



**NEW HAMPSHIRE RETIREMENT SYSTEM**

Management Letter

Year Ended June 30, 2007



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## **MANAGEMENT LETTER**

August 11, 2008

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, 2007, and have issued our report thereon dated August 11, 2008. In planning and performing our audit of the financial statements of the System, we considered internal control as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control.

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 the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows.

The System's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

In addition, we identified certain deficiencies in internal control that we consider collectively to be a significant deficiency, and in accordance with *Government Auditing Standards* communicated them in writing to the System in a separate report dated August 11, 2008.

### **Payroll Auditors**

In the past, the System has used its staff to audit the payroll information supplied by its contributing employers. These "payroll auditors" were redeployed during the Pension Gold system implementation several years ago and their duties have gone unperformed since.

We recommend that the System consider reinstating the payroll auditor function to ensure that the information it receives from its contributing employers is complete and accurate.

#### *Management Response:*

The employer contribution auditing function is currently performed on a limited basis by one Employer Field Representative within the Employer Services functional division. Audits are conducted for those employers identified as having potential compliance violations. These audits may be conducted in the "field" or as an internal employer desk audit.

The System agrees with the auditor's recommendation. The System's Strategic Business and Workforce Plan calls for additional positions within Employer Services to expand outreach services to employers, and staff resources to conduct more employer payroll compliance audits.



Specific assignments of these additional audit duties are yet to be determined but as recommended, the System will reinstate the positions dedicated to performing audits and reviews of employer contribution reporting and will take appropriate steps to insure that an adequate employer contribution auditing process is conducted.

### **Real Estate Audits**

The net fair value of the System's core real estate holdings are approximately \$360 million and consist of approximately 20 separate properties at June 30, 2007. The System has considered requiring independent audits of these holdings in the past but has concluded that the duties/responsibilities of its two real estate managers were adequate to ensure proper oversight regarding financial/compliance reporting of its real estate activity.

We recommend that the System reevaluate this determination as we believe that separate audits of these properties would constitute a best practice.

#### *Management Response:*

In response to the recommendation, the System will evaluate whether separate audits of the core real estate investment properties would constitute a best practice as suggested by the auditor. The System will consult its real estate consultant, real estate managers and other public employee plans and industry groups to help us determine the prevailing standard for our industry. The results of this review will be presented to the System's Audit Committee along with a recommendation for proposed action to be taken by the System.

### **New Accounting Standard**

#### ***GASB Statement No. 50 – Pension Disclosures - an amendment of GASB Statements No. 25 and 27***

In May 2007, the GASB issued Statement No. 50, which amends the pension disclosures for pension plans. Statement No. 50 is effective for the System's fiscal year ending June 30, 2008. The purpose of Statement No. 50 is to more closely align the pension disclosures with the other post-employment benefit disclosures required by other recent GASB pronouncements.

In general, this Statement does not require the presentation of additional information; however, it requires the presentation of certain information in the notes to the financial statements that were previously included only as required supplementary information.

In addition to the current disclosures, relative to defined benefit pension plans, the following will be required to be disclosed in the notes to the financial statements:

- In the summary of significant accounting policies, a brief description of how the fair value of investments is determined, including methods and significant assumptions, if the fair value is based on other than quoted market prices.



- In the disclosure of contributions and reserves, legal or contractual maximum contribution rates.
- Information about the funded status of the plan as of the most recent actuarial valuation date.
- Information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress are based, including:
  - Disclosure that the schedule of funding progress included in RSI presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.
  - Information about the actuarial methods and significant assumptions used to determine the ARC for the current year.

The current required supplementary information disclosures will remain consistent with the previous standard.

*Management Response:*

The System is aware of the new Governmental Accounting Standards Board (GASB) Statement No. 50 that amends GASB Statements No. 25 and 27 by requiring new pension disclosures for defined benefit plans. The System plans to implement Statement No. 50 in our annual reporting for the fiscal year ended June 30, 2008. It is our intention to work closely with our actuary and our auditors to insure that the new GASB requirements are fully met.

\* \* \* \* \*

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 System's 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