

LBA Financial Audit Report Summary:

New Hampshire Retirement System Management Letter For the Year Ended June 30, 1998

The New Hampshire Retirement System (NHRS) was established in 1967 to consolidate and replace four existing public employee retirement systems: the New Hampshire Teachers' Retirement System, the New Hampshire State Employees' Retirement System, the New Hampshire Policemen's Retirement System and the New Hampshire Permanent Firemen's Retirement System. The NHRS is the administrator of a cost-sharing multiple-employer contributory pension plan and trust that covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities and school districts are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The NHRS also administers a postretirement medical plan for certain police officer and firefighter members of the pension plan. At June 30, 1998, there were 448 employers participating in the NHRS and 43,894 active members. There were also approximately 14,324 retirees and beneficiaries receiving benefits at June 30, 1998.

We audited the combined statements of plan net assets - pension and postretirement medical plans of the New Hampshire Retirement System as of June 30, 1998, and the related combined statements of changes in plan net assets - pension and postretirement medical plans for the year then ended, and issued our report thereon dated November 16, 1998, which was qualified because insufficient audit evidence exists to support the NHRS' disclosures with respect to the year 2000 issue.

This management letter, a product of the audit of the NHRS for the year ended June 30, 1998, contained an auditor's report on compliance and on internal control over financial reporting with three internal control reportable conditions and two state compliance findings and an auditor's report on management issues with three comments.

The reportable internal control comments included recommendations that the NHRS:

- Management become more involved in the controls over the local custodial cash account, including establishing procedures to ensure that account reconciliations and associated procedures are completed timely.
- Revise its accounting policies to include coverage of the recording and reporting of incentive fees paid to its investment managers and transaction fees paid to its real estate managers upon the purchase and sale of real estate investment properties.
- Request and adequately review sufficient documentation supporting all significant financial transactions reported by its investment managers and recorded in the NHRS general ledger.

The state compliance comments included recommendations that the NHRS:

- Revise its code of ethics (N.H. Admin. Rule Ret 102.04(h)) to comply with RSA 640:5 and that trustees and staff subject to the provisions of RSA 640:5 immediately refrain from accepting gifts contrary to the statute.
- Take immediate action to comply with RSA 100-A:52, I,(e) and reimburse the Department of Safety for the NHRS share of the medical and surgical premiums owed in accordance with statute.

The management issues comments included recommendations that the NHRS:

- Increase its oversight over the contract for its new automated information system to ensure that the project is completed timely to avoid year 2000 impact on its information systems. Specific recommendations included:
 - Periodically consult with its legal counsel to ensure that the NHRS' position is adequately supported and documented in the event that the NHRS determines it necessary to cancel the contract.
 - Require the contractor to provide updated planning documents to ensure that the NHRS and the contractor understand the current status and schedule for completion of the project.
 - Submit regular reports on the status of the project to the Board of Trustees.
 - Understand and document the details of its contingency plans to be implemented in the event the new system is not available in time to avoid year 2000 impact on its information systems.
 - Administer the contract for the new system in accordance with the contract provisions by retaining 10% of each invoice amount instead of retaining 10% of the contract price from the final payment.
- Review the reasons causing an apparent increase in the untimely finalization of benefit payments during fiscal year 1998.
- Strengthen its internal controls over equipment by properly segregating incompatible accounting duties.

An appendix, included as an attachment to the management letter, provided a summary of the June 30, 1998 status of reportable conditions and comments on NHRS' compliance with state statutes reported in the prior management letters.