



**New Hampshire Turnpike System**

Auditors' Reports as Required by  
*Government Auditing Standards* and  
Other Information

Year Ended June 30, 2008



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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, 2008, and have issued our report thereon dated December 18, 2008. 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 an 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as Finding 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as Finding 2008-1, is considered to be a material weakness.

### **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 response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Turnpike System's response and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to management of the Turnpike System in a separate report (see Exhibit III).

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 14, 2008

**Exhibit II**

**New Hampshire Turnpike System**  
**Schedule of Findings and Responses**  
**June 30, 2008**

**MATERIAL WEAKNESS**

**2008 – 1**

**Turnpike Construction in Progress Review Process**

The Turnpike System does not have an effective process or controls in place to ensure that completed projects are capitalized timely and depreciated accordingly. During our review of the Construction in Progress balance as of June 30, 2008, we identified many issues with the capitalization of costs that lead to a significant audit adjustment being proposed by us and recorded by the Turnpike System. The issues include: not timely identifying a completed project and depreciating it appropriately; not identifying all of the cost components of a project; i.e., at times, only construction costs of a project were capitalized but not the associated land or engineering costs; and a balance of preliminary study costs has been carried in Construction in Progress for years.

We recommend that the Turnpike System implement a formal process and adequate review procedures for Construction in Progress balances to ensure that costs are capitalized in a timely manner. To do so, the Turnpike System should implement a better system for capturing costs by project. This will allow for a capitalization of all project costs once it is determined that the project is in use.

***Turnpike System's Response***

We concur. While we have improved over the last couple of couple of years with recording fixed assets, the process is very manual and there are many opportunities for error. The Department has instituted a quarterly review with a senior engineer from the Bureau of Design to verify fixed asset projects are properly identified. The Department will perform a review of capital spending through February 28<sup>th</sup> to make sure projects have been properly classified. Based on this review, quarterly reviews will be implemented and formal procedures will be documented to allow for a better reporting of assets.

## **Exhibit III**

### **New Hampshire Turnpike System Other Comments**

During our audit we noted certain other matters involving internal control and other operational matters that are presented below for your consideration. These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and have been summarized below.

The Turnpike System's responses to these comments are also presented below. We did not audit these responses and, accordingly, we express no opinion on them.

In addition, we identified a certain deficiency in internal control that we consider to be a significant deficiency, and in accordance with *Government Auditing Standards* communicated it in writing to the Turnpike System in a separate report (see Exhibits I and II).

#### **Financial Reporting**

The financial reporting process over the Turnpike System financial statements improved from the prior year; however, there are still areas where the process could be made more effective at generating financial information in accordance with generally accepted accounting principles (GAAP) in a timely or efficient fashion. These areas include a more rigorous analytical review of the financial information from senior management and analysis of this information to ensure the amounts are supported, reasonable and make sense as compared to the prior year statements.

With a more aggressive review at the senior management levels, audit adjustments may be avoided and management will have more reliable financial information for decision-making purposes. Specific audit adjustments included: not identifying a material reclassification in the statement of revenues and expenses, improperly establishing an expenditure and payable in the Highway fund instead of properly being reported in the Turnpike fund and not recording the proper debt service principal and interest reserves in the general ledger.

We recommend that the Turnpike System continue to implement a system of reporting, analysis and review of financial information in a timely and effective manner. This will help to identify any misstatements in the financial statements prior to being submitted for audit and help to ensure accuracy of the financial information.

#### ***Turnpike System's Response***

We concur. While the Department has done a much better job in closing the books, roll forward of financial statements from previous years has been difficult with so many prior year adjustments. The Department is in the process of reviewing the Administrative organization structure to provide for appropriate levels of review.

### **Project Setup on NHIFS**

We noted during our review of capital expenditures that one Turnpike project was incorrectly set up on the Highway fund. The error was identified and corrected by the Turnpike System as part of the current bill reconciliation. The initial set-up on the wrong fund represents a failure in the internal control procedures for project set-up.

We recommend the Turnpike System implement a management review control to ensure projects are set up in the appropriate fund.

#### ***Turnpike System's Response***

We concur. The Department needs to continue to emphasize and educate staff on the importance of keeping a well-defined structure between the two funds.

### **Turnpike Cash**

During fiscal 2007, the Turnpike implemented a new process to ensure that cash balances are reconciled with Treasury on a monthly basis and any differences are settled in the following month through an actual transfer of cash from Treasury to the Turnpike System. While it appears the process was operating effectively during the year, as of June 30, 2008, we identified unreconciled balances aggregating approximately \$800,000. This amount was identified in the Turnpike System's reconciliation but was not investigated nor resolved at the time of the audit.

We recommend the Turnpike System ensure the cash reconciliation process with Treasury as formalized is followed consistently and includes following up and resolving any significant unreconciled balances. This will help to ensure that cash balances are appropriately stated.

#### ***Turnpike System's Response***

We concur. The new process of reconciling cash of the General Ledger to Turnpike bank accounts was working properly until the 13<sup>th</sup> accounting period. In the 13<sup>th</sup> accounting period, various adjustments to cash were not anticipated and were not immediately reconciled. The Department has been working with Treasury to implement better controls to make sure this process remains timely.

### **Review of SAS 70 report**

The Turnpike System hires a third party vendor to review and test internal controls of ACS Government Solutions (ACS), the vendor who operates the EZPass system. This SAS 70 review was completed and received by the Turnpike System. A process has been implemented to review the findings with ACS; however, the Turnpike System should be more aggressive in its review, understand the affect the control exceptions have on their IT environment and business processes and continue to challenge ACS in managing their business.

We recommend the Turnpike System review the SAS 70 report with the third party vendor to better understand the business and control implications of any exceptions identified and to also determine areas of any process improvements. Additionally, all exceptions should be promptly addressed and remediated by the appropriate personnel or vendor.

### ***Turnpike System's Response***

We concur in part. The System is now in its third year of conducting SAS 70 audit reports of ACS and feels the process is working pretty well and serves as an educational process for all. We have a process to review the audit findings and to work with ACS to resolve the identified issues. As part of the FY 2008 review, ACS changed auditors, which complicated the process and put pressure on the tight time frame for delivery of this report.

In December 2008, the Department had a conference call with ACS to review the current report and included the KPMG IT specialist on this call. Including KPMG was helpful for the Department to build a broader perspective and awareness of the issues.