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Independent 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*

To the Fiscal Committee of the General Court
State of New Hampshire:

We have audited, in accordance with the 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, the financial statements of the New Hampshire Turnpike System (the Turnpike System), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the New Hampshire Turnpike System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 New Hampshire Turnpike System's internal control. Accordingly, we do not express an opinion on the effectiveness of the New Hampshire Turnpike System's internal control.

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. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

Controls over recording costs in the Bloomberg BNA Fixed Asset Software (BNA) for non-Turnpike assets need to be strengthened

Other state and local governments as well as private entities may provide funding for work performed by the Turnpike System on their behalf. These funding arrangements can occur when another entity sees an opportunity to improve its infrastructure as part of a larger Turnpike capital project.



During our audit, we identified costs approximating \$1.2 million related to a Turnpike System contract that included work paid by a municipality for a non-Turnpike asset. As of June 30, 2017, these costs were capitalized as part of construction in progress, instead of being expensed. The Turnpike System was paid by the municipality; however, it does not own the asset and should have recorded and expensed costs incurred.

We recommend the Turnpike System institute controls and improve processes to better identify expenditures related to non-Turnpike assets in BNA, and properly expense them in the period incurred.

Turnpike System's Response

We concur.

The Turnpike System continuously strives to seek excellence in its accounting and reporting practices and methods. In this effort, the Turnpike System has identified, drafted, and adopted written procedures to address this issue. This said, the Turnpike System also recognizes that despite its best efforts, there is no substitution for a comprehensive and robust automated fixed asset accounting system within the statewide accounting system, NHFirst.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the New Hampshire Turnpike System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 Turnpike System's Response to the Finding

The Turnpike System's response to the significant deficiency identified in our audit is described above. The Turnpike System's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the New Hampshire Turnpike System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Hampshire Turnpike System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 19, 2017