



KPMG LLP
99 High Street
Boston, MA 02110-2371

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

**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, 2007, and have issued our report thereon dated November 30, 2007. 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 over financial reporting. We consider the deficiencies described as Findings 2007-1 through 2007-3, in the accompanying schedule of findings and responses to be significant deficiencies.



The Fiscal Committee of the General Court
State of New Hampshire

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, we believe none of the significant deficiencies described above are material weaknesses.

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. 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

November 30, 2007



SIGNIFICANT DEFICIENCIES

2007 – 1:

Automated Toll Collection (E-Z Pass) Information System

As part of our consideration of internal controls over the toll collection process, we performed certain procedures related to the IT general controls for The Revenue Markets, Inc., Accord, New York (TRMI) application, the State's E-ZPass toll transaction collection processor. In addition, we reviewed the ACS Government Solutions New Hampshire E-ZPass Customer Service Center Report on Controls Placed in Operation and Tests of Operating Effectiveness (Type II SAS70 Report) as of 9/30/2007.

The Turnpike System (Turnpike) is taking the following steps to design internal control procedures that address the control deficiencies identified in our previous audit:

Developing a "User Type" work instruction which prescribes guidelines for administering user account privileges to the TRMI application including the following:

- Required completion of a "Toll System Account Form" documenting authorization by Toll Manager or Assistant Manager prior to granting access to the application
- Restriction of access to create/modify application user accounts and assign privileges
- Design of application level employee (user) profiles/types
- Procedures for bi-annual management reviews of Toll System computer access
- Initiating a process to review all TRMI application level accounts and re-assign privileges based on job responsibilities
- Developing a "Toll System Change Management" process requiring authorization, testing and approval of TRMI application changes by the Turnpike System and the Office of Information Technology (OIT) prior to implementation by the vendor
- Initiating analysis of MOMS event logs to identify "Mission Critical" events for monitoring purposes



The above items are in development but were not fully implemented as of fiscal year end. The following internal control deficiencies exist:

- Password parameters at the TRMI server and application level are not adequately configured or aligned with Statewide IT policies,
- TRMI application level access is not adequately controlled via the use of user profiles and groups. Rather, individual accounts have been established with access rights in excess of those associated with their group/profile,
- Access to the TRMI application is granted without appropriate documented approvals,
- An effective process does not exist for timely notification of TRMI application level administrators of employee terminations to facilitate the deletion/deactivation of application user accounts,
- Periodic management reviews of user access right for the TRMI application are not performed,
- Turnpike System does not follow a formal and documented change management process for changes that are made to the TRMI application by the vendor, who has unrestricted and unmonitored access to make changes to the application,
- Turnpike System personnel do not monitor the vendor to ensure that system incidents are being properly tracked and acted upon in a timely and effective fashion, and
- Turnpike System and OIT does not have adequate control over the process of granting physical access to the computer room which houses the TRMI server. This has resulted in multiple personnel being granted 24/7 access to production computing equipment who do not require such a level of access to perform their job responsibilities.

These control weaknesses continue to expose the State to unnecessary risks that data can be corrupted, destroyed or otherwise compromised and that such data may not be recoverable. Additionally, these weaknesses indicate State personnel are not adequately monitoring the third-party vendor hired to perform services on behalf of the State to ensure the State is receiving all of the services it is supposed to receive.

We recommend that a more complete review of the IT controls be performed and all weaknesses be promptly addressed and remediated by the appropriate personnel.



Turnpike System's Response

We concur.

The Turnpike System continues to make the necessary improvements over internal controls and many of the issues highlighted by KPMG have been resolved. Most of the issues cited were resolved when the Department introduced User Type Work Instructions in May 2007, which were finalized and approved in November 2007. In addition, Change Management was also implemented in May 2007 and those related Work Instructions were finalized in November 2007 as well. These procedures call for the full documentation of all computer application changes within our Toll System Programming. Furthermore, the Mission Critical events in the MOMS system have been identified and Work Instructions on the notification, monitoring and resolutions of these activities are currently in development. Password parameters for the TRMI system were implemented in December 2007.

The Department continues to work with OIT to identify and resolve any system related control weaknesses and believes the system of controls has been greatly improved since the conclusion of the fiscal year. The Department has hired a Toll Manager and created a new E-ZPass Program Manager position, to allow management to better focus on some of the higher-level issues associated with operating in the electronic E-ZPass environment.

2007 – 2:

Financial Reporting

The financial reporting process over the Turnpike System financial statements was not as effective as it could be at generating financial information in accordance with generally accepted accounting principles (GAAP) in a timely or efficient fashion. While the process has improved substantially from the prior year, there are still areas where the process could be made more effective and therefore more efficient. These areas include a review of the financial information from Senior Management on a timely basis and analysis of this information to ensure the amounts are supported and reasonable.

The ineffectiveness of the review process resulted in many schedules being reperformed, and audit differences identified. Specific instances include: not properly reconciling the rollforward of net assets from the prior year, not identifying a material reclass in the statement of revenues and expenses, not properly classifying equipment costs, and improperly establishing an expenditure and payable in the Highway fund instead of properly being reported in the Turnpike fund.

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 in part. During FY07, in response to the major financial reporting difficulties encountered in the course of the FY06 audit, the Department took a series of actions designed to address these concerns. Policies and procedures manuals were completed for the major finance office functions. An audit prep guide was created to serve as the tool to ensure that the audit is properly planned and supervised and that all required documents and analysis are suitably assigned and reviewed and are undertaken within specific timetables. Further, the trial balance conversion process and the adjusting journal entry spreadsheets were redesigned in an effort to simplify and better organize these vital documents.

Keeping in mind the extent of the deficiencies brought to light in the FY06 audit and the delay in issuing statements, the finance staff had an abbreviated window in which to implement the new procedures and to properly analyze all of the necessary adjustments. Due to the number of audit adjustments in FY06, there was some difficulty rolling forward these statements and some errors were made. However, the Department does feel that tremendous progress was made and anticipates continued improvements in closing FY 08.

2007-3:

Turnpike Cash

The cash recorded on the Turnpike's general ledger did not agree with the cash records in the Treasury Department and the difference of over \$3 million remained unresolved until September 2007. The State's overall general ledger balance did reconcile; however, the Turnpike's bond resolution requires Turnpike funds to be properly segregated from other funds and therefore need to balance to the custodial bank accounts. This situation has been an ongoing deficiency because the Turnpike System did not have an effective system to identify revenue and expenditure transactions that were not applied to the appropriate bank account. Monthly adjustments were processed; however, the Turnpike system was not able to reconcile these transactions.

We were informed that a new process has been implemented for the month ending September 30, 2007. We recommend that Turnpike System management ensure compliance with the process and ensure amounts are reconciling at least monthly.

Turnpike System's Response

We concur. While the cash balance per the general ledger for the state as a whole was in balance with all of the state bank accounts, the dedicated Turnpike bank balances were not reconciled to the Turnpike general ledger during the audit period. As referred to above, the Department worked with the Treasury Department and has simplified the Turnpike cash transfer process. The new process has been working well since implementation and the accounts have been reconciled in a timely manner.