



New Hampshire Turnpike System

Auditors' Reports as Required by
Government Auditing Standards and
Other Comments Provided to Management

Year Ended June 30, 2009

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KPMG LLP
99 High Street
Boston, MA 02110-2374

Telephone +1 617 988 1000
Fax +1 617 507 8321
Internet www.us.kpmg.com

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, 2009, and have issued our report thereon dated December 23, 2009. 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 of this section 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 another deficiency that we consider to be a significant deficiency.

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 2009-1, 2009-2 and 2009-3 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 deficiency described in the accompanying schedule of findings and responses as 2009-4 to be a significant deficiency in internal control over financial reporting.

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*.

We noted certain management letter comments that are included in Exhibit III of this report that we also provided to the Turnpike System's management.

The Turnpike System's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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's 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 23, 2009

New Hampshire Turnpike System
Schedule of Findings and Responses
June 30, 2009

MATERIAL WEAKNESSES

2009-1

Financial Accounting and Reporting

The financial reporting process over the Turnpike System's financial statements needs to be made more effective at generating financial information in accordance with generally accepted accounting principles (GAAP) in a timely and efficient manner. The individuals responsible for accounting for and reporting the financial statements and footnotes need to ensure the classification of accounts, amounts recorded, and the disclosures included in the footnotes are accurate and consistent with the Turnpike System's own accounting policies and GAAP. During our audit, we noted instances where an investment was improperly classified, financial statement amounts did not appear reasonable based on prior year results and disclosures were not in accordance with generally accepted accounting principles.

Specifically, an analysis of financial relationships and comparisons of financial statement amounts from one year to the next was not performed to ensure the data presented was reasonable. Examples of where financial relationships did not make sense include the comparison of depreciation and operating expenses, where the unexpected relationship of amounts from one year to the next led to audit adjustments being recorded. High level management reviews of the financial information on an ongoing basis would help to identify these unexpected relationships, help to determine whether unusual relationships are appropriate or not, and whether amounts reported appear accurate.

While it appears the Accounting and Finance department at the Turnpike System is fully staffed, we noted lines of responsibility are not clear and job descriptions did not appear to be well-defined. There were many staff people involved in the completion of the Turnpike financial statements and, at times, three or four individuals would be working on one task. At other times, individuals would be solely responsible for a specific area with limited supervisory review over the work performed.

Lastly, we noted the process to convert the financial statements to the GAAP basis at year-end is predominantly manual, thereby increasing the risk that GAAP entries and subsequent reversing entries are not recorded correctly. With the implementation of NH First, the new enterprise resource planning system, the Turnpike System should take steps now to understand and document how the GAAP closing will occur in 2010.

To help ensure the accuracy and the completeness of the financial statements generated by the Turnpike System in the future, we recommend a more rigorous review and analysis of the financial information be performed by senior management and staff to help ensure the amounts are supported and reasonable based on current year operations and prior year results.

With a more rigorous review of the financial statements and footnotes, audit adjustments can be avoided thereby providing management with more reliable financial information for decision-making purposes.

We also recommend Turnpike System's management implement a system of reporting, analysis and review of financial information in a timely and effective manner and ensure that clear lines of reporting and responsibility are established, including appropriate levels of management review. These improvements will ultimately help to identify any misstatements in the financial statements prior to being submitted for audit. Finally, we recommend that the Turnpike System's staff become more familiar with the Governmental Accounting Standards Board (GASB) statements applicable to the Turnpike System.

Turnpike System's Response

We concur.

The Division of Finance (Division) for the second time in recent years has experienced turnover in key finance positions. Beginning January 2009, the lead staff member on audits resigned. In addition the Director of Financial Reporting resigned in March 2009.

This change in management occurred in the middle of the budget session for which the Division is the lead office for agency budget development. In July, as the Department was undergoing implementation of the State's new accounting system, a second financial analyst was hired to assist in this process. In preparation for a Turnpike bond issue and annual audits (Turnpike, Highway Fund, and Single Audit) a third analyst and Administrator III were hired in August. By August, the Division was fully staffed with three financial analysts (2 new hires), a new Administrator III and newly promoted Director of Financial Reporting. In addition to the task and challenges of audit during this time, the Division was also able to assist the State Treasurer in developing the financial section of the Official Statement for the subsequent and successful issuance of \$217 million in new and refunded bonds.

The financial team is committed to address issues raised by this audit. To this end, the Division is updating procedures to include mock closings of Turnpike financial statements. This will provide staff and management a means to review and analyze financial data prior to year-end. Further, in an effort to improve over the current manual system of reporting and producing financial reports, the Division is currently researching with other agencies as to the advantages and feasibility of replacing the current manual system with the automated multi-ledger functionality available within Lawson. Now fully staffed as a cohesive new team working together, the department is in process of reviewing its "Audit Preparation Guide" and assigning tasks, duties, and responsibilities to Division staff in preparation of improving performance for next year's audit.

Lastly, the department has worked successfully and very much appreciates the services provided by the Department of Administrative Services, Bureau of Financial Reporting in gaining advice

and guidance relative to GAAP, adjustments and development of footnotes. We continue to discuss on-going issues so that we may be as prepared as possible for year-end purposes.

2009-2

GASB Statement No. 49 Implementation

The Turnpike System did not complete a comprehensive analysis of its environmental remediation sites in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

The GASB Statement was not fully understood by Turnpike staff and it was not possible to audit the data originally presented. The analysis to support the liability amounts reported in the financial statements was not well-documented and did not appropriately include an estimate of the liability based on current year costs. Further, management of the Turnpike System did not properly review and understand the estimate provided by the engineering department to ensure that the amount developed was in accordance with the requirements of GASB 49.

We recommend Turnpike management become sufficiently fluent in the implementation of new GASB standards or seek out the assistance of the Department of Administrative Services, Bureau of Financial Reporting to assist with the implementation to ensure that the analysis is performed accurately and that the requirements of the standard are properly reported and disclosed in the financial statements.

Turnpike System's Response

We concur in part.

The Department for the first time under the new GAAP requirements, provided the auditors an updated "Summary of Environmental Pollution Remediation Obligation" which is now filed with the Department of Administrative Services. This report was reviewed and updated by the Department of Transportation, Bureau of Environment with the aid and assistance of the Department of Environmental Services Assistant Waste Director. Additionally, a third party consultant was contacted and provided updated estimates to support the amounts reported. Specific to this report, only the site formerly known as "Bensons" in Hudson was identified to be associated with the Turnpike System. An entry was recorded to recognize this liability as required by GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations.

As indicated, the Department annually files a report of pollution sites with the Department of Administrative Services. The Department will continue to seek the advice and guidance of the Bureau of Financial Reporting relative to GAAP adjustments and development of footnotes.

2009-3

Accounts Payable Cut-off

The Turnpike System did not properly accrue for accounts payable at year end. This appeared to be due to a change in accounts payable cut-off procedures issued by the Bureau of Financial reporting (BFR) that was not properly followed by the Turnpike System's personnel. These procedural changes were necessitated by the implementation of NH First. The Turnpike System identified certain transactions as pertaining to fiscal 2009 that were not included in accounts payable by the BFR because the correct field was not used by the Turnpike System to properly designate these transactions. This resulted in a significant adjustment being recorded in the financial statements.

We recommend that whenever the Turnpike System is relying on another agency for amounts to be reported in its financial statements, procedures be performed to reconcile this data. The Turnpike System should have reconciled the amounts it had identified as requiring accrual with the amount then determined to be accrued by the BFR. Without reconciliations of data going back and forth between agencies, amounts can be recorded based on incomplete or inaccurate financial information.

Turnpike System's Response

We concur.

Under the newly adopted NH First System, the procedure employed to accrue payables failed to properly reflect interfaced (IFS format to Lawson) transactions. The department did in fact record accounts payable by means of assigning an asterisk to a specific field, however, the field utilized was not captured for this accrual process. Secondly, computer (IFS) reports utilized in the past for review and reconciliation at year-end were not readily available in NH First to the department to perform this function.

In response to the above, department staff initiated a manual and comprehensive review of all payment vouchers over the year-end cut-off period (July thru October). The result of this effort was to record accounts payable to the satisfaction of the department and ultimately the auditors.

Implementation of Lawson and continued development should reduce the risk by eliminating the additional manual step of applying the asterisk and instead manage the situation through routine data entry of transaction dates – with sensitivity to year-end/year-begin practicalities. The department will work closely with BFR to ensure new accounting procedures are implemented successfully.

SIGNIFICANT DEFICIENCY

2009-4

Reconciliation between the Check Register and the NH First System

During our audit of the accounts payable balance, the Turnpike System had difficulty providing a list of expenses paid that reconciled to the amount recorded in the accounting system, NH First. This made it difficult to determine if the list of expenses paid subsequent to year end was complete and if the accounts payable balance as of June 30, 2009 was accurate.

As new reports and other data extracts are produced by the new accounting system, we recommend Turnpike System's management develop new controls, including reconciliations, to ensure the data produced and reported by NH First is both complete and accurate.

Turnpike System's Response

We concur.

During the early implementation of the NH First system, the Division of Finance had difficulty obtaining a check register for reconciling purposes. Once the check register was available, the register (through September 30, 2009) was reconciled to the Statement of Appropriations.

To ensure the data produced and reported by NH First are both complete and accurate, the Turnpike System will perform the following:

1. Develop new controls, including reconciliations to ensure the data produced and reported by the NH First system are complete and accurate,
2. Review the Statement of Appropriations for reasonable amounts,
3. Reconcile the July and August 2010 check registers to the Statement of Appropriations, and
4. Compare quarterly expenditure reports over prior years and determine unusual trends.

New Hampshire Turnpike System

Other Comments Provided to Management

New Hampshire Turnpike System
Other Comments

2009-5

Turnpike Construction in Progress Review Process

The Turnpike System does not have an effective process or effective 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, 2009, we identified several projects that were completed during the year but not capitalized and depreciated. These errors resulted in the understatement of depreciation.

A similar comment was noted last year but the issue has not been resolved and effective processes and controls have not been formally implemented.

We recommend Turnpike System's management implement formal processes and controls for an adequate review of projects reported as Construction in Progress. This will help ensure completed projects are accurately depreciated in a timely manner.

Turnpike System's Response

We concur.

During 2009, to determine capitalized projects the department reviews monthly each "Request for Project Authorization" slip. In fiscal year 2010, we continue to manually review all Construction in Progress (CIP) transactions by this means and now will also compare current infrastructure balances on a project by project basis. To this end, the Division is updating procedures to include quarterly mock closings of Turnpike financial statements. This will provide staff and management a means to review and analyze financial data prior to year-end.

Lastly, CIP and depreciation are posted manually to an excel spreadsheet (subsidiary ledger). With the implementation of the Lawson NH First accounting package, finance staff (over the long term) is working towards automating this process.