

**STATE OF NEW HAMPSHIRE  
TURNPIKE SYSTEM**

**MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



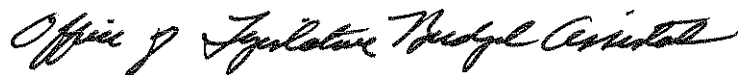
*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Turnpike System as of and for the fiscal year ended June 30, 2012 and have issued our report thereon dated December 26, 2012.

This management letter, a byproduct of the audit of the New Hampshire Turnpike System for the fiscal year ended June 30, 2012, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix, included as an attachment to the management letter, provides a summary of the status of observations presented in the fiscal year 2011 management letter of the Turnpike System.

The New Hampshire Turnpike System Comprehensive Annual Financial Report (CAFR) can be accessed online at:

[http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Turnpike\\_2012\\_CAFR.pdf](http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Turnpike_2012_CAFR.pdf)



Office Of Legislative Budget Assistant

December 26, 2012

**STATE OF NEW HAMPSHIRE  
TURNPIKE SYSTEM  
2012 MANAGEMENT LETTER**

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\* No audit comments suggest legislative action may be required.

This report can be accessed in its entirety on-line at:  
[http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/DoT\\_ML\\_2012.pdf](http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/DoT_ML_2012.pdf)

## **Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters**

*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Turnpike System (Turnpikes) as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 26, 2012. 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**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified in Observations No. 1 and No. 2 to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 3 through No. 6 to be significant deficiencies.

### Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Turnpikes' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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*.

Turnpikes' written response accompanies each observation in this report. We did not audit the Turnpikes' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the New Hampshire Turnpike System, others within Turnpikes, and the Fiscal Committee of the General Court, and is not intended to be used by anyone other than these specified parties.

  
Office Of Legislative Budget Assistant

December 26, 2012

**Internal Control Comments**  
**Material Weaknesses**

**Observation No. 1: Efforts To Improve Financial Accounting And Reporting Processes Should Continue**

*Observation:*

Improvements again were evident in the New Hampshire Turnpike System's financial accounting and reporting processes during fiscal year 2012. However, the number and significance of financial reporting issues noted during the fiscal year 2012 audit of the Turnpike System (Turnpikes) financial statements continue to highlight concerns about weaknesses in the internal controls supporting Turnpikes' financial reporting.

The fiscal year 2011 management letter reported a material weakness in Turnpikes' financial transaction processing and reporting. That comment included examples where Turnpikes experienced difficulties accounting for and accurately reporting 1) capital contributions, 2) capital assets, 3) cash flows, and 4) Build America Bond subsidies during fiscal year 2011. The fiscal year 2012 audit identified that Turnpikes continued to have difficulty accounting for and reporting capital contributions, capital assets, and cash flows. While these issues have improved since 2011 and Turnpikes management has taken action to improve related controls and processes, significant audit adjustments were again identified in each of these areas during the fiscal year 2012 audit.

In discussing the likely causes of the noted financial reporting issues, management cited inconsistent application of Turnpike and Department of Transportation (Department) policies and procedures over time. We agree this was a primary cause of the noted issues; however, other causes including insufficient training, policies and procedures, coordination and communication of information, and due care also contributed to the number and significance of adjustments and other corrections that were identified by Turnpikes and the auditors in the preparation and audit of Turnpikes' financial statements and annual report for the fiscal year ended June 30, 2012.

Management is responsible for operating a system of internal controls sufficient to reasonably ensure reported financial information is complete, accurate, and timely. These controls are generally discussed as being categorized in the five components of control environment, risk assessment, control activities, information and communication, and monitoring activities. Effective controls support an organization's operations, financial and other reporting, and compliance objectives. Each of these five components of internal controls provides Turnpikes with opportunities for improvement to its financial reporting operations.

*Recommendation:*

In the fiscal year 2011 audit comment recommendation we stated,

Turnpikes should continue in its efforts to improve its financial accounting and reporting processes. This should include a thorough review of all accounting entries by a second knowledgeable employee. In making and reviewing financial accounting entries, Turnpikes should consider the nature of transactions when determining how the transactions should be included in the accounting records and reported in the financial statements.

While a number of the financial accounting and reporting challenges facing Turnpikes are compounded by insufficient capital asset accounting systems (which likely will only be satisfactorily resolved with the implementation of an appropriate fixed asset accounting system), Turnpikes needs to strengthen its financial accounting and reporting through improved policies and procedures. Better policies and procedures could improve consistency in accounting and reporting financial activity and better trained and informed employees.

The fiscal year 2011 recommendation continues to be appropriate for fiscal year 2012. The importance of an effective review and approval control cannot be overemphasized. Many of the errors noted during the fiscal year 2012 audit should have been detected and corrected by a careful, information-based review and approval control. Improved information and communication sharing within Turnpikes and also between Turnpikes and the remainder of the Department would assist Turnpikes with gathering and properly evaluating information necessary for accurate and timely financial reporting.

*Auditee Response:*

We concur in part.

The auditor's comments for fiscal year 2012 as noted above, report material weakness in Turnpike System financial transaction processing and reporting: 1) capital contributions, 2) capital assets, and 3) cash flows.

Specific to item 1) capital contributions, the Department continues to improve its accounting and financial reporting capabilities. Department management and staff are refining the system reporting process and are migrating from quarterly to monthly automated financial statements. Continued improvement will result as automation will enhance the Department's ability to generate reports to aid staff and management to detect and correct errors in a more timely manner.

Relative to item 2) capital assets, the Department at a cost of \$4,000, purchased stand-alone fixed asset software in an effort to address past and current concerns to the recording and reporting of fixed assets (it should be noted that this purchase is not an integrated fixed asset system and will not, nor is it intended, to systematically pull accounting information as a result of capital projects



or equipment or other asset purchases). Prior to this purchase, the Department relied exclusively upon Excel spreadsheets that were subject to input and computational error and inconsistent data entry in the application of depreciation and other fixed asset accounting methodologies. Subsequent to the purchase of fixed asset software, the Department immediately performed a comprehensive review of fixed assets encompassing several decades. As a result of this internal review and as noted by the auditors, inconsistencies and errors as described were confirmed. Not mentioned in the auditor's report was the due diligence of the Department to perform this task in an attempt to mitigate past years audit citation regarding fixed assets. Further, and contrary to the auditors remarks above, the result was improved understanding and knowledge of fixed assets, improved communications and coordination between finance and program staff to better recognize and record fixed assets. The Department is pleased to report that this major effort was completed in time for the fiscal year 2012 Turnpike System comprehensive annual financial report (CAFR).

Specific to item 3) cash flows, these items were subject to considerable discussion with the Comptroller's office, LBA and KPMG, as to the effects of and presentation of, the statement presentation of Sale and Purchase of Investments.

With the exception of fiscal years 2007 and 2008, the Sale and or Purchase of Investments were presented in the same format from fiscal years 2011 back to 2005 (two of which were audited by LBA). We fully understand that the financials are the responsibility of management, however, despite concurrence of the auditors in past years, the financials can and are subject to changing interpretation. In this regard for fiscal year 2012, the Department was cited by the auditors for the initial presentation of these past accepted disclosures. The Department complied with the change in presentation as recommended and notes that the net effect of this change prior to and subsequent to, was zero dollars to the financials.

The Department supports the recommendation of improved policies and procedures and will act accordingly to review and update.

## **Observation No. 2: Comprehensive Policies and Procedures Over Fixed-Asset Accounting Should Be Implemented**

### *Observation:*

Turnpikes and the Department do not have comprehensive policies and procedures for use by employees to support their efforts to completely, efficiently, and accurately account for and report capital assets. While Turnpikes and the Department have an asset manual, the manual is neither complete nor current. The copy of the manual made available to the auditors was last updated in 2007, did not include all listed exhibits, and referenced the State's prior accounting system.

The following capital asset issues that arose during fiscal year 2012 and impacted the audit were exacerbated by unclear or nonexistent policies and procedures, inconsistent adherence to existing

policies and procedures, and inadequate information sharing and communication within and between Turnpikes and other areas of the Department.

1. During fiscal year 2012, Turnpikes conducted an extensive review of its capital asset accounting records and recognized it had previously failed to identify and report as construction-in-progress the building of the Manchester Airport Access Road, a series of major projects involving both the Turnpike and the Highway Systems. Preliminary planning work on the Manchester Airport Access Road began in 1992, large-scale construction began in 2007, and the road was opened for use in the fall of 2012. As of June 30, 2011, Turnpikes and the Department had recorded in capital asset accounts \$2.3 million and \$39 million, respectively, of project costs even though a total of \$162 million had been expended on the projects through that date. Turnpikes and the Department recognized those amounts in their respective capital asset records during fiscal year 2012.
2. Turnpikes reports its policy is to transfer environmental studies and other preliminary engineering costs to depreciable capital asset accounts only after all of the related construction projects have been completed. This policy is not documented in the Turnpikes capital asset manual.

During its fiscal year 2012 review of capital assets, Turnpikes identified \$12.8 million of preliminary engineering costs had been moved into the depreciable capital asset accounts at the end of fiscal year 2010, prior to the completion of all of the related construction projects and contrary to its policy. It is not clear whether the asset was moved in 2010 in error due to an unclear policy, incomplete or incorrect project information, or other cause.

3. Also as a result of its 2012 review of capital assets, Turnpikes identified three projects for which a total of \$26.9 million of preliminary engineering and capitalized interest costs had been recorded as depreciable capital assets, even though the projects had not been built and there was no funding planned to build the projects. While recording these capital assets as depreciable assets is contrary to Turnpikes' policy described in item number 2 above, it is not clear that this had been Turnpikes' policy and practice in 2002 and 2008 when these assets were moved from construction-in-progress to depreciable infrastructure asset accounts.
4. As a result of an audit inquiry, Turnpikes identified that federal program funds, initially credited to the Highway Fund, had paid for the painting of the I-95 high-rise bridge, after the time Turnpikes had purchased the bridge from the Highway System in fiscal year 2010. Of the total \$7.6 million costs incurred through June 30, 2012 for painting the bridge, \$6.3 million had been incurred in prior fiscal years and had been reported as Highway Fund expenditures, reimbursed by federal program funds. For fiscal year 2012, Turnpikes made an adjustment of approximately \$1.3 million to record operating expenses and federal revenues for the fiscal year 2012 painting work. It is not clear whether the error of initially recording this financial activity in the incorrect fund resulted from a lack of clear policy and procedure, incorrect information, or other causes.
5. Auditors noted Turnpikes did not report its share of two electronic signage and wireless communication system projects constructed partially on the Turnpike System and funded by

a combination of federal highway and Turnpikes Funds as Turnpikes' assets. The Department reported the projects entirely as Highway System assets. During fiscal year 2012, Turnpikes expensed approximately \$967,000 of these project costs in its supplies, materials, and other expense account. Given the funding mix and location of these projects, it is unclear why none of the costs were capitalized as Turnpikes' assets. We noted Turnpikes and the Department do not have formal policies and procedures for identifying, recording, and reporting assets constructed with a mix of funding sources.

6. Audit tests identified a \$34,000 surplus vehicle remained on Turnpikes June 30, 2012 equipment listing. Further review of the listing identified an additional eight surplus vehicles that remained on the listing. Upon the auditor's request, Turnpikes performed further review and determined that an inappropriate vehicle report had been used for determining vehicle inventory additions and deletions for year-end financial statement purposes. As a result of their review, Turnpikes identified approximately \$259,000 of equipment, with accumulated depreciation of \$192,000, to add to the list and approximately \$264,000 of equipment to delete from the list. Turnpikes made an entry to correct this error in its financial statements.
7. Auditor review of fixed asset listings identified approximately \$330,000 of assets including signs and rest area construction recorded in Turnpikes' capital asset accounts which did not exist at June 30, 2012. Subsequent to auditor inquiry, Turnpikes identified these assets as having been replaced in the mid-1990's and the reporting of these nonexistent assets was apparently overlooked during Turnpikes' previous efforts to improve the accuracy of its asset records. While the asset policy manual directs the removal of replaced assets from the asset records in the year they are replaced, it appears that this policy has not been carefully applied. Turnpikes made an entry to correct this error in its financial statements. This issue was also noted during the 2011 audit.

*Recommendation:*

Turnpikes and the Department should develop and implement a comprehensive policies and procedures manual to support employees' efforts to completely, efficiently, and accurately account for and report capital assets. The manual should be established, with the input of the State's Bureau of Financial Reporting, to ensure the policies and procedures align with the State's financial reporting objectives and needs.

Examples of policies that should be established and expanded in the manual include policies and procedures for:

1. Identifying and determining when assets funded in whole or part by several funding sources including the Highway, Turnpike, and federal funds, should be reported as Turnpikes' assets.
2. Identifying and determining when and how to report capital asset projects as construction-in-progress and reclassify as completed projects. Consideration should be given to whether Turnpikes' policy for capitalizing preliminary engineering as depreciable assets only upon

the completion of all related construction projects remains appropriate when projects may take decades or longer to complete.

3. Identifying and reporting impairments to capital assets, including determining what asset value remains if extended construction stoppages or other indicators identify a diminishment of a previously capitalized project.
4. Identifying and reporting project engineering or study costs that ultimately do not result in the construction of a physical asset.
5. Identifying and removing from the reported asset balance assets that have been replaced or otherwise taken out of service, with or without complete historical records.

*Auditee Response:*

As indicated in Observation No. 1 and as a result of the Department's own internal review of fixed assets, the Department will review and update the procedures manual accordingly.

## Significant Deficiencies

### **Observation No. 3: Toll Audit Procedures Should Be More Effective**

#### *Observation:*

While Turnpikes made improvements in its quarterly toll-lane audits during fiscal year 2012, Turnpikes was unable to successfully complete first and second quarter lane audit testing, largely due to vehicle class mismatch issues also noted during fiscal year 2011. Starting with the third quarter of fiscal year 2012, Turnpikes performed physical observation and video-based lane audits of the functionality of both lane and open road tolling (ORT) systems and equipment. Turnpikes describes its quarterly lane audits as “user controls” intended to support the accuracy of its automated toll processing system.

#### *Issues Identified During Auditor Review of the 2012 Physical Observation Lane Audit Results:*

1. Turnpikes has not fully developed its lane audit process. Turnpikes has not set action-level criteria to establish when a response is required upon the detection of apparent data errors. The lack of action-required criteria lessens the efficiency and effectiveness of the lane-audit control. Turnpikes also has not enforced its policy for a “narrative report” of findings to be prepared to support the results of the quarterly physical observation lane audits. No narrative reports were prepared during fiscal year 2012.
2. Vehicle classification anomalies continued to be a problem. The vehicle mismatch rate for the third quarter physical observation audits was 18% (18 out of 100 transactions tested). The fourth quarter physical observation audit identified a 5% mismatch rate. Classification mismatches or “misclasses” occur when the vehicle class identified by the E-ZPass transponder does not correspond to the vehicle class identified by the in-lane vehicle detection system. The LBA auditors requested Turnpikes determine the number of toll transactions identified as misclasses during fiscal year 2012. Turnpikes reported it did not have the capability to determine that information without incurring additional vendor costs.
3. Two instances of clerical errors were noted by the LBA auditors in their review of the third quarter Turnpike Audit Form. There was no evidence that the Turnpike reviewer of the Audit Form had identified the errors.

#### *Issues Noted During Auditor Review of the 2012 Video-Based Lane Audit Results:*

4. LBA auditors noted that five data fields for the Hooksett Video Audit and two data fields for the Hampton ORT video audit, used to calculate summary performance results, were inaccurately reported in the lane audit results. There was no evidence the errors were identified by either of the subsequent Turnpike reviewers.

5. Seven instances were noted in the LBA auditor's review of the ORT data where the lane auditor apparently recorded an incorrect vehicle classification from their review of the video. Turnpikes confirmed the discrepancies in the lane audit results upon the LBA auditor's inquiry.
6. The lane audit process excluded misclasses and certain other problematic transactions from its error statistics, potentially understating lane error rates. Included in Turnpikes' ORT video audit documentation were three February 2012 transactions identified as not having a communication number. When LBA auditors inquired about the significance of these transactions, Turnpikes reported it had inquired about them with the vendor but, as of September 2012, had not received an answer. It is unclear how the third quarter audit could have been finalized without understanding the significance of these transactions.

The summary sheets for the audits referenced above were initialed as having been reviewed by two levels of management; however, there was no evidence that either review had identified concerns with the results of the audits or that any further action was suggested by the audits.

As the accurate and complete collection of tolls is critical to the Turnpikes' operations and as increasingly more of the Turnpikes' toll collection activity is performed electronically and outside of the Turnpikes' other control systems, Turnpikes must have a strong lane audit process to ensure its toll operations are performing as expected and that all toll revenues are accurately collected and recorded.

*Recommendation:*

Turnpikes should continue to strengthen its lane audit processes in support of its electronic toll collections. Where appropriate, Turnpikes should develop and implement additional lane audit policies and procedures, including the definition of errors and criteria for prompting corrective action plans.

Turnpikes should also strengthen its lane audit monitoring procedures to ensure lane audits are performed and reported in a complete and accurate manner and in compliance with policies and procedures for those audits.

*Auditee Response:*

Turnpikes concurs in part, and offers the following clarifications:

*Physical Observation Lane Audit*

1. In fiscal year 2012, Turnpikes documented its lane audits with spreadsheets. Exceptions relative to lane audits have been brought to the attention of the E-ZPass vendor for resolution. Beginning the first quarter of fiscal year 2013, a narrative report is now prepared. Any unresolved issues are identified in the report, timelines for resolution are set, and vendors are held accountable.

The status of audit issues will be reported on monthly maintenance tracking sheets for management review, follow-up, and resolution.

2. Vehicle mismatches cannot be totally controlled by Turnpikes, as they are often a function of customer action. The cost for a report querying 70 million electronic transactions for fiscal year 2012 to identify misclasses would have been exorbitant and LBA agreed that it should not be undertaken. Fiscal year 2012 was the last year of the contract for the previous lane vendor and the decision was made not to expend resources on the report query.
3. Over 6,750 lane transactions were manually audited by Turnpike staff during fiscal year 2012. The process involves writing the information down while observing traffic in the lane then typing the information into a spreadsheet. This is a manual process with tolerable error rates as the error rate was only 0.1%. Turnpikes considers this manual audit process cost-effective and the finding immaterial.

#### *Video-Based Lane Audit*

4. Improvements will be made by the new E-ZPass processing vendor beginning July 1, 2013 that will allow the internal auditor to detect errors more easily and reliably in the non-ORT video audit. Similar to the ORT vendor, reporting will allow filtering of fields so that exception reporting is generated.
5. Close to 19,000 ORT transactions were audited during fiscal year 2012. This is a manual process with tolerable error rates as the error rate was only 0.04%. Turnpikes considers this manual audit process cost-effective and the finding immaterial.
6. Transactions reviewed as part of the lane audit process are only excluded in accordance with the Quarterly Lane Audit Procedural Manual (i.e. if the vehicle is blocked from the auditors view). The purpose of the lane audits is to hold vendors accountable to performance requirements specified in the contract.

Turnpikes did receive e-mail correspondence (dated 5/11/12) from the vendor, who surmised that the three “transactions identified as not having a communication number” were not separate transactions but tag reads likely attributed to secondary tags contained within vehicles passing through the toll zone. These secondary tag reads were appropriately not advanced as a toll transaction nor processed by the system. Due to the volume of emails and correspondence however, it is not definitive to Turnpikes as to whether this information was ultimately forwarded to the LBA auditors by September 2012.

Turnpikes will continue to cost effectively strengthen its internal audit processes as it understands the importance of collecting toll revenue accurately and completely. The vendors are contractually obligated to monitor the system’s operation and performance and to meet performance standards. The internal audit process measures their performance and exceptions are brought forward for resolution.

The Quarterly Lane Audit Procedural Manual has been updated and Turnpikes is continuing to review, refine, and improve the process. Fiscal Year 2012 was the first year of implementing the more fully developed internal audit process.

*LBA Rejoinder:*

At the time of the September 2012 audit inquiry, we were informed that Turnpikes had not received a response to its inquiry referred to in item 6 above. There was no documentation with the lane audit results that indicated the issue had been resolved.

**Observation No. 4: Information Technology Controls Over Electronic Tolling Systems Should Be Improved**

*Observation:*

Turnpikes did not have a fully developed and documented information technology (IT) control system in place during fiscal year 2012.

- Turnpikes does not have a formal disaster recovery plan to support its electronic toll transaction system beyond certain specific scenarios contained in the Turnpikes open road tolling disaster recovery plan. Turnpikes also does not have a formal risk assessment process for its electronic toll transaction system and its open road tolling system. While Turnpikes reports there is a Department-centric continuity of operations plan, the plan does not appear to specifically address risks related to the electronic tolling systems used by Turnpikes.
- Turnpikes did not follow its formal IT change control procedures for two “patches” placed on the electronic toll transaction system during fiscal year 2012. These patches, intended to address vehicle misclassification errors, were implemented during the period December 2011 through February 2012. The changes were not formally documented and approved in accordance with normal Turnpike change control procedures as the changes were identified as “emergency changes” requiring only verbal approval from the Commissioner, with documentation to follow. Turnpikes reports that when emergency changes are made, the accepted process is to document the changes using the standard change control procedure documentation after-the-fact, as time allows. The changes that were completed in February 2012 remained undocumented at August 21, 2012.
- Turnpikes does not have an understanding of the segregation of duties within the IT operations of its electronic toll transaction system and open road tolling system vendors. Further, Turnpikes does not have any specific procedures for detecting unauthorized IT system changes in the electronic tolling systems other than by detecting anomalies in its quarterly lane audits discussed in Observation No. 3.

*Recommendation:*

Turnpikes should strengthen its existing IT controls over its electronic tolling IT systems to ensure the systems function securely, reliably, and with minimal risks of interruption.



Turnpikes should specifically:

- Establish comprehensive disaster recovery and continuity of operation plans and a formal risk assessment process for its electronic toll transaction systems.
- Establish and monitor adherence to its IT change control procedures.
- Improve its understanding of the IT controls in place at its electronic toll transaction system and open road tolling system vendors to establish the level of control reliance that can be placed on those systems.

*Auditee Response:*

Turnpikes concurs and offers the following for clarification:

The new toll collection system, which is scheduled to be operational July 1, 2013, will have a disaster recovery plan (DRP). The DRP will be a standalone document and will include a contingency planning policy statement, business impact analysis, identify preventive controls, and recovery strategies.

Regarding the need to strengthen IT change control procedures, Turnpikes did inform DoIT administration of the changes associated with the “two patches”. Additionally, testing relative to the patches was well documented and coordinated with the DoIT Project Manager. Turnpikes will work with DoIT to revise the change control procedures and develop guidelines that will outline emergency situations in which the formal change control procedures can be bypassed (mission-critical) but will be documented and approved by DoIT Administration.

Regarding the need for Turnpikes to improve its understanding of IT controls, due to budget constraints at DoIT, there has been a delay in filling the vacated DoIT project manager position that is responsible for IT oversight of the electronic toll system. Once the DoIT project manager position is filled in fiscal year 2014 or sooner, IT controls will be reviewed on a systematic basis to ensure the vendor is not implementing any unauthorized system changes.

#### **Observation No. 5: Clear And Full Description Of Entire Turnpike System Should Be Developed**

*Observation:*

Certain of the financial reporting problems identified by Turnpikes and by the audit during fiscal year 2012 related to correcting the accounting records for previously misidentified components of the Turnpike System. The problem of misidentified assets in fiscal 2012 was similar to the financial reporting experience in fiscal year 2011. While conceptually, what makes up the Turnpike System is relatively clear, the detail of what assets comprise the Turnpike System has been difficult for Turnpikes and the Department to accurately incorporate into their financial reporting activities.

For example, in a fiscal year 2012 review of its bridge inventory, Turnpikes identified two significant bridges that carry Route 101 over the I-95 Turnpike as having been reported as non-Turnpike bridges for a number of years, even though Turnpikes states that any bridge over or under a Turnpike roadway is a Turnpike bridge. Similarly, in fiscal year 2011, Turnpikes identified significant aspects of the reconstruction at Exits 13 on the I-93 Turnpike had previously been misclassified as non-Turnpike assets. It is quite possible that similar confusion over the extent of the Turnpike may have contributed to the untimely reporting of Turnpikes' components of the Manchester Airport Access Road construction projects during the period 2010 through 2012.

There appears to be no complete description of the Turnpike System that is readily available to inform and support the Turnpikes business office's financial reporting activity. While the Department's implementation of a fixed asset information system during fiscal year 2012 should provide part of the solution, that system alone will not sufficiently describe the Turnpike System for all operational, financial reporting, and other related purposes.

*Recommendation:*

Turnpikes should develop a clear and full description of the entire Turnpike System, incorporating maps, pictures, narratives, and other information formats that fully describe the components and extent of the Turnpikes. Incorporated into the description should be relevant information impacting the financial operations and reporting of the Turnpikes including documenting the "free" and "toll" sections of the Turnpikes, important in understanding potential use of federal highway funds in construction and reconstruction of those sections; unused land and right of ways, that could inform decisions regarding surplus properties; and other information important to understand, control, and report the financial activity of the Turnpike System.

Once established, the description will require regular updating to ensure that it remains comprehensive and current.

*Auditee Response:*

We do not concur and offer the following as clarification:

The complete description of the Turnpike System is published in the Official Statement and is a matter of public record. Further, Turnpike ownership and maintenance jurisdictions are maintained in the GIS database in the NH Department of Transportation, Bureau of Community Assistance and Planning, which have compiled information over time from project specific plan detail. Authority, authorization, and funding for the many Turnpike projects that modernized and expanded the Turnpike System are outlined in RSA 237:2, 237:5, and 237:7.

Turnpikes has and maintains documentation relative to "free" and "toll" sections of the Turnpikes.

*LBA Rejoinder:*

The description of the Turnpike System in the Official Statement is not a complete description as it does not specifically address intersections between the Turnpikes and other State roadways, including the ownership of bridges over the Turnpikes and exit and on ramps connecting the Turnpikes to other roadways. While it is Turnpikes stated policy that all bridges over the Turnpikes are Turnpike System bridges and all ramps on and off the Turnpikes are Turnpikes' assets, Turnpikes could not point to where that policy is documented. Also, while the statutes referred to by Turnpikes provide authority and appropriations for certain improvements to the Turnpike System, the identification of Turnpike System assets in the statutes is not complete.

The primary documentation relative to the free and toll sections of the Turnpikes made available to the auditors was a set of maps and aerial photographs provided by the federal DOT. The documentation, originally prepared by the Department, was not current as it did not include information on Turnpikes' portion of the Manchester Airport Access Road.

**Observation No. 6: Compliance With Policies And Procedures For Processing Invoices That Cross Fiscal Years Should Be Improved**

*Observation:*

During fiscal year 2012, Turnpikes was inconsistent in accurately processing invoices for charges that crossed fiscal years.

The Department's Split Invoice Accruals policy describes split invoices and provides step-by-step guidance for allocating costs to the appropriate fiscal year. Audit tests identified four instances where Turnpikes did not comply with its split invoice policy.

- Turnpikes incorrectly calculated the number of days covered by an invoice resulting in a \$715,174 understatement to both fiscal year 2012 expenses and accounts payable. Turnpikes corrected the financial statements for this error.
- Turnpikes allocated the entire cost of one invoice to fiscal year 2013, contrary to the split invoice policy, resulting in a \$245,576 understatement to both fiscal year 2012 expenses and accounts payable. Turnpikes corrected the financial statements for this error.
- Turnpikes allocated the entire cost of one invoice to fiscal year 2012, contrary to the split invoice policy, resulting in a \$191,868 overstatement to fiscal year 2012 expenses. Turnpikes did not correct the financial statement for this error.
- One invoice tested included services provided during a 33-day period in fiscal year 2013. The invoice was recorded entirely as a fiscal year 2012 expense and accounts payable, overstating both accounts by \$1,635,858. Turnpikes corrected the financial statements for this error.

In light of the errors noted, it appears that Turnpikes was not effectively reviewing year-end transactions for compliance with the Department's policies and procedures for allocating expenses to the appropriate fiscal year.

*Recommendation:*

Turnpikes should establish procedures to ensure compliance with the policy for splitting invoices for charges covering more than one fiscal year. The procedures should include an effective review and approval control to ensure expenses are recorded in the proper period.

*Auditee Response:*

The Department has procedures in place for splitting invoices for charges covering more than one fiscal year. There was a breakdown in the review process and the Department has addressed this issue with staff and considers this observation closed.

## APPENDIX

### Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 26, 2012, of the observations contained in the New Hampshire Turnpike System Management Letter for the fiscal year ended June 30, 2011. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website: [http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/DoT\\_ML\\_2011.pdf](http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/DoT_ML_2011.pdf).

	<u>Status</u>		
<b><i>Internal Control Comments</i></b>			
<i>Material Weaknesses</i>			
1. Efforts To Improve Financial Accounting And Reporting Processes Should Continue ( <i>See Current Observation No. 1</i> )	●	○	○
<b><i>Internal Control Comments</i></b>			
<i>Significant Deficiencies</i>			
2. Controls Over Open Road Tolling Transactions Should Be Established ( <i>See Current Observation No. 3</i> )	●	●	○
3. Lane Audit Controls Should Be Improved ( <i>See Current Observation No. 3</i> )	●	○	○
4. Automated Open Road Tolling Data Transfer Error Alert Should Be Implemented	●	●	●
5. Risk Assessment And Response Plans Should Be Established For Open Road Tolling System ( <i>See Current Observation No. 4</i> )	●	○	○
6. Controls Over Accounting For Replaced, Sold, Or Unserviceable Capital Assets Should Be Improved ( <i>See Current Observation No. 2</i> )	●	○	○
7. Controls Over Monthly Revenue Reconciliations Should Be Improved	●	●	●
8. Effective Monitoring Controls Over Account Reconciliations Should Be Established	●	●	●
9. Payments Should Be Based On Services Received, Not Budgeted Amounts	●	●	●
<b><i>State Compliance Comments</i></b>			
10. Accounts Should Be Utilized As Provided In General Bond Resolution Requirements	●	●	●
11. Transponder Inventory Fund Should Not Exceed Statutory Limit	●	●	●

<u>Status Key</u>	<u>Count</u>
Fully Resolved            ●   ●   ●	6
Substantially Resolved   ●   ●   ○	1
Partially Resolved        ●   ○   ○	4
Unresolved                 ○   ○   ○	0

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