

**STATE OF NEW HAMPSHIRE
TURNPIKE SYSTEM**

**MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

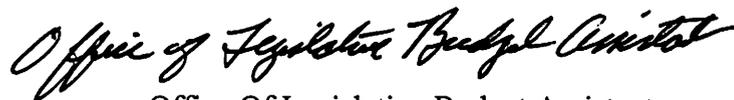
To The Fiscal Committee Of The General Court:

We have audited the financial statements of the New Hampshire Turnpike System as of and for the fiscal year ended June 30, 2013 and have issued our report thereon dated December 20, 2013.

This management letter, a byproduct of the audit of the New Hampshire Turnpike System for the fiscal year ended June 30, 2013, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. Also included are two observations and recommendations identified as other management issue comments. The appendix, included as an attachment to the management letter, provides a summary of the status of observations presented in the fiscal year 2012 management letter of the Turnpike System.

The New Hampshire Turnpike System Annual Financial Report can be accessed online at:

http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Turnpike_2013_Annual_Report.pdf



Office Of Legislative Budget Assistant

December 20, 2013

**STATE OF NEW HAMPSHIRE
TURNPIKE SYSTEM
2013 MANAGEMENT LETTER**

TABLE OF CONTENTS

	<u>PAGE</u>
Letter Of Transmittal	i
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters	1
<i>Internal Control Comments</i> *	
<i>Material Weakness</i>	
1. Continue Efforts To Improve Financial Reporting	3
<i>Significant Deficiencies</i>	
2. Improve Toll Audit Procedures	5
3. Pursue Unpaid Tolls And Violation Fees	6
4. Strengthen Controls Over Electronic Tolling	7
5. Review Applicability Of MOP To Rental And Force Account Contracts	9
6. Financial Management Should Monitor Toll Violation Revenues	10
<i>State Compliance Comment</i>	
7. Prepare Required Toll Facility Certifications	12
<i>Other Management Issue Comments</i>	
8. Consider Consolidating Financial Operations At Department Headquarters	14
9. Present Annual Financial Report Consistent With Generally Accepted Accounting Principles	15
APPENDIX - Current Status Of Prior Audit Findings	17

* No audit comments suggest legislative action may be required.

This report can be accessed in its entirety on-line at:
http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/DoT_ML_2013.pdf

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited, 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, the financial statements of the Turnpike System (Turnpikes) of the New Hampshire Department of Transportation which comprise the Statement of Net Position as of June 30, 2013 and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Turnpikes' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Turnpikes' internal control. Accordingly, we do not express an opinion on the effectiveness of Turnpikes' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control 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, 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 deficiency described in Observation No. 1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control 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 Observations No. 2 through No. 6 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Turnpikes' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in Observation No. 7.

Other Management Issues

We noted two other issues that we reported to the management of the Turnpike System in Observations No. 8 and No. 9.

Turnpikes' Responses To Findings

Turnpikes' response to the findings identified in our audit is included with each reported finding. Turnpikes' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Office Of Legislative Budget Assistant

December 20, 2013

Internal Control Comments
Material Weakness

Observation No. 1: Continue Efforts To Improve Financial Reporting

Observation:

Although Turnpikes' financial accounting processes have continued to improve over the past fiscal years, auditors identified two material errors in Turnpikes' initial fiscal year 2013 financial reporting that prompted corrective audit adjustments. Other significant audit adjustments were also proposed to and made by Turnpikes. Certain of the fiscal year 2013 audit adjustments related to recent changes in financial reporting standards and other technical issues.

Recommendation:

Turnpikes should continue its efforts to improve its financial accounting and reporting processes and continue with its implementation of effective policies and procedures to support its financial operations.

Turnpikes should continue in its efforts to keep its finance staff current and trained in financial reporting standards and to request timely assistance on accounting and financial reporting issues for which it does not have current expertise.

Auditee Response:

We do not concur.

The reported Total Net Position of the Turnpike System was properly reported at \$512.4 million before and after the reclassification as a result of a technical change in the reporting of the Net Position.

The table below shows the reclassification had zero impact on the Total Net Position.

Statement of Net Position (Balance Sheet)

(Amounts in Thousands)

NET POSITION	Proposed TPKE	CHANGE	Final TPKE
Net Investment in Capital Assets	\$387,168	\$35,993	\$423,161
Restricted for Debt Repayments	52,720		52,720
Restricted for Uninsured Risks	3,005		3,005
Restricted for Construction	35,993	\$(35,993)	
Unrestricted	<u>33,545</u>		<u>33,545</u>
Total Net Position	\$512,431		\$512,431

The above reclassification was the result of a recent change in GASB (Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net*

Position). The Department does not concur that the reclassification rises to the level of a “Material Weakness in Internal Control” and did not result from a deficiency in internal controls or poor accounting methods and practices.

The reported Total Liabilities of the Turnpike System was properly reported at \$506.5 million before and after the reclassification as a result of a technicality that an agreement was not signed prior to June 30, 2013. The \$9.2 million reclassification was the result of an adjustment of the same, from Short-term to Long-term debt payables on the financials. The original financial statement presentation reflected the accelerated debt payments from the Turnpike to Highway Fund as a result of the newly enacted budget effective July 1 2013. Technically, an amended agreement between the Departments Commissioner and the State Treasurer needed to execute the accelerated payment. This agreement was not signed until July 19, 2013 (subsequent to June 30, 2013), which necessitated a reclassification. The Department does not concur that the reclassification rises to the level of a “Material Weakness in Internal Control” and did not result from a deficiency in internal controls or poor accounting methods and practices.

Only in the strictest and narrowest interpretation of the term, would these reclassifications result in a “Material Weakness” in internal control as LBA has reported in this finding.

LBA Rejoinder:

Turnpikes’ review and approval controls failed to prevent, detect, or correct material misstatements in its financial statements.

Regardless of the classification of the observation as either a material weakness or a significant deficiency, the underlying weakness in operation of Turnpikes’ internal control should be addressed.

The fact auditors, and not the operation of Turnpikes’ internal controls, identified and proposed corrections of \$36 million and \$9 million in classification errors on Turnpikes’ financial statements is sufficient for auditors to report a material weakness in the operation of internal controls over Turnpikes’ financial reporting processes.

Significant Deficiencies

Observation No. 2: Improve Toll Audit Procedures

Observation:

Turnpikes' toll audits, as performed during fiscal year 2013, were not sufficiently complete to provide full reporting of toll system accuracy.

Turnpikes is highly dependent upon its electronic toll systems to accurately determine, charge, collect, and report toll revenues. Turnpikes' primary control to determine and monitor the accuracy and performance of the toll system vendor and equipment is its performance and evaluation of its audits of toll systems. Without accurate toll audits, Turnpikes cannot be assured its toll systems are operating within design parameters and collecting all toll revenue.

Turnpikes performed both physically-observed and camera-observed toll system audits (also known as lane audits) during fiscal year 2013 to test the accuracy of its electronic toll transaction systems.

During our review of the 4th Quarter Lane Audit - ORT Vendor Narrative, a camera-observed audit, we noted the Image Capture Reporting Accuracy and Image Quality Reporting Accuracy computations were not completed, even though the comments section of the narrative stated, "ORT System: All requirements were met." Upon inquiry, it was determined the images captured in the toll system necessary to perform the fourth quarter Image Capture Reporting Quality and Image Quality Reporting Accuracy tests were lost as they were not accessed for use within the 60-day availability period, due to an oversight. As a result, that part of the testing was not performed and Turnpikes' conclusions on its camera-observed audits were overstated.

Recommendation:

Turnpikes should continue to strengthen its lane audit processes in support of its electronic toll collections.

Turnpikes' policies and procedures should be sufficiently developed to ensure critical controls will be maintained and performed even when employees are out of work for extended periods of time or leave employment. Management should be notified of unperformed control procedures to allow for their considered response.

Auditee Response:

We concur.

Turnpikes has improved its lane audit processes and is confident that its toll systems are operating within acceptable design parameters.

The Department will add notification of unperformed control procedures to the work instructions.

Observation No. 3: Pursue Unpaid Tolls And Violation Fees

Observation:

Turnpikes is not directing its electronic toll service vendor to pursue electronic toll violations as aggressively as outlined in administrative rule. The policies and procedures supporting Turnpikes' pursuit of collection of outstanding tolls and toll violation fees during fiscal year 2013 provided allowances that are not contained in administrative rule provisions.

According to N.H. Admin. Rule 701.04 (c), if a potential electronic toll violation is captured, the toll system vendor shall prepare "an advisory and payment request that shall be sent to the vehicle owner or account-holder within 30 days of the date of the violation....(d) The demand section of each advisory and payment request prepared pursuant to (c), above, shall include: ... (2) A demand for payment of the toll due and a \$25.00 administrative fee....(g) If the account-holder fails to pay the outstanding toll amount and the \$25.00 administrative fee before the 61st day following the violation, the vendor shall report such nonpayment to the division [of motor vehicles of the department of safety], and provide a copy of such report to the department [of transportation]."

During fiscal year 2013, an "advisory and payment request" as described in N.H. Admin. Rule 701.04 (c), was not sent to a vehicle owner or account holder until 65 days after a potential toll violation was captured. (Turnpikes did send invoices with \$1.00 and \$1.50 administrative fees at five and 35 days, respectively, after a potential toll violation was captured. There is no provision in administrative rules for the \$1.00 and \$1.50 administrative fees.) In addition, the Division of Motor Vehicles was not notified of unpaid toll violations unless and until a vehicle owner or account-holder had incurred 20 unpaid potential violations.

It is not clear whether the distinction between vehicle owners and account-holders in N.H. Admin. Rule 701.04 (g), precludes Turnpikes from using that section of rule to prompt the collection of unpaid administrative violation fees from vehicle owners who are not account holders.

N.H. Admin. Rules 700, the administrative rules relative to electronic tolling, expired in August 2013. The rules had not been readopted as of December 20, 2013.

Recommendation:

Turnpikes should review its practices for pursuing unpaid tolls and violation fees to ensure that it is both collecting all revenue owed to the Turnpikes and also encouraging user compliance with the electronic toll systems.

Turnpikes should establish policies and procedures for pursuing unpaid tolls that are consistent with administrative rules.

Turnpikes should ensure that administrative rules are current and sufficiently comprehensive, and that Turnpikes and its vendor remain compliant with statutes and rules for the operation of the electronic toll systems.

Auditee Response:

We concur.

Pursuant to RSA 236:31, IV (d), which specifically authorizes the Department to implement a schedule of administrative fees “in an amount sufficient to permit the Department to ... fully recover its costs, and the costs incurred by the Department of Safety to administer, maintain, and upgrade the violation enforcement system, the Department is authorized to charge these fees and rules to this effect have been submitted for consideration.

The Department forwards 20 or more violations to the Department of Safety for denial of registration renewal privileges. This practice is provided for in the business rules (policies and procedures). This current business practice application regarding 20 or more violations is consistent with reciprocal toll enforcement agreements entered into with other states. For the Department to do otherwise would result in disparate treatment with in-state residents being subject to harsher penalties than out-of-state residents.

At June 30, 2013 and throughout the period under review in this audit, Administrative Rules were in place. Although outside the scope of this review, the Department acknowledges that the Administrative Rules (TRA 700) expired in August 2013. The revised rules are written and are currently pending in the JLCAR process, as required pursuant to RSA 236:31, IV and RSA 541-A.

Observation No. 4: Strengthen Controls Over Electronic Tolling

Observation:

Turnpikes has not adopted a comprehensive risk assessment control for its tolling systems.

Turnpikes did adopt a vendor-provided Toll Collections System (TCS) Disaster Recovery Plan during 2013 which addresses the “host” equipment and support provided by the electronic tolling system vendor, primarily three computer servers housed at Department headquarters. The plan incorporates consideration of, and response to, certain risks related to a disaster affecting the “host” tolling systems but the scope of the plan does not address a process for recognizing and reacting to changing risks affecting Turnpikes operations as a whole. For example, the risk of loss of confidential data or misuse of information by staff or partner organizations; changes in regulatory environment; changes in technology; as well as the risk of error or fraud related to the controlled financial operations of Turnpikes.

Risk assessment is one of the five recognized components of internal control. An ongoing risk assessment process is essential to ensure an organization regularly reviews operations for changes in conditions that could present a risk to financial and other operations. An ineffective risk assessment process can result in situations where an organization faces unplanned obsolescence of critical processes or equipment and inadequate planning for imminent changes in process, including inadequate reaction to changes and lack of responsive training of employees.

As noted in the fiscal year 2012 management letter, the Department does identify and evaluate certain operational risks to the Department (including Turnpikes) in its Continuity of Operations Plan (COOP); however, this plan is not sufficiently detailed to address risks specific to Turnpikes' electronic tolling system.

Also noted in the fiscal year 2012 management letter, Turnpikes does not have an understanding of the segregation of duties within the IT operations of its electronic toll transaction system and open road tolling system vendors that are critical to an understanding of risk to its system. Further, Turnpikes does not have any specific procedures for detecting unauthorized changes in the electronic tolling IT systems other than by detecting anomalies in its quarterly lane audits. While the Department reports this weakness should be resolved with the hiring of a new project manager who will strengthen existing controls, monitor adherence, and improve understanding of IT controls, the position remained vacant as of the December 20, 2013 date of this report.

Recommendation:

Turnpikes should continue to strengthen controls over its electronic tolling systems to ensure the systems continue to function securely, reliably, and with minimal risks of interruption. Turnpikes should:

- Perform regular comprehensive risk assessments, addressing all aspects of financial and operational risk over its tolling operations, and
- Ensure appropriate controls, including segregation of duties, are in place at the vendor locations to reduce the risk of unauthorized changes being made to the system. Turnpikes should also implement detection controls to ensure Turnpikes is aware of any unauthorized changes made to its tolling system.

Auditee Response:

We concur in part.

The Department does have a good understanding of its controls over its electronic tolling systems despite no success in filling a vacant position. In lieu of, the Department was successful to utilize an existing DoIT staff person to support and develop IT solutions on an interim basis.

A positive consequence of the recent new Toll Lane System and Open Road Tolling projects is that Turnpikes and Department of Information Technology (DoIT) have extensively reviewed the entire IT toll system infrastructure and operations. As a result, Turnpikes and DoIT have a

very good understanding of the IT aspects of its toll systems and the respective roles and responsibilities of the vendors, Turnpikes and DoIT staff. The documentation for the various systems is up to date.

In the process of reengineering the toll plaza and lane networks, network security and monitoring capabilities have been greatly enhanced. The Legacy toll plaza servers with their problematic Internet Information Services security have been replaced and now all network routers have Secure Shell security. The new lane system utilizes industry standard server auditing/tracking utilities (i.e. Linux process status account) to document all activity in the Linux toll plaza and lane servers. The vendor posts reports from these systems on their FTP site where they are available for DOT/DoIT review such as comparisons to documented changes as approved by formal change requests. This new Linux auditing/tracking system which is fully operational at the end of February 2014. The vendor is also implementing an industry standard auditing/tracking system for the one Windows based server (Trip Wire for the Reports Server) which is planned to be operational in March 2014. Turnpikes is also pursuing having the Telvent ORT system utilize similar auditing/tracking software.

The Department will engage a consultant to develop a comprehensive risk assessment plan which addresses financial and operational risks associated with the tolling operations to complement the vendor-developed, and Department-adopted, Toll Collection System (TCS) and Open Road Toll (ORT) Disaster Recovery Plans.

Observation No. 5: Review Applicability Of MOP To Rental And Force Account Contracts

Observation:

Turnpikes enters into significant rental and force account contract agreements without submitting the contracts to Governor and Council for their approval.

The Department of Administrative Services (DAS) Manual of Procedures (MOP), section 150, part IV, requires the approval of the Governor and Council for any executive branch agency to enter into the following contracts:

1. Contracts in the amount of \$2,500 or more covering personal services, consultant services, and costs associated with organized meetings; and
2. Contracts in the amount of \$10,000 or more covering any other type of service.

Turnpikes reported during fiscal year 2013 it had more than 230 agreements in place with private contractors for renting and leasing equipment, with and without equipment operators. Many of these agreements could exceed the MOP dollar value criteria for submission to Governor and Council for approval.

Turnpikes also utilizes so-called force account contracts, which are contracts that are billed as time and materials as opposed to fixed dollar amounts. Audit samples tested included one fiscal year 2013 disbursement to a contractor for the relocation of a natural gas transmission line. This

payment was made pursuant to a \$4.8 million force account agreement between Turnpikes and the contractor. Turnpikes reported it had 11 force account agreements in place with seven force account agreements being active during fiscal year 2013.

Turnpikes reports it historically has not submitted rental and force account agreements to Governor and Council for approval, regardless of whether the contract amounts exceed MOP reporting criteria. Turnpikes further reported it could not find documentation supporting any exemptions to MOP requirements for these contracts.

Recommendation:

Turnpikes should review with the DAS the applicability of the MOP requirements for submitting contracts to Governor and Council for approval of significant rental and force account agreements.

Turnpikes should comply with the MOP. Any exceptions to the MOP granted to Turnpikes should be fully documented.

Auditee Response:

We concur.

The Department has contacted DAS to review the applicability of the Manual of Procedure (MOP) requirements for submitting contracts to Governor and Council for approval of significant rental and force account agreements.

Observation No. 6: Financial Management Should Monitor Toll Violation Revenues

Observation:

Turnpikes' financial management has not taken an active role in the oversight of the assessment, recording, reporting, and collection of toll violation revenues.

Turnpikes has established policies and procedures with its electronic toll vendor, referred to as business rules, that describe how the vendor will identify, track, and follow up on apparent toll violators. As described in Observation No. 3, the business rules do not fully conform to administrative rule requirements for the operation of the electronic toll system. While Turnpikes assumes the vendor is operating in accordance with the business rules, Turnpikes' financial management did not regularly receive reports or other information that describes the vendor's activity in the pursuit of apparent toll violators. When auditors inquired about toll violation revenues and delinquent accounts during the 2013 audit, Turnpikes' financial management referred essentially all questions to Turnpikes' operational management. While Turnpikes' operational management was generally able to obtain answers to auditor inquiries from its vendor, based on discussions surrounding the inquiries, it was apparent Turnpikes' operational management was also not fully informed of toll violation account activity.

Recommendation:

Turnpikes' financial and operational management should take a more active role in monitoring the assessment, recording, reporting, and collection of toll violation revenues.

Auditee Response:

We do not concur.

Turnpikes' financial and operational management has taken a significantly more active role in monitoring the assessment, recording, reporting, and collection of toll violation revenues. Financial staff at the Hooksett location is responsible for most day to day accounting and other associated operational business tasks and activity. Financial oversight is provided by Department Headquarters financial staff and this is especially true in the preparation of financial statements, audit, budget, and year-end activity.

In this collaborative effort, a review of vendor reports relative to toll violators was performed and issues were identified by Department staff and are described in the Statewide CAFR, Management's Discussion and Analysis section.

State Compliance Comment

Observation No. 7: Prepare Required Toll Facility Certifications

Observation:

Chapter 241:6, Laws 2004, repealed and reenacted RSA 236:31 to address procedures for determining and responding to toll violations of Turnpikes' electronic toll collection and enforcement system.

In addition to the reenactment of RSA 236:31, Chapter 241:6, Laws 2004, states,

The commissioner of the department of transportation shall certify to the commissioner of the department of safety that a toll facility has in place the equipment, procedures, and trained staff required to implement the electronic toll collection and enforcement system before violations as set forth under this act may be assessed at the facility.

Turnpikes could not provide auditors with evidence that the certification required by the chapter law was prepared and transmitted to the Department of Safety, for either Turnpikes' first or any subsequent installation of electronic toll collection facilities.

Recommendation:

The Commissioner of the Department should prepare and provide to the Commissioner of the Department of Safety the required toll facility certifications.

Turnpikes should determine, with the assistance of the Department of Safety, the breadth and scope of the required certifications, including whether the certifications require renewal by the passage of time or changes in electronic toll systems or facilities.

Auditee Response:

We do not concur.

The certification requirement passed by the Legislature as Chapter 241:6, Laws 2004 at the inception of EZPass, was to address new system issues and concerns. Given the length of time since the 2004 session law cited by LBA in its 2013 Management Letter, we have not found physical records to *either confirm or deny the existence of an original certification.*

EZPass is a well-established program. The Department, the Department of Safety, and the toll users have all ratified the validity of the toll systems by their conduct. The Department does not concur that certifications are required or necessary to collect assessed toll violations. Turnpikes is not aware of any issues ever raised in this regard.

We do not concur that toll facility certifications are required now, and if done now, would constitute nothing more than a mere formality and perhaps a redundancy (in light of the inability to provide confirmation in 2014 that the certification was made in 2004 or 2005). Further, the requirement for a certification is immaterial to the public's use of EZPass and to the Department's administration of it.

In addition, the Department does not agree with the recommendation that "Turnpikes should determine, with the assistance of the Department of Safety, the breadth and scope of the required certifications, including whether the certifications require renewal by the passage of time or changes in electronic toll systems or facilities" because, on its face, the plain words of the session law do not impose a continuous duty to certify. That the provision at issue exists only as a session law and was not codified is an indicator that the certification requirement was a one-time requirement at the inception of EZPass.

LBA Rejoinder:

As noted in the observation, the requirement for toll facility certifications is contained in the 2004 chapter law. The fact that a portion of the chapter law was not codified in the RSA does not diminish its authority or limit its application. While the law does not specifically address the implementation of new or replacement electronic toll collection systems since electronic tolling was first placed in service, a certification of new or replacement systems, such as open road tolling, appears to be consistent with a reasonable interpretation of the law.

Other Management Issue Comments

Observation No. 8: Consider Consolidating Financial Operations At Department Headquarters

Observation:

Turnpikes' financial staff is split between Department headquarters in Concord and a Turnpikes facility at the Hooksett toll plaza. Having Turnpikes financial staff sited in two locations complicates the coordination and oversight of financial operations and results in inefficiencies due to loss of scale caused by staffing two facilities.

The Department's business office in Concord provides most business office functions and support to Turnpikes. Financial staff in Hooksett primarily are responsible for functions surrounding recording, reconciliation, and monitoring toll revenues and certain payroll functions. Having all financial staff sited at Department headquarters should enable Turnpikes to improve oversight of Turnpike financial activities and take advantage of increased efficiencies through better communication and integration of financial information and scale of operations.

Recommendation:

Turnpikes and the Department should consider consolidating its financial operations to take advantage of the efficiencies likely to be realized by such a consolidation.

Auditee Response:

We concur in part.

Certain Turnpike System accounting, audit and related operating functions are best suited currently, at the toll facilities located in Hooksett. Cash management, receipts and deposits, certain payroll functions and audit of toll lanes are best managed at this time in this location.

The Department's organizational structure is approved by the Governor and Legislature as a component of the biennial budget process. The Department continuously seeks efficiencies in operations and cost containment. In fact Turnpike operating efficiencies associated with the Department's lean staffing model have netted annual operating savings of approximately \$2 million; renegotiation of toll system software has netted savings of \$6.5 million over a five year contract renewal period; refunding of prior Turnpike revenue bonds have netted nearly \$900,000 per year over twelve years or \$10.8 million over the bond term; Turnpike management of the capital expansion program authorized by (HB 391), Ch 146, Laws of 2009, has resulted in on-time and under budget completion of more than 80 percent of the program to date.

Observation No. 9 Present Annual Financial Report Consistent With Generally Accepted Accounting Principles

Observation:

For fiscal year 2013, Turnpikes chose not to prepare a complete financial statement presentation. Since fiscal year 2005, Turnpikes has prepared a comprehensive annual financial report, or CAFR. A CAFR is a complete financial statement presentation including audited financial statements and notes, management's discussion and analysis (MD&A) of the financial statements, and other required supplementary information. For fiscal year 2013, Turnpikes decided to discontinue the preparation of a CAFR and only present audited financial statements and notes in its financial report. Generally accepted accounting principles require MD&A to be presented with audited financial statements to supplement and place the basic financial statements in an appropriate operational, economic, or historical context. Turnpikes' decision to discontinue the preparation of a CAFR is a significant step backwards in external financial reporting practices.

Recommendation:

Turnpikes should again consider preparing a CAFR. Effective communication of MD&A can place current fiscal year financial operating results in appropriate context with comparison to prior years, with identification and discussion of financial and operating trends important to an understanding of the Turnpikes' current and future financial operations, including needs for financial resources.

Auditee Response:

We do not concur.

The departure from a comprehensive annual financial report by no means diminishes the integrity of the audited financial statements as presented. In fact, the LBA's own prepared Independent Auditors Report confirms this with their statement "Our (LBA) opinion on the basic financial statements is not affected by this missing information." The Department does not concur with LBA's recommendation to prepare a CAFR. Through other means, such as the Department prepared "Annual Report – with respect to Turnpike System Revenue Bonds" filed annually (via the State's Treasurer) with the Municipal Securities Rulemaking Board (MSRB), the Department prepares MD&A, statistical comparative data, and provides consultant prepared trend analysis.

The decision of the Department to discontinue non-essential supplemental information as described was the result of information obtained by Department staff members attending the annual Governmental Accounting and Auditing Update seminar. Subsequent to this training, the State Comptroller questioned the Department about whether or not the additional effort associated with completing a full CAFR was required by state law or bond covenant. The Department concluded that the supplemental information for inclusion to the audited report was

not necessary. The Department also consulted with both the State's Comptroller for Statewide CAFR considerations and Treasurer and bond counsel for bond covenant considerations.

The first word in CAFR is "Comprehensive". It strikes the Department as counterintuitive that the State continues to have several "Comprehensive" Annual Financial Reports rather than one. The Department also feels the effort is inefficient, costly, not required by law or bond covenant and does not take the Department a step back in transparency or disclosure. In an effort to enhance transparency and disclosure, the Department is working towards the publication of monthly Turnpike financial statements on the Turnpike website.

LBA Rejoinder:

None of the other reporting mentioned by Turnpikes, except for the State CAFR, is subject to any audit or attestation coverage. The Annual Report With Respect to Turnpike System Revenue Bonds filed with the Municipal Securities Rulemaking Board is not comprehensive as suggested by the Department, as it does not include the Turnpikes' audited financial statements.

At a minimum, in order to conform with generally accepted accounting principles, the Turnpikes' financial statements must be accompanied by management's discussion and analysis, along with other required supplementary information. A user of Turnpikes' financial statements should not have to consult other information sources in order to place the financial statements in context.

The preparation of a CAFR that conforms to guidance established by the Governmental Accounting Standards Board exemplifies excellence in financial reporting. A CAFR could likely be modified to also serve as the Department's Annual Report With Respect to Turnpike System Revenue Bonds, thus eliminating duplication of effort.

APPENDIX

Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 20, 2013, of the observations contained in the New Hampshire Turnpike System Management Letter for the fiscal year ended June 30, 2012. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website: http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/DoT_ML_2012.pdf.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Material Weaknesses</i>			
1. Efforts To Improve Financial Accounting And Reporting Processes Should Continue (<i>See Current Observation No. 1</i>)	●	○	○
2. Comprehensive Policies and Procedures Over Fixed-Asset Accounting Should Be Implemented	●	●	●
<i>Internal Control Comments</i>			
<i>Significant Deficiencies</i>			
3. Toll Audit Procedures Should Be More Effective (<i>See Current Observation No. 3</i>)	●	●	○
4. Information Technology Controls Over Electronic Tolling Systems Should Be Improved (<i>See Current Observation No. 5</i>)	●	○	○
5. Clear And Full Description Of Entire Turnpike System Should Be Developed	●	●	●
6. Compliance With Policies And Procedures For Processing Invoices That Cross Fiscal Years Should Be Improved	●	●	●

<u>Status Key</u>	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	3
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	2
Unresolved	○	○	○	0

THIS PAGE INTENTIONALLY LEFT BLANK