

NHRS Board of Trustees, Audit Committee
October 13, 2015

NOTE: These minutes from the October 13, 2015 Audit Committee meeting were approved and executed at the November 10, 2015 regular Meeting of the NHRS Audit Committee.

**Audit Committee
Board of Trustees
October 13, 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; Mark Cavanaugh, Esq., Associate Counsel and Compliance Officer; Heather Fritzky, Controller; and John Browne, Internal Auditor. Also in attendance was Dave Gagnon, KPMG Engagement Partner, and Lana Friedman, KPMG Audit Manager

Chair Beardmore called the meeting to order at 9:30 AM. Upon a request from the Chair, a motion was made by Mr. McCrillis to accept the minutes of the Audit Committee meeting of September 8, 2015. Mr. Martins seconded the motion, and it carried unanimously.

The Chair then asked Mr. Gagnon and Ms. Friedman to provide an update on the status of KPMG's fiscal year 2015 audit. Mr. Gagnon started by explaining that 2015 fieldwork was underway. He said KPMG breaks the work into two segments, one segment being evaluating the financial statements, which feed the Comprehensive Annual Financial Report (CAFR). Presently he said the focus of this work has been reviewing the employer audits performed by Internal Audit and the Compliance auditors which test the census data at the employers. He stated that currently, no major exceptions have been identified. He also noted KPMG performs the testing of the State census data. The second segment of their audit work is the testing of investments, which Ms. Friedman discussed. Ms. Friedman explained that they have received confirmations back from approximately fifty per cent of the alternative investments tested, and she was now performing further audit tests such as benchmarking and net asset value (NAV) back-testing. In response to a question from Mr. McCrillis, Mr. Gagnon explained that they perform their own due diligence of the alternative investments and review the audited financial statements of the investment as well as investor statements. Ms. Friedman then noted they are also price testing

marketable securities and they were awaiting the confirmation and the service auditor's report from the System's custodian, Bank of New York Mellon. Mr. Gagnon noted that once they finish with this phase of the audit the focus of their work will become the CAFR, which they will work on in November.

The last portion of their work Mr. Gagnon said would be on be on the Government Accounting Standard Board (GASB) Statement 68 - Accounting and Financial Reporting for employer data for fiscal year 2015. Mr. Gagnon spoke about the need to reduce the materiality threshold of their testing of the employer liability and pension expenses since a number of employers will only have balances of a few hundred dollars. He felt however this testing should go smoothly since this will be their second year in performing this work.

Mr. Dianis then provided the Committee with an update on the status of the Request for Proposals (RFP) for future audit services. He noted the RFP deadline was October 6, 2015, and that NHRS staff was presently evaluating the documentation. He said proposal follow up would be scheduled for October, with the aim to obtain Audit Committee and Board approval at the November meetings so that a contract could be awarded by December 31, 2015. In response to a question from Mr. Dwyer regarding whether there were additional charges in addition to external audit fees for a review of investments for GASB 74 and 75 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Mr. Dianis confirmed that in addition to audit fees, there would be actuarial fees and census work performed by the NHRS Internal Auditor.

Next the Audit Committee briefly discussed the Audit Committee Charter and agreed that no changes were necessary or warranted at this time.

Mr. Browne then provided an update on the Open Audit Issues Tracking System. He stated there were three issues outstanding from the prior month, two of which had September completion dates. He explained Issue 75, Judicial Retirement Plan Contribution Processing, was postponed as the System continues to work with the State in automating the recording of these transactions, possibly through web entry. The second issue, #94, that Mr. Browne said was postponed relates to the Compliance Audit of the State. He said Mr. Cavanaugh and Ms. McCrea, who had provided an update to the Committee last month, continue to collect documentation and are planning to start the audit the beginning of the New Year.

Mr. Browne then reviewed internal audit activity for the past month. He noted that as mentioned by KPMG, all thirty two GASB 67 census audits had been completed and he was working with KPMG on review notes and questions. He then reviewed his work so far on the Member Retirement Processing audit, the first audit of FY 2016. He said he had reviewed controls over the process and had tested about half of the thirty retirees from the twelve months he planned on testing. He said no exceptions had been identified. He briefly reviewed the retirement process for the Committee noting there were a number of checks and balances in the process of taking the application, collecting the documentation, and calculating the retirement benefit. He specifically noted there were two experienced members of the benefits staff, who actually take the whole retirement application file and review it to ensure that all the proper documents have been collected and processed. He noted that this was done not once but twice

during what is called the certification process before the preliminary and final retirement payment.

As part of Other Business, Mr. Crutchfield explained that as a result of the latest revisions to the Employer Withdrawal Policy that were approved by the Board in June 2015, staff began drafting an administrative rule to essentially mirror the Policy. He said staff again sought input from Gabriel Roeder Smith and Company (GRS), the System actuary, and in reviewing their additional suggestions for the rule recognized that those suggestions should also be included in the Policy. He explained that what the Committee had before them was the updated Employer Withdrawal Policy and the proposed administrative rule for their review and approval. He noted these documents were also going to be presented to the Governance Committee for action. The Chair noted that since there were just two minor changes to the Employer Withdrawal Policy: clarifying the unfunded percentage rate and the date of the withdrawal, he made a motion to approve the revised policy. It was seconded by Mr. McCrillis, and it carried unanimously. It was decided to take action on the administrative rule at the next meeting.

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

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

Respectfully submitted,
John F. Browne