

NHRS Board of Trustees, Audit Committee  
September 10, 2019

**NOTE:** These minutes from the September 10, 2019 Audit Committee meeting were approved and executed at the October 8, 2019 regular meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees**

**Public Minutes  
September 10, 2019**

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

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

Staff: George Lagos, *Executive Director*; Mark Cavanaugh, Esq., *Associate Counsel and Compliance Officer*; Nancy Cone, *Internal Auditor*; Timothy Crutchfield, Esq., *Chief Legal Counsel*; Larry Johansen, *Director of Investments*; and Nancy Miller, *Director of Member Services*; Gerard Murphy, *Director of Finance*.

The Chair 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 July 9, 2019 Audit Committee meeting as presented. Trustee Kelliher seconded the motion and it passed unanimously among those present.

Ms. Cone provided an update on Internal Audit activities. She presented the Finance Vendor Payroll Audit Report that had two findings relating to updating policies and procedures, and ensuring that recoupments are properly approved prior to processing in accordance with the Board Recoupment and Hardship Policy. She clarified that recoupments have been processed in accordance with internal procedures that were amended several years ago; however, the Board Policy was not revised accordingly, resulting in non-compliance issues. An audit of the Member Services portion of the Vendor Payroll process was recently completed and revision of that Policy will be addressed with that audit. In response to a question from the Chair, Ms. Cone indicated that there are significantly fewer payees than there are employers, as some do not have any retirees entitled to the medical subsidy, and there can be many employers included in a single payment to a third party administrator, such as HealthTrust.

She then reviewed the Audit Issues Tracker Report. The two issues from the Finance Vendor Payroll Audit were added and are expected to be completed in November, bringing the total issues to four. The other two issues relate to the QDRO process, one of which is scheduled to be completed by December 2019, while the other will be addressed in conjunction with the implementation of PGV3.

A final review of the FY2019 Audit Plan indicates that five planned audits and three internal audit “consulting” items have been completed. Three consulting items are in process and will be carried over to FY2020, as they are long term. A review of the FY2020 Internal Audit Plan indicated that the FY2019 GASB 67 & 74 employer census data audits on behalf of Plante Moran are completed, while the Member Services Vendor Payroll Audit was completed after the report was produced.

Next, Ms. Cone provided an update on the Data Security Remediation project. Eighty-two percent of the high and medium priority items are completed, and sixty-six percent of the low priority items are completed. All thirteen of the medium priority items and fourteen of the twenty high priority items are completed. Of the remaining six high priority items, four are targeted to be completed by December 31, 2019, while two are long term, as they will be addressed in conjunction with the PGM3 conversion. Of the original thirty-five low priority items, twenty-three are completed and twelve remain outstanding, with five targeted to be completed in greater than ninety days and two requiring further discussion.

*Trustee Friese entered the meeting at 9:10 a.m.*

Ms. Cone then discussed the status of Plante Moran’s recommendations to strengthen internal controls or increase operating efficiencies. Of the original sixteen suggestions, fifteen are completed and the remaining item, relating to the administration of insurance premium deductions and medical subsidy benefits that NHRS administers on behalf of certain employers, was discussed with Plante Moran. NHRS is developing a response to clarify its approach.

Mr. Murphy then provided an update on the status of the FY2019 external audit. He discussed Plante Moran’s activities during their pre-audit site visit in July for interim test work and indicated that it went very well. Finance continues to provide them information via a secure file transfer protocol and is moving closer to closing the books for FY2019. Plante Moran will be back on-site in October for approximately three weeks to perform their final audit testing. Mr. Murphy indicated that the audit process is moving along well and on track. The Chair indicated that the audit process went very well last year, considering that was the first year with Plante Moran, and that there now is a very solid foundation to build upon.

Mr. Murphy then discussed the possible modification of the allocation methodology for NHRS administration expenses between the Pension and OPEB Plans. Historically, these administrative expenses have been allocated in the CAFR based on the relative fund balances. In 2014, a reasonableness test was performed by analyzing salary and benefit costs for the insurance technician positions along with an estimate of other staff time spent on the OPEB Plans and comparing that amount with the allocation calculated under the fund balance method. This test indicated that the fund balance allocation method had generated a reasonable allocation of expense, on average, over a long period of time. However, a more recent reasonableness assessment indicates that this method may now be under-allocating expense to the OPEB plan due to the diminishing balance of that Plan and the increasing balance in the pension trust. Mr. Murphy indicated that staff is working with Plante Moran to evaluate whether there is a more reasonable method of allocating NHRS administrative expense to the OPEB Plan and will report to the Committee once a determination has been made.

*Trustee Coates entered the meeting at 9:20 a.m.*

Following Segal's recent actuarial audit of GRS, Mr. Murphy provided an update on two of their recommendations relating to the NRHS Actuarial Funding Policy. One recommendation related to the revision of RSA 100-A:16, II(e), allowing for a 20-year amortization of changes in the unfunded liability after June 30, 2017. This change was previously addressed by the Board at its September 2018 meeting by adoption of that amendment to the Policy. The other recommendation relates to having language in the Policy explicitly stating the "actuary shall meet the Qualification Standards of the American Academy of Actuaries". An amendment to the Policy reflecting this change are to be presented to the Audit Committee and Governance Committee today at their respective meetings and will then be presented to the Board at a subsequent meeting for adoption.

Upon request from the Chair, a motion was made by Trustee Lesko to recommend to the full Board that it accept the Actuarial Funding Policy as amended. Trustee Kelliher seconded the motion and it carried unanimously.

Mr. Murphy then reviewed the Actuarial Calendar that he had prepared for FY2019 and FY2020. His memo presents the framework for actuarial consulting services required by NHRS over the next two years, through June 2021, taking into consideration the impending December 31, 2020 expiration of the GRS contract. Staff is proposing the issuance of an RFP for Actuarial Consulting Services in the spring of 2020, for a contract effective January 1, 2021, and negotiating a limited extension of the existing GRS contract to perform any necessary legislation-related actuarial analysis for the 2021 legislative session. The Chair noted his appreciation for the forethought to ensure that required actuarial services are maintained during the potential transition to a new actuary. The Committee did not have any other comments.

The Chair presented the annual review of the Audit Committee Charter and the Audit Committee Policy. The Committee did not propose any revisions.

Mr. Murphy informed the Committee that the Trustees will be provided this morning with the draft RFP for Commercial Banking Services and monthly annuity payroll processing, as the current contract is expiring December 31, 2019. The RFP will be formally reviewed by the Governance Committee at its meeting today and is expected to be voted on by the full Board at the October 8, 2019 meeting. He asked the Committee to contact him if they have any questions.

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 Committee.

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

*Respectfully submitted,*

*Nancy B. Cone*