

NHRS Board of Trustees, Audit Committee
June 12, 2012

NOTE: These minutes from the June 12, 2012, Audit Committee meeting were approved and executed at the August 14, 2012 regular Meeting of the NHRS Audit Committee.

**Audit Committee Meeting
Board of Trustees
June 12, 2012**

The Public Minutes

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

Committee Members: Catherine Provencher, Chair; Dean Crombie; Brian Morrissey; Jack Wozmak.

Staff: George Lagos, Executive Director; Timothy Crutchfield, Esq., Chief Legal Counsel; Jack Dianis, Director of Finance; Larry Johansen, Director of Investments; Nancy Miller, Director of Member Services; Paul Zahensky, Director of Information Technology; Heather Fritzky, Accounting and Financial Reporting Supervisor; John Browne, Internal Auditor.

Upon a request from the Chair, a motion was made by Mr. Crombie to accept the minutes of the May 8, 2012 meeting. Mr. Morrissey seconded the motion, and it carried unanimously.

Mr. Browne then gave an update on the NHRS Audit Issues Tracker for June. He noted all issues were current and he had added the two issues from the Retiree Death Benefits Audit Report. Per a question from the Chair on the status of the Business Continuity Plan, Mr. Zahensky explained that this would be addressed as part of the Information Technology Policies and Procedures issue with a completion date scheduled for September 30, 2012. Mr. Lagos added that to address the development of policies and procedures within NHRS, software had been purchased and a temporary resource had been brought in to manage the project. The Committee briefly discussed keeping just the current comments in the status column of the Audit Tracker, but it was decided having a history of the comments was important.

Next Mr. Browne updated the Committee on the audit of Qualified Domestic Relations Orders (QDRO) that he had just completed. He explained that a Domestic Relations Order (DRO) is a court order primarily done to establish the former spouse's legal right to receive a designated percentage of a member's benefit at retirement. Under federal law, only the pension plan can determine whether a DRO is 'qualified' as a QDRO in assigning a member's benefit interest. Mr. Browne explained that there were really two separate objectives to the audit. One was that the DRO was properly qualified, and second was that there were procedures to ensure the benefits would be properly paid as payment may not occur until many years after the QDRO was established.

Mr. Browne said that he did not identify any improper processing or payments related to QDRO's, however the controls in place as outlined in the report are inadequate for the work being performed. This work has developed into a one-person operation with the QDRO Specialist performing most tasks for QDRO's at NHRS without a secondary review. Specifically he noted controls needed to be strengthened to provide for a separation of duties within the process, both in qualifying the DRO, and later certifying and verifying the QDRO benefit calculation.

Mr. Browne also discussed the need to strengthen the imaging procedures not only for QDRO's, but across the Member Services area. He explained that when the imaging conversion was completed within NHRS in 2009, procedures and naming conventions were never properly established to for the long term. For example, presently a single member's file on PensionGold can contain hundred pages of emails, draft QDRO's, the final QDRO, a divorce decree, etc., all identified with the same name, Qualified Domestic Relations Order. Mr. Browne then ran through the remaining issues relating to the delegation of duties, release of member information, QDRO procedures, and cost of living adjustments. He summarized by saying he had met with members of the Executive Team and they had established deadlines to address these issues, and that the issues would be on the audit tracker next month.

Mr. Browne then briefly went over the next audit he is performing: a review of active member death benefits. He observed in performing preliminary work, that as opposed to QDRO processing, benefit processing provides for a separation of duties and payments are reviewed by second set of eyes before disbursement. He also noted this was part of the 2012 audit plan and he expected to complete the audit in July.

Next, Mr. Browne reviewed the status of the 2012 audit plan that had been approved by the Committee last September. He explained he had completed the first four of seven scheduled audits and was working on the fifth. Of the two remaining audits, he suggested that the Data Privacy Audit be postponed. He said that while the System has a privacy policy available on the web, NHRS has not yet established the organizational structure to administer the privacy exposure. He said that as part of the development of new policies and procedures by the Executive Team this would be addressed. The Chair agreed to this plan, however reaffirming that this was a critical area of exposure within the organization needing to be addressed and constantly monitored. Lastly, per a question from the Chair on an Audit Plan for 2013, Mr. Browne said he was already working with the Executive Director on a draft and was planning on having it for the August Committee meeting. Following up on a question from Mr. Wozmak, he said the package would also include the universe from which they were chosen.

Mr. Dianis then gave a brief status of GASB Statement No. 27, "Accounting and Financial Reporting for Pensions." He said he expected a final pronouncement from GASB in the next week or two, and was hoping to provide a full presentation to the Committee and the Board at the July meeting.

There being no further business, the Committee scheduled the next meeting to be prior to the Board meeting at 8:30 a.m., July 10th.

A motion to adjourn was made by Mr. Morrissey, seconded by Mr. Crombie, and it carried unanimously.