

NHRS Board of Trustees, Audit Committee
January 8, 2019

NOTE: These minutes from the January 8, 2019 Audit Committee meeting were approved and executed at the February 12, 2019 regular meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

**Public Minutes
January 8, 2019**

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

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

Staff: George Lagos, *Executive Director*; Frank Clough, *Director of IT*; Nancy Cone, *Internal Auditor*; Heather Fritzky, *Controller/Assistant Director of Finance*; Larry Johansen, *Director of Investments*; and Gerard Murphy, *Director of Finance*.

Also attending: Jack Dianis, *Finance Consultant*.

Chair Dwyer called the meeting to order at 9:47 a.m. Upon a request from the Chair, a motion was made by Trustee Lesko to accept the public and non-public minutes of the December 11, 2018 Audit Committee meeting as presented. Trustee Kelliher seconded the motion and it carried unanimously.

Ms. Cone provided an update of the Audit Issues Tracking Report that includes the same four items as last month. Three are targeted to be completed within 90 days and the target completion date for automating the QDRO process has been extended due to calculation discrepancies in Pension Gold. Trustee Dwyer recommended a slight formatting change to the report that will be implemented next month.

Ms. Cone then discussed the FY2019 Audit Plan. The fieldwork for the IT Employee Hire/Separation Procedures Audit is completed and the report is in process. Preliminary work has started on the PensionGold User Access Rights Audit. A new audit was added to administer resolution of the opportunities for improvement recommended by Plante Moran following conclusion of the FY2018 CAFR audit.

As McLane Middleton and Charles River Associates issued the Information Security Risk Reassessment Report a year ago, Ms. Cone prepared an itemized memo summarizing the progress that has been made in addressing the various recommendations. Sixty-one percent of the items have been completed, an increase from fifty-five percent as reported at the December Audit Committee meeting. Of the original twenty high priority items, eight are completed, ten are scheduled to be completed within the next ninety days, and the two remaining items will be long term,

as they will be addressed with the PGV3 upgrade. Of the original thirteen medium priority items, twelve are completed and the remaining one is scheduled to be completed within the next thirty days. The Committee appreciated the more in-depth information in addition to the usual monthly statistics report and is pleased with the progress which has been made.

Ms. Cone then discussed that although there were no significant findings during the course of the FY2018 audit, Plante Moran had provided suggestions to strengthen internal controls or increase operating efficiencies. Of the original sixteen suggestions, five were completed prior to conclusion of the audit, three have since been completed, three are in process, and five require further discussion. Ms. Fritzky indicated that staff worked collaboratively with Plante Moran to resolve the five items that were completed or implemented prior to the conclusion of the audit. There was discussion among Audit Committee members with regard to several of the suggestions, including password protocols, benefit set-up wizards and alternative investments. Trustee Kelliher noted that Plante Moran's audit was very thorough.

Chair Dwyer then introduced Gerard Murphy the new Director of Finance, to the Committee.

Mr. Dianis noted that Plante Moran has finalized the FY 2018 GASB 68 and 75 reports and they have provided unmodified opinions on both reports. NHRS employers utilize these reports in order to account for their proportionate shares of the net pension liability (GASB 68) and other post-employment benefits (GASB 75). Mr. Dianis then provided an overview of the schedules and what information the employers need for their financial statements. Ms. Fritzky then explained how the allocation amounts are derived. Although the reports and opinion are labeled "draft", Plante Moran has assured NHRS that these are the final documents and will provide clean reports shortly.

Upon request from the Chair, a motion was made by Trustee Kelliher to recommend to the full Board that it accept the June 30, 2018 GASB 68 & 75 Reports, as presented, subject to receipt of an unmodified opinion letter from Plante Moran. Trustee Lesko seconded the motion and it carried unanimously.

Mr. Dianis then provided an overview of the RFP process to contract with a vendor to perform a full scope actuarial audit of the June 30, 2017 actuarial valuation performed by GRS, the consulting actuary for NHRS. Three firms responded and two were interviewed onsite by an ad hoc panel of NHRS staff. The panel unanimously recommended that the Audit Committee recommend to the full Board that it select Segal Consulting subject to completion of satisfactory due diligence and fee negotiations. Mr. Lagos added that reference checks were positive (with at least one of the references also using GRS as its actuary) and fee negotiations resulted in lower fees than Segal proposed in its RFP. This actuarial audit is a best practice that has not been previously performed at NHRS. GRSs' contract is due to expire in 2020 and an RFP for actuarial services will be issued at that time.

Upon request from the Chair, a motion was made by Trustee Lesko to recommend that the Audit Committee recommend to the full Board that it select Segal Consulting to perform a full scope actuarial audit of the June 30, 2017 valuation performed by GRS,

subject to due diligence and successful contract negotiations. Trustee Kelliher seconded the motion and it carried unanimously.

Mr. Lagos provided an explanation of the Data Security Policy that will be presented to the full Board for adoption, noting that any questions or proposed changes to the policy draft be directed to Attorney Crutchfield. McLane Middleton and Charles River Associates recommended this policy subsequent to the data security incident.

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, February 12, 2019, before the regular Board meeting.

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

Respectfully submitted,

Nancy B. Cone