

NHRS Board of Trustees, Audit Committee  
September 9, 2014

**NOTE:** These minutes from the September 9, 2014 Audit Committee meeting were approved and executed at the October 14, 2014 regular Meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees  
September 9, 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.

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.

Chair Beardmore called the meeting to order at approximately 8:30 AM. Upon a request from the Chair, a motion was made by Mr. Wozmak to accept the minutes of the August 12, 2014 meeting. Ms. Kelliher seconded the motion, and it carried unanimously.

The Chair then asked Mr. Lagos to review with the Committee the status of issues raised as part of the 2010 KPMG technology audit and in particular the Sole Source Contract from Systems Engineering (SE) relating to Network Administration. Mr. Lagos explained that the System had used the information generated by SE's follow up of the 2010 audit to broaden the Information Technology (IT) strategy plan. One of the initial areas identified was to improve network administration services. He noted that a Master Services Agreement has been in place with SE since 2010 and that this Agreement provides the framework for projects or services to be undertaken by SE. He further clarified that the single source contract with SE will help the System address a number of security and administrative issues, and that given the limited number of internal resources we have in IT, having an experienced third party partner is an effective strategy in terms of getting us to a "best practice" level of performance. He noted the IT Working Group had a positive due diligence call last week with the Maine Retirement System who has been using SE since 2008. He expected there would be a number of other proposals to be put before the Committee dealing with switches, the phone system, and imaging, and some of those would definitely require Requests for Proposals. Based on the above, the Chair requested a motion to approve the proposal to enter into a sole source contract with Systems Engineering to perform Network

Administration Services as presented. Mr. Dwyer moved the motion, and it was seconded by Ms. Kelliher, and it carried unanimously.

Next, Mr. Crutchfield updated the Committee on the Surry Village Charter School's (SVCS) withdrawal proposal. Mr. Crutchfield explained that when SVCS submitted its proposed replacement plan, the System had passed it to its consulting actuary, Gabriel Roeder Smith (GRS), for comments. GRS responded that there were a number of additional documents needed in order to complete its analysis. Specifically this included a description of the data used by the SVCS actuary, the actuarial basis used in converting the cash balance, and the individual cash balances used. Mr. Crutchfield explained that when he called this to the school's attention, it responded that they needed more time to answer GRS's questions, and asked that the System not go forward at this time with its withdrawal proposal.

Mr. Browne then reviewed the September 2014 Audit Tracker explaining there were no issues with a scheduled completion date of August, and therefore no issues requiring action. He noted one issue had been added to the tracker relating to the General Ledger Controls audit, and that management continues to take action to address the outstanding issues. Mr. Wozmak then asked for a status as to the Field Audit Plan for the State scheduled to be completed in December. Mr. Browne explained that while this has been delayed as the State resolves contribution reporting issues, the System continues to evaluate staffing, workflow and the audit sample selection process, and plans to have a strategy for this work by the end of the year. Mr. Browne also noted the State will be reviewed as part of the GASB 68 audit over the next two months.

Next Mr. Browne reviewed the status of the GASB 68 Employer Audits. He stated progress had been limited since the last Audit Committee meeting as NHRS staff and KPMG have continued to work out the audit plan under this new arrangement between NHRS internal audit and KPMG. Because of this, there has been a delay in the Retirement System scheduling the visits to the individual employers, as well as coordinating visits with KPMG. Per a question from Mr. Lagos, Mr. Browne explained that there had been a delay in getting the list of employers for testing and that he was awaiting confirmation from KPMG of the audit program detail which is required in order to initiate the performance of employer audits. He noted that he hoped these issues would be finalized shortly. Mr. Wozmak then asked to review the consequences to not completing all these employer audits on a timely basis. Mr. Dianis felt that as the employer audits were just one part of the overall financial audit, obviously steps would be taken to complete the process by deadline. However he did note that there was some potential for an opinion to be issued after the statutory deadline or possibly, a modified opinion, but that was a question best addressed by KPMG. He noted that KPMG is scheduled to attend the October Audit Committee meeting. In summing up the discussion, the Audit Chair expressed his concern with the lack of progress and requested that staff work with KPMG to resolve these outstanding matters as quickly as possible.

Lastly, in response to a question as to whether there was other business for the Committee; Mr. Johansen explained that the Governor had signed a bill during the second half of July, which revises the System's calculation of prior service credit. This change was effective July 1, 2014 and the System is working with GRS to come up with a policy to implement the revision in order to respond to pending calculation

requests. To resolve this issue timely, Management requested that the Audit Committee meet jointly via a conference call with the Governance Committee prior to the October meeting to review the draft new policy with Management, give feedback and ultimately approval, so that a recommendation could be made to the Board at its October meeting. The Audit Chair agreed with this approach, and asked Management to schedule a meeting, providing the necessary background material in advance.

As there being no further business, the Committee scheduled the next meeting for 8:00 AM immediately prior to the Board meeting on October 14, 2014.

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

*Respectfully submitted,*  
*John F. Browne*