KPMG

NEW HAMPSHIRE RETIREMENT SYSTEM

Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Year Ended June 30, 2008

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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. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider collectively to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in Exhibit I (attached) to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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 and contracts, 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 or other matters that are required to be reported under Government Auditing Standards.

The System’s response to the finding identified in our audit is described in Exhibit I (attached). We did not audit the System’s response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the System in a separate letter dated November 21, 2008.

This report is intended solely for the information and use of the management 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 another other than these specified parties.

KPMG LLP

November 21, 2008

Exhibit I

Observations Related to Internal Control Over Financial Reporting

Review and Approval of Journal Entries

Our testwork over manual journal entries revealed that some entries had not been properly reviewed and approved by another individual prior to entry into the general ledger. KPMG selected a sample of 37 journal entries spread between those made during the year and those made during the year-end reporting period. Of these 37, KPMG noted that 28 did not show evidence of proper review and approval.

KPMG notes that this significant deficiency could result in unauthorized or inaccurate journal entries being posted to the general ledger. As a result, the financial statements could be materially misstated.

KPMG recommends that the System follow the policies and procedures already in place covering manual journal entries by having a second individual review and approve journal entries before entry into the general ledger.

Management Response:

The NHRS agrees with the observation. The NHRS will develop a formal written policy that will ensure that all journal entries are approved by a second individual prior to posting in general ledger.