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January 13, 2016

The Fiscal Committee of the General Court
State of New Hampshire
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, 2015, 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, we noted, as we did in the previous year, that the toll audits were not 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.

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.



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Management Response

We concur.

The Quarterly Lane Audit Manual Version 1.5, dated October 27, 2015 addresses the timeliness of the audits:

- The quarterly audits shall be documented in the Summary Report memo with the findings.
- The Internal Auditor, Audit Supervisor, and Toll Collection Manager shall review all memos, sign and date them in a timely manner.
- Findings of issues will be submitted to the vendor for review, requesting comments within a month's time.
- Vendor comments will be documented in a revised memo, written by the internal auditor.
- Issues shall be tracked so that they are resolved in a timely manner.
- The Business Administrator will provide a monthly audit status report to the Administrator, along with unresolved issues found during the course of the audit.

The above process will be incorporated into written procedures and monitored for accuracy and performance of this effort.

Depreciation of Buildings

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*, the Turnpike System impaired a capital asset during fiscal 2015.

In accordance with GASB Statement No. 42, impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. For several recorded assets, the fair value was higher than the carrying value so no write down was required. Several assets include land parcels which contain buildings purchased solely for the land acquisition for the former Circumferential project. With that project permanently impaired, the buildings that had been included in the land parcels should now be separately valued distinct from the land.



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Recommendation

We recommend the Turnpike System determine the value of the buildings, separate from the land and begin depreciating these assets in fiscal 2016.

Management Response

We concur.

The impaired assets identified in this observation originated from projects initiated decades ago; well before GASB Statement 42 guidelines for impairment of capital assets. This said, the Department has begun the process to identify land parcels containing buildings in full earnest to value the buildings and begin depreciation and is confident this observation will be resolved.

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