

NHRS Board of Trustees, Audit Committee  
May 13, 2014

**NOTE:** These minutes from the May 13, 2014 Audit Committee meeting were approved and executed at the June 10, 2014 regular Meeting of the NHRS Audit Committee.

**Audit Committee  
Board of Trustees  
May 13, 2014**

**The Public Minutes**

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

Committee Members: John Beardmore, Chair; Bill Dwyer; Germano Martins; 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; Marty Karlon, Public Information Officer; Heather Fritzky, Controller; and John Browne, Internal Auditor. Also in attendance were Dave Gagnon, KPMG Engagement Partner, and Brian Shaughnessy, KPMG Audit Senior Manager.

Chair Beardmore called the meeting to order at approximately 8:00 AM. Upon a request from the Chair, a motion was made by Mr. Dwyer to accept the minutes of the April 8, 2014 meeting. Mr. Martins seconded the motion, and it carried unanimously.

The Chair then asked Mr. Gagnon and Mr. Shaughnessy to present the 2014 KPMG Audit Plan. Mr. Gagnon started by referring the Committee to the handout provided and explained that as this year's plan is very similar to prior years, he would focus his presentation on the new accounting standards to be implemented for this year, and how they would impact NHRS. Mr. Gagnon then went over KPMG's audit objectives for NHRS, specifically noting the most important objective that is to issue an audit opinion on the System's financial statements, which are included in the CAFR.

Mr. Shaughnessy next walked the Committee through the KPMG audit methodology and their process of planning, control evaluation, and substantive testing, all resulting in the issuance of an audit opinion. He noted they are presently in the planning phase, which includes performing a risk assessment and identifying critical accounting changes, which then helps them determine their audit approach. Next, Mr. Shaughnessy discussed the control evaluation process where they assess the operating effectiveness of selective controls to help them plan their substantive testing. He noted substantive testing would then be performed in September, and completion work performed in November so as to come up with an overall evaluation of the financial statements and the audit opinion for the CAFR.

Mr. Gagnon then spoke to the new accounting standards from the Government Accounting Standards Board (GASB) that will be impacting the KPMG audit this year.

Specifically GASB 67 impacts how the System will measure and disclose the unfunded pension liability for Fiscal Year 2014. GASB 68 will require KPMG to expand their review of the controls the System has in place over the accuracy and completeness of employer census data. That is the employer data records containing the member's age, salary, contributions, plan group, etc. Mr. Gagnon explained that the validity of this data, the System's controls over it, and the actual testing of the census data, are critical to the audit and to the actuary in calculating/projecting a liability. Mr. Gagnon then explained that this data is also important to the employers since they will now be receiving an allocation of the plan's liability and costs per the new standards. Mr. Gagnon noted KPMG will be issuing a separate audit report on this data, separate from the financial report. This year the employer is not required to accrue this pension cost, but they are required to disclose it. Next year they will be required to record the liability per the new standards.

Mr. Gagnon then discussed how they have been working with NHRS management over the past month on an approach they might use to understand the controls performed by the System in recording this census data. Next KPMG will then test the actual data by either performing site visits at employers and/or reviewing the employer audit work of NHRS staff. Mr. Gagnon trying to give a sense of the scale of work noted there are approximately five hundred employers, and that some of the larger employers may have to be reviewed every year, i.e. the State, while other employers will be visited every five or ten years, per the guidance provided by the AICPA. Mr. Lagos then asked Mr. Gagnon to speak to the timing issues related to this work, as there are staffing and scheduling issues that the System will need to address. Mr. Gagnon noted NHRS was probably further along than other Systems, and he felt the System should try to have a plan to confirm that controls are in place at NHRS by the end of the fiscal year, and then test the controls both at NHRS and at selected employers in the following months. He said this would then allow KPMG to come in September, and evaluate the controls and review the execution of the plan. Mr. Gagnon and Mr. Shaughnessy left the meeting at this time.

Mr. Browne then reviewed the May Audit Tracker noting there were four issues with a scheduled completion date of April and three of which have been completed, and that one had been postponed. The completed items related to project plans to address inactive member processing and vested deferred processing. The one postponed issue related to a field audit plan for reviewing contributions received from the State, and has been delayed due to the ongoing problems with the reconciliation of state payroll reporting and contributions. Mr. Browne also noted four new issues were added to the Audit Tracker. Per a question from the Chair relating to the manual notification of members of a pension benefit when they become inactive after their sixtieth birthday, Mr. Lagos noted that this was a good example of a manual process which ought to be automated, and is being addressed as one of the enhancements to PensionGold.

Next the Committee discussed a status prepared by the Director of Information Technology, Frank Clough, on work performed at the System to address a 2010 letter from KPMG identifying Information Technology control concerns. The status identified issues that had been completed, those where there was a difference of opinion on remedial action, and those which needed further action. The Committee also reviewed a proposal prepared by Mr. Lagos to have an outside third party come in and review and ratify the current status of the issues in the KPMG audit, as well as review

database maintenance plans and network security. Based on discussion, Mr. Wozmak made a motion to approve the proposal to enter into a sole source contract with System's Engineering to conduct a review and issue a report regarding the status of IT issues raised in the 2010 KPMG audit. Mr. Martins seconded the motion, and it carried unanimously.

Mr. Browne then briefly reviewed the status of Internal Audits. He stated he continued to work on the Investment Operations Audit, and had a number of meetings with the Investment and Finance teams. No major issues had been identified. In addition he noted he had spent time putting the material together for the draft audit universe, and audit plan, and will be meeting with the executive team shortly to discuss them. Lastly he mentioned he had spent a couple of weeks testing the additional summary work performed on the medical subsidy by the Employer Services unit within NHRS.

Lastly Mr. Johansen reviewed an informational item, the Employer Withdrawal Policy that was included in the audit committee package. He explained this information was provided to just give background to an issue that had been identified in this policy with regard to an employer inquiry about withdrawal from the System. Mr. Johansen noted that a proposal to revise the policy would be forthcoming, and that it may also be beneficial to review the underlying statutory provision as well. Mr. Browne also noted that a current Delegations of Authority inventory was also included for Committee Members information.

As there being no further business, the Committee scheduled the next meeting for 8:30 AM immediately prior to the Board meeting on June 8, 2014.

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

*Respectfully submitted,  
John F. Browne*