



NEW HAMPSHIRE RETIREMENT SYSTEM

Management Letter

Year Ended June 30, 2008



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Management Letter

November 21, 2008

The Fiscal Committee of the General Court:

We have audited the financial statements of the New Hampshire Retirement System (NHRS or the System), as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 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 a deficiency in internal control that we consider to be a significant deficiency, and in accordance with *Government Auditing Standards* communicated it in writing to the System in a separate report dated November 21, 2008.

Information Technology

During our 2007 audit, we identified certain matters that were communicated to the System related to the following IT topics:

- Policies and Procedures
- Administrative Access
- Superuser Privileges
- User Access Reviews
- Password Configuration
- Firewall Configuration
- Monitoring of Job Processing
- Role of Outside IT Consultant



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As of June 30, 2008 the System had resolved some of these issues and made significant progress towards resolving the others. The System should continue implementing its corrective action plan with a goal of completing by the end of fiscal 2009.

Management Response:

The NHRS agrees with the auditors' observation that significant progress has been made to resolving the outstanding issues as available resources have allowed. The NHRS has recently committed additional resources towards resolving all remaining outstanding issues and the NHRS will implement all corrective actions prior to the close of fiscal year 2009.

Securities Lending

During our testwork over the System's securities lending program, KPMG noted that the System experienced losses for the fiscal year ending June 30, 2008. Through discussion with management, KPMG noted that these losses continued into the first part of fiscal 2009 as well.

We recommend that the System more closely evaluate their program and review the collateral held by the custodian on a regular basis.

Management Response:

The NHRS agrees with the observation that regular oversight should continue to be applied to the securities lending program. The NHRS is now treating the securities lending agent (NHRS's master custodian) as an asset manager. This will require us to review their processes and their adherence to them, as well as improving our review of all aspects of the securities lending program that are within the NHRS's control. In addition, we will be re-negotiating and entering into a new contract with the master custodian which will enhance protections for the NHRS.

During fiscal year 2008, the NHRS Investment Committee devoted significant time to reviewing securities lending developments. Northern Trust as lending agent, Ennis Knupp as general consultant, and NHRS staff all provided expertise. Northern Trust presented to the Committee on three occasions during the fiscal year and their most senior management attended a special meeting of the Investment Committee in March specifically on securities lending. Ennis Knupp provided educational modules on securities lending and experienced guidance regarding this issue from their specialists who conducted independent due diligence site visits to Northern Trust and reported back to the Committee. In December 2007, the Investment Committee took action to reduce exposure to the volatile Short-Term Extendible Portfolio (STEP) to a maximum of 30% of the collateral fund. In March 2008, after significant deliberation and detailed review of the collateral fund investments, the Investment Committee took action to exit the STEP fund completely and utilize a more conservative collateral fund for securities lending.

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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 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.



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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