STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2003

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

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FINANCIAL SECTION

This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Reporting Entity And Scope

The reporting entity of this audit and audit report is the revenues, expenditures, fixed assets, and fiduciary funds reported by the New Hampshire Public Utilities Commission (Commission) for the nine months ended March 31, 2003. The amounts reported by the Commission include the activity and fixed assets of the Office of the Consumer Advocate, which is an independent agency administratively attached to the Commission.

Organization

The Public Utilities Commission, established pursuant to RSA 363, is a regulatory State agency. The Commission operates under the direction of three commissioners, with the Chairman acting as administrative head of the agency. The commissioners are appointed by Governor and Council to six-year terms. As of March 31, 2003, the Commission employed 78 full-time employees and one part-time employee.

Responsibilities

The Commission is vested with general jurisdiction over public utilities and their affiliates. The Commission may, on its own motion or by petition, initiate an investigation regarding existing or proposed rates, charges, classifications, rules and regulations, financings, and other utility matters. These may be the subject of informal investigations or formal hearings in which the Commissioners sit in a quasi-judicial capacity. The Commission also has regulatory authority over safety standards and practices of all pipeline facilities for the transportation of gas within the State. In addition, the Commission responds to consumer inquiries and complaints, provides public information and education on utility matters, and administers the residential statewide energy building code.

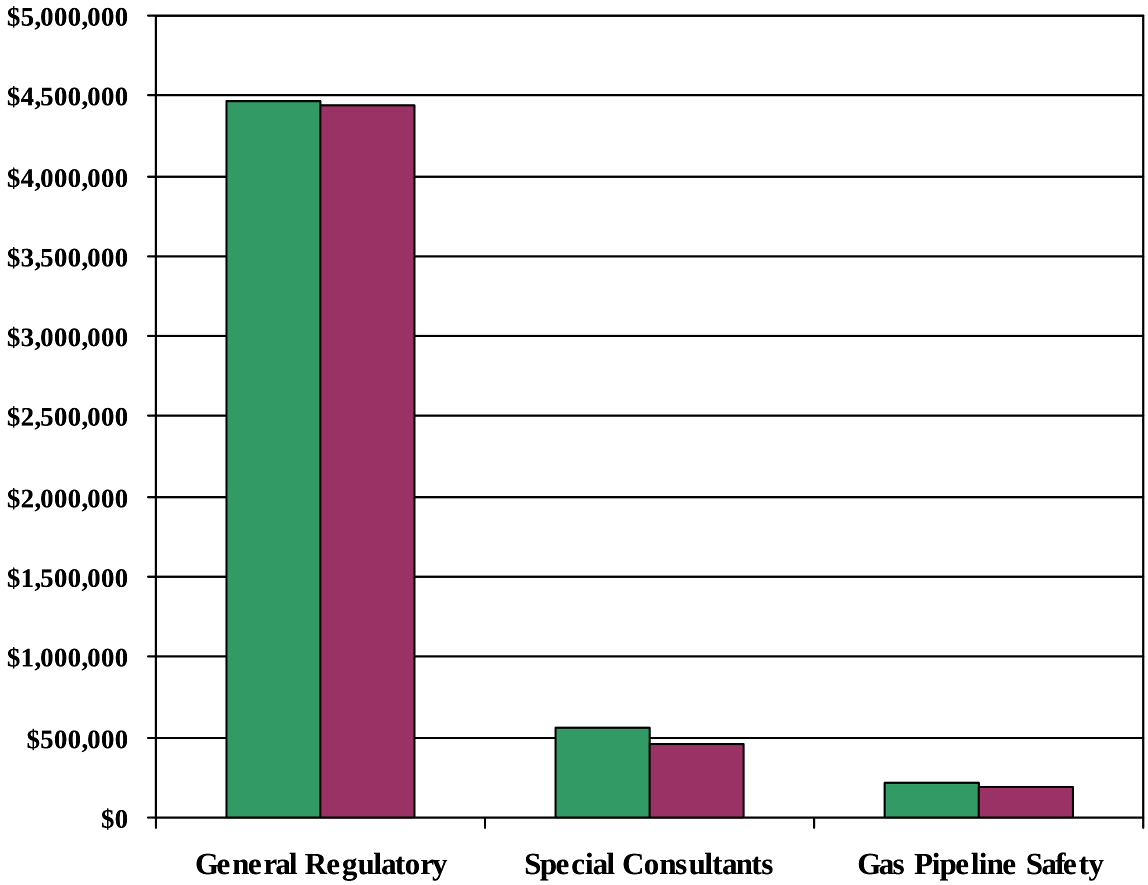
The Office of the Consumer Advocate has the power and duty to petition for, initiate, appear or intervene in any adjudicative proceeding in which the interests of residential utility customers are involved, and to represent the interests of such residential utility consumers.

Funding

The Commission is self-funded, recovering its costs through assessments on regulated utilities in accordance with RSA 363-A. Assessments are grouped into three categories based on the type of costs incurred; General Regulatory costs, which are assessed among all utilities; Special Consultant costs, which are assessed against the utilities for which the consultant services were performed; and Gas Pipeline Safety Program costs, which are assessed on the gas utilities for the State's portion of the costs associated with the federal Pipeline Safety grant. The fiscal year 2003 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of $6,521,348. Estimated revenue for fiscal year 2003 totaled $5,471,081. The actual financial activity of the Commission is shown graphically on page 2.

PUBLIC UTILITIES COMMISSION

REVENUES AND EXPENDITURES
FOR THE NINE MONTHS ENDED MARCH 31, 2003



	Revenues	Expenditures
General Regulatory	$ 4,459,862	$ 4,441,728
Special Consultants	560,636	459,862
Gas Pipeline Safety	212,926	185,262
Totals	$ 5,233,424	$ 5,086,852

Prior Audit

The most recent prior financial and compliance audit of the Public Utilities Commission was for the nine months ended March 31, 1994. The appendix to this report on page 35 contains a summary of the current status of the observations contained in that report. Copies of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, Concord, NH 03301.

Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements of the Public Utilities Commission for the nine months ended March 31, 2003. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal controls in place at the Commission and tested the Commission's compliance with certain provisions of applicable State and federal laws, regulations, contracts, and grants. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal controls;
- Revenues and appropriations;
- Expenditures;
- Equipment; and
- Federal and fiduciary funds.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Public Utilities Commission are contained in the report that follows.

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

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Public Utilities Commission as of and for the nine months ended March 31, 2003 as listed in the table of contents, and have issued our report thereon dated July 29, 2003, which was qualified with respect to the lack of presentation of the financial position of the Public Utilities Commission in the government-wide and fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Public Utilities Commission's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, rules, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which are described in Observations No. 6 and No. 7 of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Public Utilities Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Public Utilities Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 through No. 5 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions noted above is a material weakness.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Public Utilities Commission and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

July 29, 2003

Internal Control Comments
Reportable Conditions

Observation No. 1 - Policies, Procedures, And Controls Over Utility Assessment Calculations Should Be Improved

Observation:

The Public Utilities Commission (Commission) does not have written policies and procedures governing the calculation of utility assessments. The Commission is authorized under RSA 363-A to assess its expenses incurred against the public utilities it regulates. It assesses utilities for three types of expenses: general regulatory (General), gas pipeline safety program (Gas), and special consultant costs (Special). During our review of the calculation of those assessments, we noted several procedural and control issues, as well as calculation errors, as follows:

- The Commission does not have written policies and procedures for the calculation of the General, Gas, or Special utility assessments. As a result, the assessment calculations have been based on historical practice, which because they are unwritten, are susceptible to varying interpretation. A similar issue was noted in our 1994 audit of the Commission.

- There is a lack of review of the General and Gas utility assessment calculations. One employee performs the calculations to determine the amount to bill the utilities. The employee's supervisor then reviews the assessment amounts for reasonableness compared to prior year assessment amounts. However, without review of the calculation components errors or fraud may go undetected or not be detected timely. We noted one undetected error where $2,150,940 of revenue was allocated to the wrong utility, causing a $465 over-assessment to the company.

- In calculating the Gas utility assessment, the Commission did not consider estimated federal revenue, and deducted only half of the actual federal revenue received from the amount assessed. In doing so, the Commission effectively over-billed the gas utilities $160,127. A portion of those over-billings was rebated to utilities in the following year's assessment. In addition, the Commission did not deduct from the assessment, and therefore over-billed, $20,786 of federal funds received for reimbursement of prior fiscal year expenses. A similar issue was noted for the General utility assessment calculation, in that estimated revenues were not considered. However, the fiscal year 2003 budget amount for those revenues was minimal ($6,446).

- There is inconsistent treatment of restricted revenues in the calculation of total expenses to be assessed in the General utility assessment. The Commission appropriately deducted amounts that were recovered through photocopy and miscellaneous fees, but did not deduct for competitive supplier registration fees or receipts for the sale of equipment items. As a result, the Commission over-billed utilities by $12,908. The fiscal year 2003 General assessment was $5,442,948.

- The Commission does not actively seek collection of overdue billings or assess penalties for late payments. Instead, the overdue balance is included in the following quarterly invoices until payment is received. Utilities are sent reminders at year-end if they still have overdue balances. During testing of assessment payments, we noted nine of 21 sample items (43%) were paid more than 30 days after receipt of the bill, and three of those nine (33%) were more than 90 days late, up to 133 days. The dollar amount of the sample items ranged from $23,014 to $533,712. The assessments are made on a quarterly basis according to RSA 363-A:3 to match the Commission's expenditures with revenues. When utilities do not pay for an extended period of time, the State's General Fund available cash and interest earnings are negatively impacted.

Recommendation:

The Commission should strengthen its policies, procedures, and controls over the calculation of the General, Gas, and Special utility assessments. Policies and procedures should be written and communicated to all staff involved in the assessment process. The policies and procedures should be sufficient to provide guidance as to the types and sources of information that should be considered in each of the calculations. A formal review of the calculations should also be performed and documented by an individual independent of the utility assessment preparation.

The Commission should also establish procedures to ensure that assessments are collected timely. Consideration should be given to requesting a change in statute to allow for the assessment of late payment fees and penalties.

Auditee Response:

The Commission concurs. We have begun a comprehensive review of our assessment practices with the intention of transferring the assessment function fully into the Business Office by December 31, 2003. The objectives of this transfer include addressing the audit observations.

Observation No. 2 - Equipment Inventory Procedures Should Be Improved

Observation:

The Commission does not have adequate procedures over its equipment inventory. In accordance with the Department of Administrative Services (DAS) Long Term Assets Policies and Procedures Manual (March 2002), agencies should have procedures in place so that assets are properly recorded, physical inventories are taken annually and reconciled with the records maintained by the agency, and proper segregation of duties exist.

During our review of the Commission's inventory procedures, the following issues were noted:

- The Commission has not performed a physical inventory since fiscal year 2001. DAS requires a physical inventory to be performed annually to ensure that the listed equipment items physically exist and are in usable condition, and to detect misappropriation of the assets in a timely manner. During our test of inventory, seven of the 65 sample items (11%) could not be located, and another two (3%) were deemed obsolete by the agency. These errors would likely have been detected had a physical inventory been performed.

- Thirteen of the 65 sample items (20%) were listed with a $0 value. All of these items were computer monitors. In the past year, the Commission replaced many of its computers. When it recorded this information on the equipment listing, the costs of the monitors were included in the costs of the computer rather than assigned to the monitor separately. Therefore, if the components are surplused separately, the equipment listing will be misstated.

- There is a lack of segregation of duties over equipment inventory procedures. One employee maintains equipment records, performs the physical inventory, and investigates discrepancies between the equipment records and the physical inventory count. Segregating these duties ensures that errors or fraud are detected in a timely manner.

- Monthly Equipment Adjustment Reports and the Annual Equipment Inventory List were not submitted to DAS, although the Commission partially prepared the reports for the nine-month audit period.

- The Commission has not fully utilized its in-house inventory accounting system. The Commission created an inventory database system to replace its word-processing inventory file, however, the business office continued to manually update both the database and the file, creating a duplication of effort. This practice is inefficient and unnecessarily increases the risk of errors in the inventory records, as the database and file were not reconciled.

Recommendation:

In order to improve its equipment inventory procedures, the Commission should:

- Perform an annual inventory to determine the physical existence and usability of equipment items, and should reconcile the physical counts to the equipment records.

- Develop a reasonable methodology for allocating costs to items purchased together, such as a ratio based on actual costs for similar items, so that each item is assigned a value.

- Segregate the duties of recordkeeping, performing physical inventory counts, and investigating inventory discrepancies.

- Prepare and submit the required monthly and year-end equipment inventory reports to DAS.

- Eliminate the duplication of effort by discontinuing the use of the word-processing file and fully implementing the inventory database system.

Auditee Response:

The Commission concurs. The Commission will ensure that it is in compliance with the Department of Administrative Services (DAS) Long Term Assets Policies and Procedures Manual. We intend to fill a vacancy in the Business Office and will address segregation of duties over inventory by revising supplemental job descriptions.

The Commission conducted a physical inventory for 2003 and will be compiling the required reports shortly. These reports will accurately reflect the cost of the computer monitors added to inventory in the summer of 2002. As part of the completion of the inventory process, the Access database will be updated to reflect the current inventory and will be used exclusively to develop the required reports on a forward-going basis.

Observation No. 3 - Procedures To Account For Special Assessments Should Be Improved

Observation:

There are deficiencies in the Commission's procedures for the billing and collection of Special assessments. Special assessments are used to recover the costs for consultants hired by the Commission to perform regulatory services for which the Commission lacks personnel resources. The cost for the consultant is assessed against the utilities for which the services are performed. Testing of Special assessments revealed that the consultant invoices are not assessed to the utilities in a timely manner, and there is no centralized mechanism in place to track the collection of Special assessments specific to consultant invoices.

Upon receipt of the consultant invoice, the Commission personnel most familiar with the contract review and approve the invoice. Then the invoice is forwarded to the business office, where the amount is assessed to the utilities based on contract provisions. In one test selection, the time between receipt of the invoice and assessment to the utilities was nearly two months, with approval of the invoice occurring approximately one month earlier. As a result, the Special assessment was entered into the Special assessment log after the end of fiscal year 2002. Since the receivables for Special assessments are identified from the log, a receivable of $130,967 was not recorded but was instead recognized as revenue in fiscal year 2003.

Consultant invoices are not paid until all of the related Special assessments are received. The Special assessment invoices are logged by the business office, however the log does not identify the related consultant invoice. To track collection of Special assessments for each consultant invoice, the Commission uses a master sheet, which identifies the consultant invoice amount, the Special assessment invoice numbers, and the dates those assessments were received. Once all of the Special assessment invoices are received, the consultant invoice is paid. However, since these master sheets are filed separately with each of the consultant contract files, it is difficult to track the outstanding consultant invoices.

Recommendation:

The Commission should improve its accounting procedures for Special assessments. The Special assessment invoices should be issued to the utilities in a timely manner to speed up the process of payment from utilities and to consultants. Additionally, in lieu of using a master sheet, the Special assessment invoice log should be revised to include the consultant invoice number and the date it was received. This will create a centralized tracking system and help ensure that the invoices are accounted for.

Auditee Response:

The Commission concurs that accounting for special assessments can be revised. To expedite issuance of special assessment invoices, the Business Office will allot seven days for staff review and approval of the consultant invoice and will issue special assessments within five business days of approval. The Business Office will develop an aging report for outstanding invoices and rebill special assessments after 30 days. It has been the Commission's practice to wait until all assessments for one invoice are collected before releasing payment to the contractor. To decrease the time of payment to the contractor, the Commission may process partial payments, when necessary and practicable, from revenues received from the utilities.

Observation No. 4 - Reimbursement Of Federal Funds Should Be Requested When Available

Observation:

The Commission delayed submitting a request for reimbursement of federal funds in the amount of $53,225, for a period of seven months.

The Commission is eligible to receive reimbursement of 50% of its expenditures related to the Gas Pipeline Safety Program. Program guidance specifies that states receiving federal assistance can submit claims for reimbursement in July for the federal share of the cost of actual expenditures between January 1 and June 30 of the year, and the following January for expenditures between July 1 and December 31 of the year.

The Commission determined the amount of federal revenue it was eligible to request for the period of January 1 through June 30, 2002, and recorded a receivable for the amount at fiscal year-end. However, it did not prepare and submit the request for those funds timely. Instead, reimbursement for a full year of expenditures (January 1 through December 31, 2002) was requested on February 21, 2003.

Since the Commission is a self-funding agency, the delay in requesting and receiving federal funds may result in the unnecessary use of State General funds to cover the expenditures made for the program.

Recommendation:

The Commission should submit requests for reimbursement of federal funds in a timely manner.

Auditee Response:

The Commission concurs. In fact, the Commission's practice had been to seek a mid-year reimbursement for expenditures. It is the Commission's intention to resume the practice of seeking mid-year reimbursement and it has done so for program year 2003. We would note, however, that the submission of the request for reimbursement of the full year 2002 expenditures by the Commission on February 21, 2003 was in compliance with the Office of Pipeline Safety program guidelines.

Observation No. 5 - Revenue Collection Procedures For Dig Safe Fines Should Be Improved

Observation:

The Commission does not have adequate controls over the collection of revenues generated outside the business office.

The Dig Safe fines are imposed by the Safety Division for violations of gas pipeline safety regulations, and those fines are remitted to the Safety Division. While the Safety Division restrictively endorses all checks upon receipt in accordance with established controls, the receipt of funds is not logged into the Record of Daily Receipts (Form A-15). The business office records the receipt on the A-15 once the checks are delivered to it, which for one test selection was not until the following day. Delay in logging collected funds increases the risk of loss or misappropriation of the funds without detection.

Recommendation:

The Commission should improve its procedures over the revenue collection process for revenues generated outside the business office. This may be accomplished by applying control procedures similar to those already in place at the business office, such as logging the collection of cash/checks upon receipt at the Safety Division.

Auditee Response:

The Commission concurs. For the audit observation cited, the Commission intends to require the Safety Division to report to the Business Office, on a weekly basis, the fines imposed by the Division so that the Business Office may anticipate the collection of such funds. Additionally, the Safety Division staff has been instructed to log the checks received on the A-15 which the Business Office will check daily for activity.

State Compliance Comments

Observation No. 6 - Current Assessment Procedures Should Be Reviewed To Ensure Compliance With Statutes

Observation:

The Commission is authorized under RSA 363-A to recover its cost of operations from the public utilities it regulates. The Commission assesses the utilities for three types of costs: general regulatory (General), gas pipeline safety (Gas), and special consultant costs (Special). During our review of those assessments, we noted the Commission is not in compliance with certain sections of RSA 363-A, as follows:

- RSA 363-A:3 allows the Commission to assess utilities the budgeted expenses of the upcoming fiscal year, as adjusted for over or under-assessments of the prior year. The adjustment for over or under-assessments is determined by comparing the prior fiscal year budgeted expenses to actual expenses. However, the Commission calculated the adjustment by taking actual expenses as adjusted for year end encumbrances and certain lapses. These amounts are not actual expenses incurred, as required under RSA 363-A:1&2. The consideration of these amounts complicates the assessment calculation, which creates unnecessary work for the Commission staff, and makes the calculation more susceptible to errors. A similar issue was noted during our 1994 audit of the Commission.

- RSA 363-A:3, states the Commission, "…shall adjust the assessment for the first quarterly payment of the new fiscal year for each such public utility for any underpayment or overpayment by each such public utility for the prior fiscal year." Our 1994 audit of the Commission noted that the adjustment was applied among all four quarters, and the issue was corrected for the General utility assessment. However, the Commission continues to allocate underpayments and overpayments of Gas utility assessments among all four quarters of the following fiscal year.

- RSA 363-A:4, states, "… on or before August 10, October 10, January 10, and April 10 of each fiscal year, the public utilities commission shall bill each public utility for the quarterly assessment amount assessed against it within 10 working days." However, the Commission did not bill the utilities for the first quarterly assessment in fiscal year 2003 until September 4, 2002. A similar issue was noted in our 1994 audit of the Commission, and in 1995 the RSA was updated to change the date of the first quarterly bill from July 10 to August 10 in order to allow the Commission time to receive final accounting reports from the State's accounting system. The Commission was still unable to meet the deadline for fiscal year 2003.

Recommendation:

The Commission should review its current procedures to ensure compliance with RSA 363-A by:

- Considering only actual expenses incurred during the fiscal year to determine the adjustment to the assessment amount;
- Adjusting the Gas utility assessment for the first quarterly payment only; and
- Sending out Utility Assessment bills by August 10 of each year.

Auditee Response:

The Commission concurs. The Commission has always endeavored to ensure that the assessment calculation is as accurate as possible. The fiscal year 2003 assessment was delayed as the Commission reviewed the impact of the potential loss of approximately 20% of its assessment revenue from the sale of the Seabrook Nuclear Unit and the appropriate method for recovering the difference from the remaining utilities. We have begun a comprehensive review of our assessment practices to redefine responsibilities and move the assessment function fully into the Business Office.

Observation No. 7 - Deposits Should Be Made More Timely

Observation:

The Commission does not deposit funds in accordance with statutory requirements. RSA 6:11, II, states, "If more than $100 is in possession of any state department or institution such funds shall be on deposit in the related department's bank account or in a Treasury bank account." This requirement helps to safeguard against theft or loss of funds and to maximize investment earnings for the State.

During our test of compliance with RSA 6:11, II, six out of 12 receipts (50%) tested, were deposited more than three days after receipt. These receipts, primarily for general assessment payments, ranged from $37,888 to $812,009.

The Commission's deposit process ensures noncompliance with RSA 6:11. Daily, a courier delivers the mail to the Commission and picks up the previous day's deposit. Most payments are made through the mail, and any receipts received through the mail are processed after the courier leaves, therefore the funds are held until the following day when the courier returns. While the delay of a day may be insignificant for some receipts, quarterly assessment payments often total tens or hundreds of thousands of dollars. Holding onto receipts of this size for 24 hours or longer before deposit is poor cash management.

We also noted that checks received outside the business office, such as those for Dig Safe fines, are not always delivered to the business office and recorded on the day they are received, further delaying deposit and increasing the risk of theft or loss. This issue was noted in the 1994 audit of the Commission and does not appear to have been resolved.

Recommendation:

The Commission should ensure compliance with RSA 6:11, II by depositing funds with Treasury when accumulated receipts exceed $100. For those times of the year when quarterly assessments are due, the Commission should make daily deposits. The Commission should consider having the utilities pay assessments electronically.

Auditee Response:

The Commission concurs. The Commission had interpreted deposit policies to mean within 24 hours of receipt. The Commission will develop and implement a deposit policy which is consistent with RSA 6:11, II. Additionally, the Commission will discuss with Treasury the feasibility of electronic payment of the utility assessment by the utilities.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Public Utilities Commission as of and for the nine months ended March 31, 2003 as listed in the table of contents and have issued our qualified report thereon dated July 29, 2003, which was qualified with respect to the lack of presentation of the financial position of the Public Utilities Commission in the government-wide and fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Public Utilities Commission as of and for the nine months ended March 31, 2003, we noted certain issues related to the operation of the Commission that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, contracts, or grants.

The issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or of noncompliance are included in Observations No. 8 and No. 9 of this report.

This auditor's report on management issues is intended solely for the information of the management of the Public Utilities Commission and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

July 29, 2003

Management Issues Comments

Observation No. 8 - Procedures And Controls Over The Electric Assistance Program Should Be Strengthened

Observation:

The Commission should adopt additional measures to document that procedures are performed in compliance with the Electric Assistance Program (EAP) fiscal procedures manual. This program began in October of 2002, and as of March 31, 2003, there was a balance of $1,837,824 in the fund.

The purpose of the EAP is to provide electric assistance to low-income customers. The electric utilities assess their customers a system benefits charge (SBC) of $0.0012 per kilowatt-hour. From the amount of SBC billed, the utilities deduct the low-income customer discounts applied, a 10% reserve requirement, approved utility start-up costs, approved utility administrative costs, and community action agency (CAA) administrative costs. The net over-billings are contributed to and net under-billings are drawn from the fund. The State Treasury is custodian of the fund.

The Commission approved a series of procedural manuals to facilitate the proper management of the EAP on August 16, 2002, including a procedures manual which outlines the fiscal management responsibilities of the Commission. The manual requires the Commission to review monthly EAP reconciliation reports submitted by the utilities, however the Commission has no formalized process to evidence the review is occurring.

While we recognize that this is a new program and policies and procedures are still being developed, it is important that controls and documentation of reviews and approvals be established.

Recommendation:

The Commission should strengthen its efforts over monitoring compliance with requirements contained in its EAP fiscal procedures manual by ensuring that reviews and approvals are properly documented.

Auditee Response:

The Commission concurs. The Commission will develop additional procedures to ensure that the review process is properly evidenced. These procedures may likely include initialing and dating various documents, or the equivalent, as well as supplementing staff’s files with all correspondence, both written and electronic.

Observation No. 9 - Disaster Recovery Plan Should Be Updated

Observation:

The Commission’s disaster recovery plan has not been updated since 1999. It is necessary to update the plan to ensure continuity of operations should operations be interrupted due to an unforeseen future event or occurrence.

The purpose of a disaster recovery plan is to document plans and procedures in the event of a disaster, including disaster recovery strategies, essential resources, and procedures necessary to implement a recovery process. The lack of a current plan significantly lengthens the Commission’s recovery time, increases recovery costs, and increases the risk that vital information may not be recovered. It is important for the Commission to maintain and regularly test its plan in order to minimize recovery time in the event of a disaster or systems failure.

Recommendation:

The Commission should update its disaster recovery plan for all of the important aspects of its operations. The plan should include a program of regular testing of key provisions of the plan. The testing program should include employee training in the operations of the plan and critique of the plan’s effectiveness.

Auditee Response:

The Commission concurs. The Commission will update and test its Disaster Recovery Plan.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Public Utilities Commission as of and for the nine months ended March 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Public Utilities Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully discussed in Note 1, the financial statements referred to above are not intended to present the financial position of the Public Utilities Commission in the government-wide or fund financial statements.

As discussed in Note 1, the financial statements of the Commission are intended to present certain financial activity of only that portion of the governmental and fiduciary activities of the State that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of March 31, 2003, and the changes in its financial position for the nine months ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the New Hampshire Public Utilities Commission as of and for the nine months ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented the management discussion and analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basis financial statements.

The Budget To Actual Schedule (Budgetary Basis) on page 31 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying schedule on page 34 is presented for the purpose of additional analysis and is not a required part of the financial statements of the Commission. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 29, 2003, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report and in considering the results of our audit.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

July 29, 2003

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2003

		Program Revenues		
	Expenses	Charges For Services	Operating Grants And Contributions	Net (Expenses) Revenues
Governmental Activities				
Justice And Public Protection	$ 5,096,259	$ 5,064,227	$ 104,597	$ 72,565
Total Governmental Activities	**$ 5,096,259**	**$ 5,064,227**	**$ 104,597**	**$ 72,565**
General Revenues				
Dig Safe Fines				$ 64,600
Total General Revenues				**$ 64,600**
Change In Net Assets				**$ 137,165**

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 2003

	General Fund
Revenues	
General Assessments	$ 4,387,938
Special Assessments	560,636
Gas Assessments	108,329
Federal Funds	104,597
Other Revenue	71,924
Total Revenues	**$ 5,233,424**
Expenditures	
General Regulatory Costs	
Salaries & Benefits	$ 3,465,245
Current Expenses	116,991
Equipment	126,232
Interagency Payments	123,900
Other	609,360
Total General Regulatory Costs	$ 4,441,728
Special Consultant Costs	459,862
Gas Pipeline Safety Program	185,262
Total Expenditures	**$ 5,086,852**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**$ 146,572**
Amounts reported for governmental activities are different from the Statement of Activities because:	
Recognition of depreciation expense for capital assets	(9,407)
Change in Net Assets per Statement of Activities	**$ 137,165**

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

STATEMENT OF FIDUCIARY NET ASSETS
ELECTRIC ASSISTANCE PROGRAM
AS OF MARCH 31, 2003

Assets	
Cash And Cash Equivalents	$ 1,830,537
Due From Utilities	107,605
Total Assets	$ 1,938,142
Liabilities	
Due To Utilities	$ 100,318
Net Assets	
Held In Trust For Customer Benefits	$ 1,837,824

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ELECTRIC ASSISTANCE PROGRAM
FOR THE NINE MONTHS ENDED MARCH 31, 2003

Additions		
Contributions From Utilities	$	1,957,072
Interest		4,590
Total Additions	$	1,961,662
Deductions		
Distributions To Utilities	$	123,838
Net Increase/(Decrease)	$	1,837,824
Net Assets- July 1, 2002		-0-
Net Assets- March 31, 2003	$	1,837,824

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Public Utilities Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Public Utilities Commission (Commission) is a department of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Commission, including the Office of Consumer Advocate. The financial activity of the Commission is accounted for in the General and Fiduciary Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Commission, as a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Commission cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Commission in the government-wide or fund financial statements and the changes in the fund balances are not reported on the accompanying financial statements.

B. Government-wide And Fund Financial Statements

Government-wide Financial Statements

The Statement of Activities reports information on all of the non-fiduciary activities of the Commission. As none of the Commission's activities are business-type, the activities reported in the Statement are all governmental. Business-type activities rely significantly on fees and charges for support. Governmental activities are normally supported through taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues, including resources that are dedicated internally, are reported as general revenues. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The general fund is reported in the fund financial statement.

C. Measurement Focus And Basis Of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues that the State earns by incurring obligations are recognized in the same period the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

D. Financial Statement Presentation

The State of New Hampshire and the Commission use funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Commission reports its financial activity in the funds described below:

<u>Governmental Fund Types:</u>

General Fund: The General Fund accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Fiduciary Fund Types

Private Purpose Trust Funds: Private purpose trust funds report resources of trust arrangements, in which principal and income benefit individuals, private organizations, or other governments.

E. Interfund And Intrafund Transactions

As a general rule, the effect of interfund and intrafund activity is eliminated from the government-wide statements, with the exception of activities between funds that are reported in different functional categories of governmental activities. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

F. Revenues And Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are listed by activity type. Additionally, revenues are classified between program and general revenues. The Commission's program revenues include 1) charges for services provided and 2) operating grants and contributions. Resources not dedicated to a program, as well as resources that are internally dedicated, are reported as general revenues rather than program revenues.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction, available for only specified purposes. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported by the State in its government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Equipment is capitalized when the cost of the individual items exceed $10,000 and all other capital assets are capitalized when the cost of individual items or projects exceed $100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized. Depreciation expense is recognized in the government-wide financial statements. Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Buildings	40 years
Building improvements	20 years
Infrastructure	50 years
Computer software	5 years

H. Budget Control And Reporting

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or that the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the capital projects fund. The capital projects fund budget represents individual projects that extend over several fiscal years. Fiduciary fund types are not budgeted.

In addition, to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level.

Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State’s financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance.

A Budget To Actual (Budgetary Basis) Schedule - General Fund is included as a supporting schedule.

NOTE 2 - ASSESSMENTS

RSA 363-A provides the Public Utilities Commission annually assess its regulatory costs against the utilities it regulates. Separate assessments are calculated for (a) general regulatory costs, and (b) gas pipeline safety program costs. The general costs are assessed proportionally among all public utilities based on their annual revenues. The gas pipeline safety program costs are assessed proportionally among gas utilities based on their annual revenues. The amounts assessed are budget amounts adjusted for the actual amounts collected over/under the budgeted amounts in the prior year. Additionally, RSA 365:37 and 365:38 allow the Commission to assess the expense of investigations and rate proceedings, known as special consultant costs, directly against the utilities for which the services were performed.

NOTE 3 – CAPITAL ASSETS AND OTHER EQUIPMENT

The following is a summary of capital assets balances and activity for the nine months ended March 31, 2003 reported by the Commission. Equipment items with costs of $10,000 or greater are capitalized for financial reporting purposes. The Commission also reports equipment items with a cost of $100 or more and a useful life of greater than one year in accordance with State guidelines. Total depreciation expense for the nine months equaled $9,407.

	July 1, 2002	Additions	Deletions	March 31, 2003
Equipment With Original Cost Of $10,000 Or Greater	$ 116,555	$ -0-	$ -0-	$ 116,555
Less: Accumulated Depreciation	(64,478)	(9,407)	-0-	(73,885)
Net Capitalized Equipment	$ 52,077	$ (9,407)	$ -0-	$ 42,670
Equipment With Original Cost Between $100 And $10,000	688,523	137,699	207,896	618,326
Total Capital Assets And Other Equipment	$ 740,600	$ 128,292	$ 207,896	$ 660,996

NOTE 4 – CASH AND CASH EQUIVALENTS

The State Treasurer maintains the Electric Assistance Program (EAP) utility funds in an interest bearing checking account.

Deposits are classified as to credit risk by the three categories described below:

Category 1	Insured or collateralized with securities held by the State or its agent in the State's name.
Category 2	Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
Category 3	Uncollateralized.

The March 31, 2003 balance of $1,830,537 in the Electric Assistance account is classified as risk category 3. The total bank balance and carrying amount, which represents the balance per the State's records, are the same.

NOTE 5 – OPERATING LEASES

The Commission is party to three leases for its office and storage space on Manchester Street, and for office space at Old Suncook Road in Concord, NH. The building leases, which total $249,000 per year, are accounted for as operating leases. The current leases expire on March 31, 2003 and June 30, 2004. The Commission will be moving into State-owned office space, and therefore these leases will not be extended beyond June 30, 2004.

NOTE 6 – FIDUCIARY FUNDS – ELECTRIC ASSISTANCE PROGRAM (EAP)

The EAP was developed by the Public Utilities Commission to respond to the Legislature's call for low-income assistance programs as part of electric restructuring. Under RSA 369-B:1, the Commission is directed to design low-income programs that target assistance and have high operating efficiency to maximize the benefits to the intended beneficiaries of the low-income electric assistance program. Accordingly, the Commission issued orders approving a tiered discount program to provide income-eligible customers with discounts on their electric bills. The program began on October 1, 2002.

NOTE 7 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (the Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Public Utilities Commission, as an organization of the State government, participates in the Plan, which is a contributory defined benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time employees of the Commission. The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation, multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. All covered Commission employees are members of Group I.

Group II members who are age 60, or who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:50, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees of political subdivisions and teachers and Group II police officers and firefighters. A special account has been established by RSA 100-A:16, II(h) for additional benefits. The account is credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus ½ of 1 percent.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2002, by statute, Group I and II members contributed 5% and 9.3%, respectively, of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll. The State's share represents 100% of the employer cost for all of the Commission's employees who are enrolled in the Plan.

The Commission's payments for normal contribution costs for the nine months ending March 31, 2003, amounted to 4.14% of the covered payroll for its Group I employees. The Commission's normal contributions for the nine months ended March 31, 2003, were $108,815, which equals the required employer contribution for the nine month period.

Health Care Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through an insurance company whose premiums are based on the benefits paid during the year. The State recognizes the cost of providing these benefits by paying the entire annual insurance premiums.

During the nine months ended March 31, 2003, the Commission paid for the full cost of health insurance premiums for the retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for retired Commission employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. The Commission reimburses the New Hampshire Retirement System for its share of post-employment health care benefits. The amount reimbursed for the nine months ended March 31, 2003 totaled $92,465.

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

BUDGET TO ACTUAL SCHEDULE
(BUDGETARY BASIS)
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2003

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Favorable/ (Unfavorable) Variance- Final
Revenues				
General Assessments	$ 5,008,895	$ 5,008,895	$ 4,387,938	$ (620,957)
Special Assessments	-0-	291,234	311,035	19,801
Gas Assessments	58,015	58,015	108,329	50,314
Federal Funds	42,272	72,299	104,597	32,298
Other Revenue	40,638	40,638	71,924	31,286
Total Revenues	$ 5,149,820	$ 5,471,081	$ 4,983,823	$ (487,258)
Expenditures				
General Regulatory Costs				
Salaries & Benefits	$ 4,542,342	$ 4,542,342	$ 3,370,048	$ 1,172,294
Current Expenses	173,519	173,519	156,217	17,302
Equipment	103,262	103,662	30,702	72,960
Interagency Payments	122,612	123,900	123,900	-0-
Other	1,011,187	1,009,499	677,006	332,493
Total General Regulatory Costs	$ 5,952,922	$ 5,952,922	$ 4,357,873	$ 1,595,049
Special Consultant Costs	-0-	291,234	251,957	39,277
Gas Pipeline Safety Program	247,165	277,192	179,895	97,297
Total Expenditures	$ 6,200,087	$ 6,521,348	$ 4,789,725	$ 1,731,623
Excess (Deficiency) Of Revenues And Over (Under) Expenditures	$ (1,050,267)	$ (1,050,267)	$ 194,098	$ 1,244,365

The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information – Budgetary Reporting

The Commission's biennial budget is prepared principally on a modified cash basis and adopted for governmental and proprietary funds. The "actual" results column of the Budget To Actual Schedule is presented on a "budgetary basis" to provide a meaningful comparison to budget.

The budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. For reporting purposes, the original budget is equal to the initial operating budget plus any balances brought forward, additional appropriations, and other legally authorized legislative and executive changes made before the beginning of the fiscal year. The final budgeted amount includes the original budget plus supplemental appropriation warrants and transfers made throughout the fiscal year.

The actual amount represents actual expenditures incurred plus the total of current year encumbrances outstanding as of March 31, 2003, which equaled $278,408.

The variance column on the Budget To Actual Schedule highlights differences between the final budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget, generating a favorable variance, or actual being less than budget, generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year, and unfavorable variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the budget period amount, twelve months in the case of the General Fund, and a partial year's actual revenue and expenditures. Thus, for the nine-month financial statements dated March 31, 2003, unfavorable variances in the General Fund revenues are expected to be collected in the twelve-month period. Similarly, favorable expenditure variances are expected as nine months of expenditures are compared to the anticipated expenditures of the twelve-month budget period.

Budgetary vs GAAP Basis

Because the budget is prepared on a budgetary basis and not in accordance with generally accepted accounting principles (GAAP) there are differences in the revenue and expenditures amounts reported in the Statement Of Revenues And Expenditures and the Budget To Actual Schedule. The major differences between the budgetary basis and the GAAP basis are:

- Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
- On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the differences between budgetary accounting methods and the GAAP basis accounting principles for the nine months ended March 31, 2003.

RECONCILIATION OF BUDGETARY TO GAAP

Excess (Deficiency) of revenues over (under) expenditures (Budgetary Basis)	$	194,098
Adjustments and Reclassifications:		
To remove the effect of encumbrances		156,057
To remove prior year revenue recorded in current year		(130,967)
To record Net Accrued Salaries & Benefits		(104,025)
To record Accounts Payable		31,409
Excess (Deficiency) of revenues over (under) expenditures (GAAP)	$	146,572

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 2003

Federal Catalog Number	Federal Agency/ Program Title	Expenditures
	U.S. Department of Transportation	
20.700	*Pipeline Safety Grant*	
	Gas Pipeline Safety	$ 78,939
	One-Call (Dig Safe)	23,900
	Total	$ 102,839

APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of July 29, 2003, of the status of the observations contained in the audit report of the Public Utilities Commission for the nine months ended March 31, 1994. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

		Status
Internal Control Comments		
	Reportable Conditions	
1.	Determination of Actual and Estimated Expenses for use in the Utility Assessment *(See Current Observation No. 1)*	● ○ ○
2.	Determination of Gross Utility Revenue for use in the Utility Assessment (*See Current Observation No. 1*)	● ● ○
3.	Utilities Assessed Minimum Fee in Prior Fiscal Year Assessment	● ● ●
4.	Initial Receipt of Cash and Checks	● ● ○
5.	Equipment Records (*See Current Observation No. 2*)	● ○ ○
State Compliance Comments		
6.	Adjustments to Assessments of Public Utilities (*See Current Observation No. 6*)	● ● ○
7.	Utility Assessment Dates (*See Current Observation No. 6*)	● ○ ○
8.	Exclusion of Customer Owned Coin-Operated Telephones (COCOT) from the Utility Assessment	● ● ●
9.	Untimely Deposit of Non-Utility Assessment Receipts (*See Current Observation No. 7*)	● ○ ○
10.	Establishment of Fees for the Testing of Meters	● ● ●

Status Key

Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

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