

State of Florida



RECEIVED-FPSC  
NOV 21 PM 1:07  
COMMISSION  
CLERK

# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

**DATE:** November 19, 2008

**TO:** Bart Fletcher, Public Utilities Supervisor, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DNV*

**RE:** Docket No: 080247-SU; Company Name: Utilities, Inc. of Eagle Ridge;  
 Audit Purpose: Allocations; Company Code: SU749;  
 Audit Control No: 08-261-4-1;

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send a response to the Office of the Commission Clerk. There are confidential work papers associated with this audit.

DNV/tbm  
Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
 District Offices, File Folder)  
 Office of Commission Clerk (2)  
 General Counsel  
 Office of Public Counsel

Mr. Patrick C. Flynn  
 Utilities, Inc. of Eagle Ridge  
 200 Weathersfield Avenue  
 Altamonte Springs, FL 32714-4027

Christian W. Marcelli  
 Rose Law Firm  
 2180 West State Road 434, Suite 2118  
 Longwood, FL 32779

COM \_\_\_\_\_  
 ECR \_\_\_\_\_  
 GCL \_\_\_\_\_  
 OPC \_\_\_\_\_  
 RCP \_\_\_\_\_  
 SSC \_\_\_\_\_  
 SGA \_\_\_\_\_  
 ADM \_\_\_\_\_  
 CLK *McLean*

DOCUMENT NUMBER-DATE  
 10852 NOV 21 08  
 FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING*

*Miami District Office*

**Utilities, Inc.  
Audit of Headquarters Accounts**

**Twelve Months Ended December 31, 2007**

**DOCKETS #080247-SU, 080248-SU, 080259-WS, and 080250-SU  
AUDIT CONTROL NO. 08-231-4-1**

A handwritten signature in cursive script, reading "Kathy L. Welch".

*Kathy L. Welch  
Audit Manager*

A handwritten signature in cursive script, reading "Iliana Piedra".

*Iliana Piedra  
Accounting Specialist*

DOCUMENT NUMBER-DATE

10852 NOV 21 8

FPSC-COMMISSION CLERK

<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
I. PURPOSE	1
II. OBJECTIVES AND PROCEDURES	2
III. FINDINGS	3
ONE- FORECASTED PLANT	4
TWO- SHORT TERM DEBT COST RATE	5
THREE- DUPLICATION OF BENEFIT ADJUSTMENT	6
FOUR-MID-COUNTY VEHICLE ERROR	7
FIVE-TRANSPORTATION EXPENSE	8

**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**November 13, 2008**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED  
PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the Utilities, Inc. parent company, Water Service Corporation (WSC) and the Utilities, Inc. of Florida (UIF) headquarters office. The procedures also relate to the allocations to Utilities, Inc. of Eagle Ridge, Tierra Verde Utilities, Inc., Labrador Utilities, Inc., and Mid-County Services, Inc., Docket Numbers 080247-SU, 080248-SU, 080259-WS, and 080250-SU, respectively.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures and is intended for internal Commission use.

## OBJECTIVES AND PROCEDURES

**Objective** – To determine if Utilities, Inc. has complied with the Commission's directive in Commission order PSC-03-1440-FOF-WS to allocate costs based on ERCs.

**Procedure** – We reviewed the allocation manuals from WSC, the Northbrook office headquarters in Illinois. We reviewed the worksheets used to adjust the headquarters' allocations for rate base and expense. We reviewed the worksheet used to allocate the Utilities Inc. of Florida (UIF) Altamonte Springs headquarters. We reviewed the worksheets used to allocate transportation and salaries. We recalculated the allocation factors.

**Objective** –To audit the allocated plant additions for the test year ended December 31, 2007.

**Procedure** – We reviewed the ledgers for the two companies, WSC and UIF. We selected additions since our last audit at June 30, 2007 to December 31, 2007 and obtained invoices to support the additions. We determined which employees were using the vehicles. Audit Finding Four discusses an error in recording vehicle costs.

**Objective** – To audit the projections for allocated plant additions included in the proforma plant adjustments.

**Procedures** – We reviewed the forecast worksheets and determined the only increase related to the new accounting and billing systems. We obtained the actual costs of the projects and the dates they were put in service. We calculated the forecast balance using the correct ERC allocation factors. We recalculated the depreciation on the revised amounts. Audit Finding One discusses a problem with depreciation on the forecasted plant.

**Objective** –To determine and audit costs allocated from the parent, Hydro Star, LLC.

**Procedures** –We reviewed the support for allocated costs and specifically requested any allocations from Hydro Star. No charges were allocated.

**Objective** –To audit the capital structure, excluding deferred taxes and customer deposits, for December 31, 2007.

**Procedures** –We determined the balances of debt and equity using the audited financial statements. We read the note included in long term debt and traced the rates used to the note. We obtained statements for the short term debt and recalculated the interest rate. Audit Finding Two discusses the short term debt rate.

**Objective** –To audit allocated expenses for 2007 and ensure that insurance adjustments from the last audit were made during this audit.

**Procedures** –We determined which costs were allocated from WSC and UIF's office. We recalculated the costs times the percent of ERCs for each division and compared the staff amount to the amounts in the ledgers for WSC and UIF allocations and the adjustments made in the filing for these expenses. We reviewed the payroll allocated and traced to W-2s. We reviewed the allocation of benefits and transportation amounts associated with these salaries. We selected some of the other material accounts of both WSC and UIF office and obtained samples of source documentation. We reviewed all insurance invoices and verified that the utility removed the costs of insurance for former employees and director's life insurance policies, fiduciary policies protecting directors and officers and pension funds. Audit Finding Three discusses the duplication of the benefit adjustment. Audit Finding Five discusses problems with transportation expense.

## AUDIT FINDING NO. 1

### SUBJECT: FORECASTED PLANT

**AUDIT ANALYSIS:** WSC added a new computer system in 2008 that cost over twenty-one million dollars. Proforma adjustments were made to the rate base filings of each utility. The differences between the staff amount and the filing amount for the plant addition are immaterial as shown below. However, there were differences between the staff computed depreciation and accumulated depreciation as shown below. The eight years used by the utility were used in our analysis. Rule 25-30.140, F.A.C., uses 6 years for computer equipment, but this equipment is used in all states that have varying rates so we did not adjust the rate. Since phase one went into service the beginning of the year, we calculated a full year. A half year depreciation was used for phase two.

Project Phoenix costs for the new computer system added in 2008		\$21,076,941.00				
		Allocation		Per	Per	Difference
		Factor		Staff (\$)	Filing (\$)	(\$)
Allocation to:	Eagle Ridge	0.87%		183,369.39	183,902	(532.61)
	Tierra Vierende	0.83%		175,360.15	175,952	(591.85)
	Mid-County	1.16%		244,492.52	244,218	274.52
	Labrador	0.54%		113,815.48	114,122	(306.52)
	<b>Cost</b>	<b>Years</b>	<b>Yearly Deprec.</b>	<b>Dep. Staff</b>		
Phase I	13,424,262	8	1,678,032.75	1,678,032.75	full year	
Phase II	7,652,679	8	956,584.88	478,292.44	1/2 year	
	21,076,941			<u>2,156,325.19</u>		

Depreciation Expense		Allocation	Phase 1	Phase 2	Total	Expense	Difference
		Factor	(\$)	(\$)	Dep. Exp. (\$)	Per Filing (\$)	(\$)
			1,678,032.75	478,292.44	2,156,325.19		
Eagle Ridge	0.87%		14,598.88	4,161.14	18,760.03	22,988.00	(4,227.97)
Tierra Vierende	0.83%		13,961.23	3,979.39	17,940.63	24,388.00	(6,447.37)
Mid-County	1.16%		19,465.18	5,548.19	25,013.37	30,527.00	(5,513.63)
Labrador	0.54%		9,061.38	2,582.78	11,644.16	19,020.00	(7,375.84)

Accumulated Depreciation		Allocation	Phase 1	Phase 2	Total Acc. Dep	Average With	A/D	Difference
		Factor	(\$)	(\$)	at 12/07 (\$)	Zero Beg. Bal.(\$) (Note 1)	Per Filing (\$)	(\$)
Eagle Ridge	0.87%		14,598.88	4,161.14	18,760.03	9,380.01	19,118.00	(9,737.99)
Tierra Vierende	0.83%		13,961.23	3,979.39	17,940.63	8,970.31	24,388.00	(15,417.69)
Mid-County	1.16%		19,465.18	5,548.19	25,013.37	11,226.33	25,388.00	(14,161.67)
Labrador	0.54%		9,061.38	2,582.78	11,644.16	5,822.08	19,020.00	(13,197.92)

Note 1-Mid-County is 13-Month Average. Others are beginning and ending average

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger.

**EFFECT ON THE FILING:** Depreciation expense should be reduced by \$4,227.97 for Eagle Ridge, \$6,447.37 for Tierra Verde, \$5,513.63 for Mid-County, and \$7,375.84 for Labrador. Accumulated Depreciation should be reduced by \$9,737.99 for Eagle Ridge, \$15,417.69 for Tierra Verde, \$12,881.31 for Mid-County and \$14,161.67 for Labrador.

## **AUDIT FINDING NO. 2**

### **SUBJECT: SHORT TERM DEBT COST RATE**

**AUDIT ANALYSIS:** We traced the short-term debt balances to the invoices from Chase Bank. *Dividing the annual interest expense by the monthly balances of the debt usually gives a reasonable average of the interest rate of the debt. However, in this case, the short-term debt balances were maintained for only a few days during a few months. Some months had no beginning or ending balance but still had interest.*

Since the interest rate in the filing was computed by taking the interest expense divided by these average balances, the interest rates used in the filing were not representative of the interest rate paid on the loans. The average interest rate computed for the beginning and ending year end balances in the filing is 2.44%. The 13-month average rate used by Mid-County is 12.34%. The actual interest rates paid were 7.25% to 8.25%. A rate closer to the actual needs to be determined to use in the weighted cost schedule.

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger.

**EFFECT ON THE FILING:** This finding is for informational purposes.



### AUDIT FINDING NO. 3

#### SUBJECT: DUPLICATION OF BENEFIT ADJUSTMENT

**AUDIT ANALYSIS:** In preparing the filing, the utility prepared an analysis of each employee that works for each division and which employees work on all utilities. Salaries for employees that work on more than one company were allocated based on different factors such as ERCs for all companies for Chicago employees, ERCs for Florida and Louisiana for UIF employees and time for plant employees. Benefits and the vehicles associated with each employee were allocated using the same factors as used for salary. They made a proforma adjustment in the filing for the difference between what was arrived at on this schedule and what was booked. The utility had also made an adjustment to the filing to pension and benefits to correct the original allocation made in the books to the ERC methodology required by the Commission. However, this was already taken into consideration in the recalculation of benefits done in the proforma adjustment. There was a difference in the final numbers as follows:

	<b>Tierra Verde</b>	<b>Mid-County</b>	<b>Labrador</b>	<b>Eagle Ridge</b>
	(\$)	(\$)	(\$)	(\$)
Per Filing:				
Test Year per General ledger	5,591.00	47,900.00	21,663.00	51,267.00
Proforma for ERC's	458.00	136.00	22.00	(140.00)
Proforma for Salary Adjustment	14,525.00	14,330.00	180.00	(1,418.00)
	<u>20,574.00</u>	<u>62,366.00</u>	<u>21,865.00</u>	<u>49,709.00</u>
Revised pension and benefits per co adj. summary	19,881.00	61,221.00	21,916.00	48,976.00
Difference-needs reduction (increase)	<u>693.00</u>	<u>1,145.00</u>	<u>(51.00)</u>	<u>733.00</u>

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger.

**EFFECT ON THE FILING:** Pension and benefits should be reduced by \$693 for Tierra Verde, \$1,145 for Mid-County, and \$733 for Eagle Ridge. Labrador should be increased by \$51.

**AUDIT FINDING NO. 4**

**SUBJECT: MID-COUNTY VEHICLE ERROR**

**AUDIT ANALYSIS:** In preparing an adjustment to the filing for vehicles, the utility left off a vehicle for an operator at the Mid-County plant. The operator works 100% of his time on Mid-County. The vehicle cost was \$18,392. The filing includes the depreciation and the accumulated depreciation but not the vehicle cost.

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger.

**EFFECT ON THE FILING:** Since the adjustment should be made in each month, 13-Month Average Rate Base for Mid-County should be increased by \$18,392 for this vehicle.

**AUDIT FINDING NO. 5**

**SUBJECT: TRANSPORTATION EXPENSE**

**AUDIT ANALYSIS:** Transportation expense is supposed to be allocated from WSC and the Florida headquarters in Altamonte Springs to each utility. We determined that there were direct charges to some of the divisions but all costs should have been allocated according to the company methodology. In addition, we determined the company did not include the Florida transportation expenses in the UIF allocation made. Because of these errors, the company representative did an analysis to determine an average cost per vehicle and then allocated the cost per vehicle to the divisions based on the percent each employee's vehicle is allocated to the division. The analysis follows:

<u>Vehicle</u>	<u>Description</u>	<u>Expense for 2007</u>	<u>Vehicles in Fl</u>	<u>2007 Expense per Vehicle</u>
	FLEET TRANSPORTATION EXPENSE			
6215	FUEL	294,851.32	142	2,076.42
6220	AUTO REPAIR/TIRES	120,626.82	142	849.48
6225	AUTO LICENSES	4,378.16	142	30.83
6230	OTHER TRANS EXPENSES	5,469.96	142	38.52
	FLEET TRANSPORTATION	425,326.26	142	2,995.26
	Number of Vehicles assigned to State of Florida		142	

Tierra Verde Utilities, Inc.

<u>Vehicles</u>	<u>Driver</u>	<u>% Used in Tierra Verde</u>	<u>Exp. Per Veh.</u>	<u>% Allocated to Tierra Verde</u>
0461	Buono, Robert	41.88%	2,995	1,254
0650	Durham, Rick	2.33%	2,995	70
0512	Flynn, Patrick	2.88%	2,995	86
0304	Franklin, Kennedy	16.83%	2,995	504
0729	Haws, Scotty	2.33%	2,995	70
0825	Neal, William	12.02%	2,995	360
0436	Worrell, David	13.34%	2,995	400
0701	Yount, Darrin	0.83%	2,995	25
				<u>2,769</u>
	Per filing			<u>191</u>
	Increase needed			<u>2,578</u>

Mid-County Services, Inc.

<u>Vehicles</u>	<u>Driver</u>	<u>% Used in Mid-County</u>	<u>Exp. Per Veh.</u>	<u>% Allocated to Mid-County</u>
0461	Buono, Robert	58.12%	2,995	1,741
0650	Durham, Rick	3.23%	2,995	97
0637	Finehirsh, Jeffrey	100.00%	2,995	2,995
0512	Flynn, Patrick	3.99%	2,995	120
0304	Franklin, Kennedy	23.36%	2,995	700
0828	Gunther, Matthew	100.00%	2,995	2,995
0729	Haws, Scotty	3.23%	2,995	97
0825	Neal, William	16.69%	2,995	500
0705	Szczepkowski, Stephen	100.00%	2,995	2,995
0453	Wierzbicki, Anthony	17.10%	2,995	512
0728	Wilson, Michael	11.53%	2,995	345
0436	Worrell, David	18.52%	2,995	555
0701	Yount, Darrin	1.16%	2,995	35
				<u>13,686</u>
	Per Filing			<u>10,381</u>
	Increase needed			<u>3,305</u>

Labrador Utilities, Inc.

Vehicles	Driver	% Used in Labrador	Expense per Vehicle	% Alloc. to Labrador
0803	Chard, Ronald	8.21%	2,995	246
0650	Durham, Rick	1.51%	2,995	45
0512	Flynn, Patrick	1.87%	2,995	56
0304	Franklin, Kennedy	10.91%	2,995	327
0729	Haws, Scotty	1.51%	2,995	45
0825	Neal, William	7.80%	2,995	234
0728	Wilson, Michael	5.39%	2,995	161
0436	Worrell, David	8.65%	2,995	259
0427	Wright, Jason	100.00%	2,995	2,995
0701	Yount, Darrin	0.54%	2,995	16
				<u>4,385</u>
	Per filing			<u>5,592</u>
	Decrease needed			<u>(1,207)</u>

Utilities, Inc of Eagle Ridge

Vehicles	Driver	% Used in Eagle Ridge	Expense per Vehicle	% Alloc. to Eagle Ridge
0310	Devers, Joe	100.00%	2,995	2,995
0303	Dodd, Donald	100.00%	2,995	2,995
0650	Durham, Rick	2.43%	2,995	73
0512	Flynn, Patrick	3.01%	2,995	90
0423	Garcia Jr, Ismael	100.00%	2,995	2,995
0729	Haws, Scotty	2.43%	2,995	73
0609	Stewart, Malcolm	26.39%	2,995	791
0453	Wierzbicki, Anthony	12.88%	2,995	386
0728	Wilson, Michael	8.68%	2,995	260
0701	Yount, Darrin	0.87%	2,995	26
				<u>10,684</u>
	Per Filing			<u>14,830</u>
	Decrease needed			<u>(4,146)</u>

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger.

**EFFECT ON THE FILING:** Expenses should be reduced for Eagle Ridge by \$4,146 and for Labrador by \$1,207. Expenses should be increased for Mid-County \$3,305 and for Tierra Verde by \$2,578.