

NHRS Board of Trustees, Audit Committee
October 14, 2014

NOTE: These minutes from the October 14, 2014 Audit Committee meeting were approved and executed at the November 12, 2014 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
October 14, 2014**

The Public Minutes

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Maureen Kelliher; Germano Martins. Jack Wozmak, absent.

Staff: George Lagos, Executive Director; Denise Call, Director of Employer Services; 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; Heather Fritzky, Controller; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; and John Browne, Internal Auditor. Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Brian Shaughnessy, KPMG Audit Senior Manager.

Chair Beardmore called the meeting to order at approximately 8:10 AM. Upon a request from the Chair, a motion was made by Mr. Dwyer to accept the minutes of the Audit Committee meetings of September 9, 2014 and September 30, 2014. Mr. Martins seconded the motion, and it carried unanimously.

The Chair then asked Mr. Gagnon and Mr. Shaughnessy to update the Committee on the status of KPMG's fiscal year 2014 audit. Mr. Gagnon referred the Committee to an Audit Work Project Plan which they had developed with the collaboration of NHRS Management. Mr. Gagnon said the plan outlined the critical tasks to be performed over the next two months, to be followed by KPMG's anticipated sign off of the financial statements and issuance of the audit report in December. He also noted that NHRS Management and KPMG have a weekly conference call to review the status of the plan. He briefly discussed the significance of the census data testing, which was new this year, noting that through the efforts of Internal Audit all employer visits had been scheduled and that some audits had already taken place. He felt that presently all tasks were on schedule. Mr. Shaughnessy also noted that besides the new census audit work, he felt the normal audit work was going very well and was ahead of schedule. He acknowledged Ms. Fritzky, the Controller, for her assistance in accomplishing this.

Next, Mr. Crutchfield updated the Committee on the status of the Surry Village Charter School's (SVCS) withdrawal proposal. Mr. Crutchfield explained that based on the feedback which had been provided to SVCS, they were working on an updated withdrawal proposal and that a new proposal should be received shortly. He said that when it is received, he would provide it to the NHRS Consulting actuaries again and present a status of the review at the next committee meeting.

The Committee then discussed the status of the proposed Service Purchase Policy that had recently been voted on at a joint meeting of the Audit and Governance Committees which recommended the Policy to the Board of Trustees for approval. The Chair explained that following the approval, staff had continued to review the Policy as to its impact on the cost to a member, specifically what underlying actuarial assumptions would be used for the calculation. Based on this, Mr. Lagos explained they consulted with the System's consulting actuaries Gabriel Roeder Smith & Company (GRS), and concluded that it would be more appropriate to utilize the valuation actuarial assumptions, including the rate of return of seven and three quarters percent. Also Mr. Lagos said they reviewed the proposed calculation process again and GRS committed to proceed in accordance with their initial cost estimate for the development of the calculators which will be amortized over the life of the statute. It was also noted that using these calculators will allow NHRS to administer service purchases in-house on a more timely and less costly basis.

Larry Johansen, the Director of Investments, then presented a few example calculations for committee members that outlined the cost of service using scenarios for a member at age 40 and at age 55. Based on the results of the presentation, the Chair entertained a motion to rescind the Audit Committee's recommendation of the Service Purchase Policy that was acted upon at the joint meeting of the Audit and Governance Committees on September 30, 2014. Ms. Kelliher moved the motion, and Mr. Dwyer seconded it. The motion carried unanimously. The Committee then further discussed the newly drafted Service Purchase Policy, noting under this policy there would be no charge back to a member for the cost of calculating the service purchase. The Chair then asked for a motion to recommend to the Board for approval, the newly drafted Service Purchase Policy. Mr. Dwyer moved the motion, Mr. Martins seconded it, and it carried unanimously.

Mr. Browne reviewed the October 2014 Audit Tracker explaining there were only two issues with a scheduled completion date in September 2014. One related to housekeeping of a couple of accounts on the general ledger, which was completed. The second issue dealt with obtaining Judicial Retirement Plan wage records from the State, which due to continuing problems in receiving this data has been pushed out to a March 2015 completion date. Mr. Browne noted NHRS staff continues to manually monitor these transactions.

Mr. Browne then briefly reviewed the status of Internal Audit work, noting that as outlined in KPMG's presentation, the primary focus had been in performing the GASB 68 Employer Census Data Audits. He commented that it was a joint effort with the System's external compliance auditors and that presently all was going smoothly.

Lastly, in response to a question as to whether there was other business; Mr. Lagos just briefly updated the Committee as to progress of the Information Technology (IT)

Working Group that meets weekly. He stated that the Group has made good headway in a number of areas within IT and has received constructive recommendations from Systems Engineering, the IT consultant that had been retained. Mr. Lagos thanked the Committee for their support in this initiative.

As there being no further business, the Committee scheduled the next meeting for 8:00 AM immediately prior to the Board meeting on Wednesday, November 12, 2014.

A motion to adjourn was made by Mr. Martins, seconded by Mr. Dwyer, and it carried unanimously.

Respectfully submitted,
John F. Browne