

NHRS Board of Trustees, Audit Committee
February 10, 2015

NOTE: These minutes from the February 10, 2015 Audit Committee meeting were approved and executed at the March 10, 2015 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
February 10, 2015**

The Public Minutes

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Germano Martins. Maureen Kelliher, 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 was Dave Gagnon, KPMG Engagement Partner.

Chair Beardmore called the meeting to order at approximately 8:20 AM. Upon a request from the Chair, a motion was made by Mr. Martins to accept the minutes of the Audit Committee meeting of January 13, 2015. Mr. Dwyer seconded the motion, and it carried unanimously.

The Chair asked Mr. Gagnon to present KPMG's proposal for fiscal year (FY) 2015 Audit Services. Mr. Gagnon started the discussion by reviewing the staffing for the audit this year, noting the only change would be a new audit manager, who has both pension and investment experience. Next he reviewed KPMG's audit objectives for 2015. In addition to the regular financial audit, KPMG will audit and issue a separate report in accordance with the Government Accounting Standard Board (GASB) Statement 68 requirements.

The Chair asked Mr. Gagnon to expand on the incremental audit effort that would be required by KPMG in testing employer contributions. Mr. Gagnon explained that KPMG has always looked at employer contributions in the context of a \$7 billion system resulting in a high materiality threshold. But now for GASB 68 reporting, KPMG must perform this testing from the perspective of the smallest employers and a resulting reduced materiality threshold. This will result in the need for KPMG to do additional testing of employer contributions. He stated they were planning to include NHRS Internal Audit in this effort as a way to reduce the KPMG fee. At the request of the Chair, Mr. Gagnon then reviewed the proposed audit fees for FY 2015, noting

specifically the fee range for the GASB 68 report. He noted that after the effort this first year, he would expect testing and fees to decrease similarly to what occurred this year with the GASB 67 census data testing and related fees.

Next Mr. Gagnon stated that there would be two audit reports issued for GASB 68 reporting. The first GASB 68 report will be for participating employers with June 30 fiscal year end dates and will use a measurement date of June 30, 2014. This will enable the required audit work to be concluded and the ability to issue the report later this spring or early summer. The second GASB 68 report will be for employers with December 31st fiscal year end dates and will use a measurement date of June 30, 2015 with a proposed issue date expected for December or January.

Following the discussion, the Chair entertained a motion, pursuant to the authority vested with the Audit Committee under RSA 100-A:15, to authorize staff to enter into an agreement with KPMG for FY 2015 subject to the satisfactory conclusion of contract terms as outlined in the KPMG proposal dated February 10th, 2015. Mr. Dwyer moved the motion, Mr. Martins seconded it, and it carried unanimously.

Mr. Johansen then gave a brief update on the Surry Village Charter School's (SVCS) request to withdraw from NHRS. He explained the System expected to receive a response from GRS on their review and evaluation of the withdrawal calculations shortly. Management will then prepare a summary memo, have it reviewed by outside counsel, and is expected to present the staff recommendation to the Audit Committee at the next meeting so that the Audit Committee can act upon it and present its recommendation to the Board at the March meeting.

Next, Mr. Browne briefly reviewed the current Audit Tracker, noting there were just three audit issues outstanding, none of which required action at that time. He also noted that during the course of the 2014 calendar year, management had completed eighteen of the twenty-one audit issues outstanding, which he felt evidenced management's commitment to address internal controls.

Mr. Browne then reviewed the Audit Report on Payroll/Personnel Administration he had just completed. He explained that he had tested employee data on the payroll master file, assessed the procedures for processing the bi-weekly payroll, and evaluated that access to payroll data is properly restricted. He also discussed changes in personnel administration over the past eighteen months, the reintroduction of employee evaluations, the completion of Employee Handbook that employees are required to acknowledge reading, and the automating of employee time reporting that he felt bolstered controls. Based on this testing he felt controls were effective. He noted the one issue that was identified, the strengthening of documentation, will be added to the audit tracker.

Lastly, as part of other business, Executive Director Lagos updated the Committee on the status of purchasing a new phone system. He explained that some consideration was given to the acquisition of a CISCO phone system utilizing a single source approach in lieu of issuing an RFP. However, with an expected system cost of approximately \$80,000, and the fact that CISCO Systems are marketed by numerous authorized vendors, the conclusion reached was that utilizing a Request For Proposal (RFP) was appropriate and in accordance with Board policy. NHRS is in the process of

preparing an RFP to be issued shortly. Mr. Lagos said the initial target date for implementing the new system would be June 30, 2015.

As there being no further business, the Committee scheduled the next meeting for prior to the Board meeting on Tuesday, March 10, 2015.

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

Respectfully submitted,
John F. Browne