



New Hampshire Turnpike System

Auditors' Reports as Required by
Government Auditing Standards and
Management Letter

Year Ended June 30, 2010

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Exhibit I

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*

The Fiscal Committee of the General Court
State of New Hampshire

Ladies and Gentlemen:

We have audited the financial statements of the New Hampshire Turnpike System (Turnpike System) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 28, 2010. 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 Turnpike System's 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 Turnpike System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Turnpike 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, 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 over financial reporting 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 over financial reporting, 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 in the Turnpike System's internal control over financial reporting described in the accompanying schedule of findings and responses as 2010-1 and 2010-2 to be material weaknesses.



A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting 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 the accompanying schedule of findings and responses as 2010-3 and 2010-4 to be significant deficiencies in internal control over financial reporting.

Although not considered to be significant deficiencies or material weaknesses, we also noted the items in Exhibit III during our audit which we would like to bring to your attention.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Turnpike System's financial statements are free of 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 responses to the findings identified in our audit are described in the accompanying schedule of findings and responses in Exhibit II and in the management letter in Exhibit III. We did not audit the Turnpike System's responses and, accordingly, we express no opinion on them.

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

KPMG LLP

December 28, 2010

New Hampshire Turnpike System
Schedule of Findings and Responses
June 30, 2010

2010-01: Material Weakness

Financial Accounting and Reporting

While there were certain improvements made to the Financial Accounting and Reporting process at the Turnpike System from the prior year, there continue to be weaknesses in the process that need to be addressed for FY 2011.

During the audit, the Turnpike personnel generated numerous drafts of the CAFR containing errors that should have been identified and corrected by Turnpike management through their review of the statements. Additionally, documentation supporting amounts disclosed in the financial statements was not readily available to support those amounts or, when available, did not always agree with those amounts reported.

Recommendation:

We recommend that the Turnpike management review and improve the process for preparing its financial statements. This may require additional training in financial accounting and reporting requirements and to the extent needed, additional involvement of the Bureau of Financial Reporting in reviewing the Turnpike financial statements prior to submission to the auditors.

Management's Response:

We concur.

This was indeed a challenging year working with and implementing a new accounting system. To meet this challenge, the Division was very active in partnering with the Bureau of Financial Reporting (BFR), Financial Data Management (FDM) and officials of State Treasury to produce year-end financials in a complete and timely manner. During the course of this activity, the Division made great strides in understanding and establishing accompanying financial schedules and reports to support the results of operations for the fiscal year.

The Division continues its understanding and continues to improve accounting practices and its ability to capture and report data. This said, it is important to note that the transition to a new automated system of accounting and financial reporting was perhaps more difficult in practice than originally thought. Transition to a new automated system required much more work of the Division and coordination with others than anticipated. The migration from basically a manual system of subsidiary ledgers to NHFIRST was not exactly "plug & play" and required numerous resources and hours of staff and others to accomplish.

Now implemented, the Division has for several months utilized the “multi-ledger” system available in NHFIRST to capture accounting transactions that ultimately, will allow the Division to automate for the first time, the production of financial statements. It is anticipated that the first financials from NHFIRST will occur at the end of the third quarter in March of this year. This ability to generate automated reports and financials will greatly improve the reporting function of the Division, management and others who rely on these statements.

The Division will continue to improve its communications and working relationship with BFR, FDM and Treasury.

2010-02: Material Weakness

Cash Reconciliations

Reconciling bank accounts is a key control for ensuring that cash collected and spent by the State is properly reflected in both the bank’s records and the State’s general ledger. As such, performing these reconciliations should be done regularly and on a timely basis in order to identify and resolve any errors that may exist.

In fiscal 2010, due in part to the implementation of the State’s new general ledger system, NHFIRST, the Treasury Department was not able to reconcile its books to the Turnpike’s bank statements in a timely manner. The lack of timely reconciliations resulted in errors and omissions not being discovered and corrected quickly.

As a result of our audit work, we noted that the Turnpike System personnel did not fully understand the relationship between the Turnpike and Treasury as it exists under NHFIRST.

Recommendation:

We recommend that Turnpike personnel work with Treasury to ensure that they understand their responsibilities regarding Turnpike cash balances held by Treasury. Additionally, we believe that the Turnpike System personnel gain a better understanding of how the Turnpike’s separate and pooled cash accounts work, that balances are accurate and that accounts are reconciled on a monthly basis.

Management’s Response:

Turnpike System Response:

We concur.

Turnpike System staff worked diligently and continue to work with Treasury to review and confirm Turnpike cash account balances in the NHFIRST accounting package. Turnpike staff and Officials of Treasury have met regularly and continue to meet to discuss these and other issues.

Treasury's Response:

We concur.

Treasury fully recognizes the critical importance of timely reconciliations. During the first year of NHFIRST implementation Treasury resources were (and continue to be) spread very thin. Like most users of NHFIRST, we continue to learn more about the capabilities and drawbacks of the system daily. There have been many starts and stops as we worked cooperatively with the Department of Administrative Services and the Turnpike System to ensure the proper reporting and data was being used in reconciliations.

The process, while not yet perfect, has been improved. Treasury continues to work with the Turnpike System to fully understand its needs, as well as with Financial Data Management and the Bureau of Financial Reporting for assistance with automating the reconciliation process. We are working toward reorganizing the revenue approval and reconciliation sections of the Treasury with the goal of using NHFIRST and bank data to reconcile all activity electronically and on a daily basis. We have met with the Comptroller and have a plan in place to restructure the cash accounts in the NHFIRST General Ledger to facilitate easier and more meaningful reconciliation from NHFIRST to the subsidiary cash ledger.

Treasury takes this weakness very seriously and is committed to its satisfactory resolution.

SIGNIFICANT DEFICIENCIES

2010-03: Significant Deficiency

Journal Entry Approval

The Turnpike relies on the automated approval process within the NHFIRST system as evidence of authorization to approve journal entries replacing the manual sign-off process used previously.

However, our review of the Information Technology General Controls (ITGC) identified password security weaknesses that would not allow us to place reliance on the automated approval controls. As such we could not conclude that all journal entries were appropriately authorized.

Recommendation:

We recommend that the State take immediate steps to rectify the password protection issue to help strengthen its ITGC structure and put the State on the right path for an effective ITGC structure and ultimately an effective on-line approval control.

Management's Response:

We concur.

Beginning fiscal year 2011, the Turnpike System no longer relies on the automated approval process within the NHFIRST system as evidence of journal entry authorization. All manual general ledger journal entries are authorized as indicated by initials by both the preparer and the approver.

Once the State has resolved the ITGC password security weakness; then the Turnpike System will rely on the NHFIRST automated authorization.

2010-04: Significant Deficiency

Debt Covenant Compliance

The Turnpike System personnel are responsible for ensuring compliance with all of the debt covenants included in the Turnpike System bond resolutions. During the 2010 audit, we noted the following two instances where the Turnpike System was not in compliance:

- Adequate funds were not transferred by the Trustee to the Revenue Bond Debt Service account as of June 30, 2010.
- A certificate from the Insurance Commissioner certifying the adequacy of the Insurance Reserve was not received within the required timeframe.

Further, as a result of the 2010 bond issue being used for capital construction projects, the Turnpike System was required to establish a Revenue Bond Construction Account for the unspent bond proceeds. Before any payments are made from this Account, the Turnpike System is required to certify and provide support for amounts to be paid from the account to the State Treasurer. The Turnpike System submitted certifications to support 2 out of the 3 draws that were made during the year. For the third draw, supporting documentation was provided to Treasury but was not certified.

Recommendation:

We recommend the Turnpike system implement formal policies and procedures and designate appropriate personnel to ensure that all debt covenants are understood and formally documented to help ensure compliance.

Management's Response:

Turnpike System Response:

We concur.

Management is responsible for ensuring compliance with all debt covenants.

Turnpike System staff worked diligently and continue to work with Treasury to review and confirm Turnpike debt covenant compliance issues. Turnpike staff and Officials of Treasury have met regularly and continue to meet to discuss these and other issues. As a result, formal policies and procedures are being developed and documented.

Treasury's Response:

We concur.

1. Relative to adequate funds being transferred to the Revenue Bond Debt Service Account, the auditors are fully aware that the Treasurer wired adequate funds timely to a Turnpike account held by the Trustee. However, the Trustee did not transfer from one Turnpike account into the appropriate Turnpike account timely. This Trustee no longer serves in that capacity for the State. It is important to note that all debt service payments were made in the proper amounts on the proper dates.
2. Relative to the Insurance Commissioner certificate of adequate Insurance Reserve, Treasury concurs that the letter due on August 31, 2010 was received on September 27, 2010. We will work with all parties involved to ensure it is received timely in the future.

Relative to certification, all subsequent draw certifications have been and will continue to be signed by a Department of Transportation official.

**New Hampshire Turnpike System
Management Letter**

2010-05: Toll Reconciliations

The Turnpike Bureau performs cash reconciliations for its revenue (toll) collection daily that are reviewed by the management at the Bureau.

During our test work, we observed one reconciliation with a variance outside of established tolerance levels for which investigation of the variance was not performed. Once the variance was communicated by the audit team, it was determined that the variance was due to a failed lane controller (from June 8th through June 14, 2010) which recorded transactions but failed to be recorded on the Turnpike Systems reports.

Upon further review, it was noted that the Bedford (South Lane 6) was opened in fiscal year 2010 on June 3rd and June 7th for both cash and EZ-Pass transactions. Both dates had variances outside of the expected ranges. Activity was being recorded in the system incorrectly, as activity for that lane was recorded in the lane controller, but was not then transmitted to ACS (the 3rd party responsible for reporting and processing activity reports to Turnpike). In addition, as mentioned above, activity was also reported incorrectly for the June 8th-14th period for EZPass lanes only. Both of these entries did not get recorded on the ACS reports until August 2010 (fiscal year 2011). The error was due to TRMI, the third party responsible for lane controllers and recording activity.

Recommendation:

We recommend the Turnpike System's process for investigating variances over the pre-established tolerance levels be performed timely and with more rigor to help ensure that issues are identified and resolved accurately and promptly.

Management's Response:

We concur, in part.

Through the month of July, variances were reviewed by System audit staff, toll supervisors, the contracted toll processor (Loomis), and by TRMI in a timely manner. System management suspected that there was a problem in the reporting of one of its lanes, followed up appropriately with the vendor TRMI, but ultimately was unable to get a timely response.

During FY 2010, System management has since enhanced the audits of data provided by the TRMI and ACS systems. In September during one of its reviews, information was discovered that prompted us to point TRMI to the cause for the (past) June variances.

We concur that TRMI should have been tasked to work harder to find the initial cause in a more timely manner.

2010-06: Review and Transfer of Completed Projects

The process for identifying completed projects that should be transferred out of Construction in Progress (CIP) is inadequate. The Turnpike compares costs incurred to date to estimated costs to complete to determine whether a project is completed. This process fails to identify completed projects when projects are performed under budget. The secondary control process for identifying completed projects are construction reports/emails received from project leaders stating whether a project is in use/completed. We reviewed this documentation and noted that correspondence existed stating that a project was completed; however, the project did not get transferred from CIP to Infrastructure, a completed capital asset status, and then depreciated accordingly.

Recommendation:

We recommend Turnpike management make appropriate changes to the process for identifying completed projects and transferring those projects out of CIP into completed capital asset status.

Management's Response:

We concur.

The Division has taken on the task of reviewing both process and procedures relative to the accounting and reporting of capital assets. The current process is being addressed and we understand that until a new system of recording assets is in place, the need for manual review needs to be improved.

Turnpike staff will obtain a signed Certification of Completed CIP Projects from the Project Manager for each project in CIP. Such certificate will include the percent of project construction completed and if a project is in use.

Enhancements to this issue include but are not limited to, working with project managers to better describe on project authorizations forms more detailed descriptions of what project expense qualify as either capital or repair. We are also exploring opportunities with the development of other internal systems (Asset Explorer and STTIP-RMS) to give us better reporting capabilities. Ultimately, the State should expedite the NHFIRST Fixed Asset and Inventory System.