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March 23, 2015

The Fiscal Committee of the General Court
New Hampshire Turnpike System
Concord, New Hampshire

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the New Hampshire Turnpike System (the Turnpike System), as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Turnpike System's internal control over financial reporting (internal control) 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 Turnpike System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Turnpike 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:

Improve Timeliness of Toll Audit Procedures

Observation

The Turnpike System is highly dependent upon its electronic toll systems to accurately determine, charge, collect and report toll revenues. The Turnpike System's primary control to monitor the accuracy and performance of the toll system vendor and equipment is the audits of toll systems. Without accurate and timely toll audits, the Turnpike System cannot be assured that the toll systems are operating as designed and collecting all toll revenue appropriately.

The Turnpike System performed toll audits; however, during our review of the quarterly toll audits, management was unable to provide documentation that the toll audits were completed in a timely manner. Our review indicated that the completion of the toll audits were completed several months after quarter-end, and were not timely enough to provide management with the ability to respond in a timely manner.



The Fiscal Committee of the General Court
New Hampshire Turnpike System
March 23, 2015
Page 2 of 3

Recommendation

The Turnpike System's policies and procedures should be designed to include the timely completion of toll audits to ensure that any issues identified can be resolved in a timely manner, thereby, reducing any potential operational or financial impact.

Management Response

We concur.

System management is now more diligent to ensure documents are signed and dated to demonstrate timely action. In addition, procedures will be revised to ensure that the audits are completed, reviewed by management, signed and dated in a timely manner, and that any issues are resolved in a timely manner.

The System Business Administrator will provide a quarterly audit status report to the Administrator, along with unresolved issues found during the course of the audit.

Asset Impairment Analysis

Observation

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

We noted that a formal asset impairment analysis was not performed by the Turnpike System as required by GASB Statement No. 42.



The Fiscal Committee of the General Court
New Hampshire Turnpike System
March 23, 2015
Page 3 of 3

Recommendation

We recommend that the Turnpike System, formally document an annual assessment of whether based on events or changes in circumstances, the service utility of a capital asset has changed. This assessment will assist the Turnpike System in ensuring proper recording of the asset at the lower of carrying value or fair value.

Management Response

We concur.

The Department agrees that capital assets deemed impaired and no longer used should be reported at the lower of carrying value or fair value. We understand that capital assets impaired from construction stoppage also should be reported at the lower of carrying value or fair value if so determined. Certain circumstances may arise that do not directly equate to recognition of impairment for accounting purposes. For example, a stoppage in project construction funding may occur at any given time and for any length of time. It is not always a given that such changes in funding are permanent or simply a shift in funding priorities as determined by the legislature.

The Department will adopt a more formal process of asset impairment analysis as recommended.

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 Turnpike 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 communication is intended solely for the information and use of management, the Fiscal Committee of the General Court, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP