

Minutes of Audit Committee Meeting  
September 13, 2011  
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of November 8, 2011.

The meeting was convened at approximately 8:30 a.m. on September 13, 2011, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating were: Chair Catherine Provencher, Mr. Dean Crombie, Mr. Keith Hickey, and Mr. Brian Morrissey. NHRS staff members in attendance were Ms. Kim France, Interim Executive Director; Mr. Timothy Crutchfield, Chief Legal Counsel; Mr. Jack Dianis, Director of Finance; Ms. Heather Fritzky, Accounting and Finance Supervisor; Mr. Larry Johansen, Director of Investments; and Mr. John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Hickey to accept the minutes of the June 14, 2011 meeting. Mr. Crombie seconded the motion. The Chair called the vote, as follows: Ayes: Trustees Provencher, Morrissey, and Crombie; abstention: Trustee Hickey.

Next the Chair gave a status of KPMG's Audit of Fiscal Year 2011. For the past two fiscal years, this audit has been made up of two sections: the Financial and the Real Estate portion, each with separate fee agreements for work performed by KPMG. While no audit exceptions have been identified, an issue has come up as to KPMG's detail work on the Real Estate portion of the review. In the spring, NHRS had negotiated a reduced fee on the Real Estate portion based on fewer properties in the NHRS portfolio. However, in starting their detail work, KPMG learned that independent, 3<sup>rd</sup> party appraisals of the individual properties managed by Hart and LaSalle were not going to be performed this year, only internal appraisals. Because of this, KPMG said they would need to increase their fees to perform additional work on the Real Estate portion. The Chair explained NHRS had met with KPMG and two alternatives were offered. The first being for NHRS to pay the additional fee and complete the audits as planned, or the second, for KPMG to stop work on the real estate audits, but use the work they had completed to date and apply it as support for the real estate portion in the NHRS financial audit. NHRS would pay for this work completed; \$30,000 of the \$50,000 previously approved fee for the real estate audit. To help clarify the alternatives, Mr. Johansen, Director of Investments, did explain that Townsend, the NHRS real estate discretionary manager, is working with Hart and LaSalle to sell the individual properties. As a result, they are becoming a smaller portion of the assets on the books of NHRS. As of June 30, 2009, the NHRS held 17 individual properties. As of June 30, 2010, the NHRS held 15 individual properties. As of June 30, 2011, the NHRS held 12 individual properties, with three scheduled for sale during the first quarter of fiscal year 2012. In addition, Townsend receives annual audited financial statements for each of the properties. This is a component of Townsend's monitoring and oversight responsibilities performed on behalf of the NHRS. Based on discussion, a motion was made by Mr. Hickey for KPMG to perform their audit work without the appraisals. Mr. Crombie seconded the motion. The motion carried unanimously.

The Chair then asked for feedback on the approach being taken to respond to the GASB proposal for changes to pension plan accounting. Responses to GASB are due by September 30, 2011.

The Chair explained that she had been working with the NHRS Executive Team, members of the State Controller's office, the Municipal Association, and Gabriel Roeder, the NHRS actuaries, so that there would be one coordinated comment letter signed off by the different governmental entities within the State. The Chair asked if the Committee would like to participate further in the development of the comment letter or if they would like to delegate this response to the Audit Chair and staff. After discussion, a motion was made by Mr. Hickey that the Committee recommend to the Board that they delegate to the Audit Chair the responsibility of coordinating a comment letter response to GASB and they further recommend to the Board that the Board Chair sign the letter on behalf of the NHRS. Mr. Morrissey seconded the motion, which carried unanimously.

Next, the Chair asked if Committee members had any questions on the Open Audit Issues Tracking Report. There were none. Mr. Browne explained there had been no items with August completion dates, however there would be a number to be completed the following month.

In the interest of time, the Chair asked Mr. Browne to review the Internal Audit items, prioritizing them, making sure the most critical ones were addressed. Mr. Browne started by reviewing the Internal Audit Plan for 2012. He described the process of having an audit universe and meeting with members of the NHRS staff to discuss their different areas of responsibility for input on the plan. He explained that once he had drafted a plan, he met with the Executive Team, and took feedback from them as to the best possible timing for scheduling the audit. He briefly reviewed each of the audits in the plan, explaining that six of the seven audits were "first time" audits. While the Employer Account Reconciliation review had been performed a couple of years ago, it was important to review it again as this function is where the changes in HB2 would have the most impact on daily processing. Mr. Browne also reviewed the status of the 2011 plan, explaining that five of the six audits had been completed and presented to Management and the Committee, and that a number of the objectives of the sixth audit - Controls over Member Records - would be included in audits to be performed in 2012. The Chair then accepted a motion from Mr. Morrissey to approve the 2012 Internal Audit Plan as submitted. Mr. Crombie seconded the motion, which carried unanimously.

Mr. Browne also quickly reviewed the two audit reports included in the Committee package. Specifically he discussed the Audit of Vendor Service Contracts/Agreements that had been requested by management. A number of control issues were identified; in particular the overall process of administering contracts. He explained he had met a number of times with NHRS Management and actions are being taken to start to address these issues. The Chair asked if there were any other issues in particular he was concerned about. He felt they were all being addressed and they would all be added to the Open Audit Issues Tracking Report next month.

Mr. Crombie then asked about Service Credit Purchases and whether they had been reviewed. Mr. Browne explained they were out on the Audit Universe. Mr. Crutchfield explained they had been impacted by changes in House Bill 2 in that out of state purchases are no longer permitted. Based on further discussion on control concerns, Mr. Browne said he would collect additional information and prepare a status for discussion at next month's Committee meeting.

There being no further business, the Committee scheduled the next meeting for one-half hour prior to the Board meeting on October 11<sup>th</sup>.

A motion to adjourn was made by Mr. Hickey, and seconded by Mr. Morrissey. The motion carried unanimously.