Lagos indicated that LRS has been very good to work with and the contract negotiations have been non-controversial. The Chair inquired as to presenting the NHRS budget during the upcoming Governor's Budget Hearings. Mr. Lagos indicated that it is scheduled to be presented on Monday, November 19, at which time the PGV3 upgrade cost will be fully disclosed.

The Chair noted that there did not appear to be any matters requiring a non-public session and the Committee members agreed.

No further business came before the meeting.

The next meeting is scheduled for Tuesday, December 11, 2018, before the regular Board meeting.

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

*Respectfully submitted,*

*Nancy B. Cone,*