NEW HAMPSHIRE RETIREMENT SYSTEM

Management Letter
and
Auditors' Report On Compliance and
On Internal Control Over Financial Reporting
In Accordance With
Government Auditing Standards

Year Ended June 30, 2003

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MANAGEMENT LETTER

November 7, 2003

The Fiscal Committee of the General Court:

We have audited the financial statements of the New Hampshire Retirement System (the System or NHRS) for the year ended June 30, 2003 and have issued our report thereon dated November 7, 2003. In planning and performing our audit of the financial statements of the System, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

A material weakness is a condition in which the design or operation of specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and have been summarized below.

Interest Paid on Non-Vested Member Accounts

We noted that the System allows non-vested members who separate from the System to keep their cumulative contributions in the System for up to six years while earning an annual return/interest rate of 9%. Separation from the System signifies a change in relationship between the individual and the System. We suggest that the benefit of earning a rate of return of 9% on cumulative contributions for terminated non-vested employees should also change, as this rate of return is significantly higher than other investment alternatives with a similar risk profile.

We recommend the System re-evaluate the current policy of allowing individuals six years from the date of separation to find an investment alternative for their contributions and seek legislative action if necessary. We recommend the System, with the assistance of their investment advisor, establish an interest rate to be paid on non-vested terminated member accounts that is consistent with market alternatives that have similar risk profiles.

Management's Response:

In accordance with RSA 100-A:11, the System is required to retain the accumulated contributions of a non-vested member who ceases to be a member of the System for up to six years.

The System will seek legislative action to change the six year duration of time that a non-vested member is currently permitted to keep their accumulated contributions with the System.

STATUS OF PRIOR YEAR COMMENTS

Following is a summary of the status of corrective actions taken to date on comments and recommendations appearing in our 2002 management letter. For your convenience, we have summarized each comment and recommendation and included management's updated and final responses.

Securities Lending

We recommended the system enhance the due diligence procedures related to security lending activity.

Management's Final Response:

The System considers this issue to be fully addressed. The System responded last year that we would develop and implement policies and procedures to address the due diligence and monitoring procedures that would be applied to the System's security lending program. The policies and procedures were developed and implemented during fiscal year 2003.

Safeguarding of Assets

We recommended the system evaluate the current policies and procedures around investment securities held at a safe deposit at a local bank.

Management's Final Response:

The System considers this issue to be fully addressed. The System responded last year that we would develop and implement policies and procedures to address the inventory of securities held in the System's safe deposit box. The policies and procedures were developed and implemented during fiscal year 2003.

Termination of Benefits

We recommended the system consult with its legal advisors as to the effectiveness of adopting additional safeguards over termination of benefits

Management's Final Response:

The System considers this issue to be fully addressed. The System has requested that legislation be submitted during the 2004 legislative session to amend RSA 100-A:14. This proposed legislation grants the System's Board of Trustees with clear authority to recover any overpayments made to a retiree or a beneficiary as a result of the death of a retiree or beneficiary, or as a result of the remarriage of a surviving spouse in receipt of benefits, or upon a retired member's restoration to service.

Information Technology

We recommended that the System ensure that business continuity planning and documentation of policies and procedures in the new system are fully developed before the new system's expected completion date in fiscal 2004.

Management's Final Response:

This System considers this issue to be an ongoing project. During the fiscal year 2003, the System developed a formal written Business Continuity Plan (BCP). Also, the System recently conducted a simulated test of the efficacy of the BCP. As a result of the simulated test, the System plans to further refine the plan. The System plans to continue to conduct periodic tests of its Business Continuity Plan.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the New Hampshire Retirement System and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

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Auditors' Report On Compliance And On Internal Control Over Financial Reporting In Accordance With *Government Auditing Standards*

The Fiscal Committee of the General Court:

We have audited the financial statements of the New Hampshire Retirement System (the System), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of the System in a separate letter dated November 7, 2003.

This report is intended for the information of the management of the New Hampshire Retirement System and the Fiscal Committee of the General Court and is not to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 7, 2003