

NHRS Board of Trustees, Audit Committee
December 8, 2015

NOTE: These minutes from the December 8, 2015 Audit Committee meeting were approved and executed at the January 12, 2016 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees**

December 8, 2015

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Maureen Kelliher; Germano Martins; and David McCrillis.

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; Nina Calkins, Process Improvement Manager;; Heather Fritzky, Controller; John Browne, Internal Auditor; Nancy Cone, Internal Auditor.

Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Lana Friedman, KPMG Audit Manager.

Chair Beardmore called the meeting to order at approximately 8:00 AM. Upon a request from the Chair, a motion was made by Ms. Kelliher to accept the minutes of the Audit Committee meeting of November 10, 2015. Mr. McCrillis seconded the motion, and it carried unanimously.

The Chair then asked Mr. Gagnon to update the Committee on the status of KPMG's fiscal year (FY) 2015 audit. Mr. Gagnon referred the Committee to the KPMG June 30, 2015 Audit Results Presentation, which outlined the responsibilities of the parties in the audit, the audit status, areas covered in the audit, and emerging issues to be addressed in future years. He specifically noted KPMG would be giving two opinions today. One of the opinions would be on the financial statements and supporting documents, and the second opinion on internal control compliance with laws and regulations. He said both opinions would be unmodified, which means there were no management issues, internal control issues or significant deficiencies. Mr. Gagnon then asked Ms. Friedman to go over some of the areas of emphasis of their review. She explained that with the help of NHRS Internal Audit they performed Government Accounting Standards Board (GASB) 67 testing of a sample of System Employers to ensure census data was complete and accurate. She then discussed testing performed over investments, including the existence and pricing of marketable securities, and

valuation procedures for alternative and real estate investments. Per a question from Ms. Kelliher as to how KPMG determines a percentage of sample items to be tested, Ms. Friedman explained that for equity and fixed income testing they utilize KPMG's statistical sampling methodology which resulted in approximately 25% of the holdings reviewed. For private equity and real estate, specific items are selected based on criteria such as purchases during the year and high dollar amount.

Mr. Gagnon then highlighted some items that are new since the FY end June 30, 2014. Specifically that GASB 68 reporting for the FY 2015, will be completed in January 2016 which will be the annual audit cycle going forward. He also discussed GASB 72, Fair Value Measurement and Application for investments that would be implemented in FY 2016 and GASB 74 and 75, Financial Reporting for Postemployment Benefit Plans for Pension Plans and Employers, which will be implemented in FY 2017 and 2018. Mr. McCrillis then asked a question about what type of risks KPMG observed at other pension system clients. Mr. Gagnon mentioned investment exposure, which is mitigated with the System's Fund Managers and potential errors with census data provided by employers, which is now mitigated with the work of the System's Compliance Auditors.

Based on the above discussion, Chair Beardmore thanked and congratulated Mr. Dianis, Ms. Fritzky and the Finance staff on the timely completion of the Comprehensive Annual Financial Report with all the GASB revisions that had been required. He also thanked Mr. Gagnon and KPMG staff for their assistance in working through this process. Mr. McCrillis then made a motion to approve and accept the Comprehensive Annual Financial Report for fiscal year 2015 and the unmodified auditor's opinion per RSA 100-A:15, VI(a), and to recommend to the full Board its acceptance and release of the audited report. The motion was seconded by Ms. Kelliher, and was unanimously approved.

Mr. Dianis then provided an update on the contracts for external audit services. The contracts had been awarded to KPMG, one for the GASB 68 work presently in process for June 2015 (report to be issued in January 2016), and the other for the regular FY 2016 and 2017 financial audit work, with annual options to renew. Mr. Dianis did note that in FY 2017 there would be additional fees over and above those included in these contracts for the work related to GASB 74, Financial Reporting for Postemployment Benefit Plans.

The next item on the agenda was a review of the Annual Ethics Survey for FY 2015. Attorney Crutchfield presented the Report Card explaining there had been a one hundred percent response from all active employees, Independent Investment Committee members, trustees and former trustees and that staff would be following up on any surveys outstanding. He noted there were no survey responses that would necessitate further review by the Committee. There being no further discussion, Mr. Dwyer made a motion to recommend the Code of Ethics Report Card to the full Board for approval. Ms. Kelliher seconded the motion, and it carried unanimously.

Prior to Mr. Browne reporting on the status of Internal Audit, Mr. Beardmore welcomed the new Internal Auditor, Nancy Cone, to NHRS, and stated the Committee looked forward to working with her. Mr. Browne then reviewed the December 2015 Audit Tracker. He noted one issue, the Judicial Retirement Plan (JRP) contribution

processing, had been rescheduled pending discussing with the JRP. Mr. Browne noted that he felt management continues to adequately address audit issues, and that this was reflected in there presently being only four issues outstanding as opposed to nineteen issues in December 2012.

Mr. Browne then reviewed the status of Internal Audit activity. He observed that the GASB 67 Employer Census Audit work has been completed and he noted how professional the Compliance Auditors were in completing this work. He also mentioned the Member Annual Statement Audit was in process. Mr. Browne then discussed that as part of the transition within the Internal Audit Unit, he and Ms. Cone will be reviewing the audit universe shortly in preparation for the FY 2017 Audit Plan.

As Mr. Browne is retiring and this is his last Audit Committee Meeting, he discussed a perspective on Internal Audit and the positive changes within NHRS over his tenure during the last seven years. The Audit Committee thanked Mr. Browne for all of his work at NHRS and referenced the effective audit process which he had put into place... Mr. Lagos indicated that Mr. Browne was the eyes and ears of the organization and was very helpful assisting him when he started four years ago. In closing, Chair Beardmore expressed his appreciation for Mr. Browne's contributions to the System and wished him well during his retirement.

As there being no further business, the Committee tentatively scheduled the next meeting for 8:30 AM immediately prior to the Board meeting on Tuesday, January 12, 2016.

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

Respectfully submitted,

*John F. Browne
Nancy B. Cone*