

State of Florida



Public Service Commission

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

DATE: March 28, 2016

TO: Office of Commission Clerk

FROM: Carl S. Vinson, Public Utilities Supervisor, Office of Auditing and Performance Analysis

RE: Docket No. 140217-WU
Cedar Acres, Inc.
Management Audit of Cedar Acres, Inc.
Workload Control No. PA-15-10-005

Please file the attached Management Audit Report of Cedar Acres, Inc. in Docket No. 140217-WU.

CSV/cm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File



MANAGEMENT AUDIT OF
Cedar Acres, Inc.

MARCH 2016

BY AUTHORITY OF
The Florida Public Service Commission
Office of Auditing and Performance Analysis

MANAGEMENT AUDIT OF
Cedar Acres, Inc.

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Office of Auditing and Performance Analysis
PA-15-10-005

March 2016

By Authority of
The State of Florida
Public Service Commission
Docket No. 140217-WU

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1.0 Executive Summary

1.1 Introduction and Audit Purpose

Cedar Acres, Inc. (Cedar Acres or Company) is a Class C water utility that serves approximately 319 customers in the Oakland Hills subdivision located in Sumter County, Florida. The water supply is obtained from one company-owned well located within the service area. A backup well, as required by DEP, is also located at the site but is not in use.

On December 14, 2015, pursuant to Consummating Order No. PSC-15-0563-CO-WU issued in Docket No. 140217-WU, the Florida Public Service Commission (FPSC or Commission) approved Cedar Acres' application for an increase in rates and charges. The Commission ordered that the docket remain open to address concerns regarding company operations raised by Cedar Acres' customers and the Office of Public Counsel. Concerns included incorrect meter readings, erroneous billing, slow-working and nonworking meters, inadequate customer service, non-compliance with DEP regulations, and failure to provide adequate notice to boil water. Compliance reports from the company are due six and 12 months after the consummating order.

The Commission specifically instructed Cedar Acres to include the following information in its compliance reports:

- ◆ All corrective measures taken to address billing issues
- ◆ All corrective measures taken to address customer concerns and complaints
- ◆ All corrective measures taken to comply with the Commission, Department of Environmental Protection (DEP), and Department of Health (DOH) regulations, including boil water notices
- ◆ A billing analysis

The Commission further directed the Office of Auditing and Performance Analysis to conduct a management audit of Cedar Acres to ensure appropriate management controls and practices are being implemented and corrective actions are being performed to comply with Commission rules and regulations. The Commission's management audit was initiated on October 26, 2015.

1.2 Audit Objectives and Scope

As authorized by Chapter 350.117 (2) and (3), F.S., management audits are conducted by staff to assess utility performance and the adequacy of operations and controls:

- (2) The Commission may perform management and operation audits of any regulated company. The Commission may consider the results of such audits in establishing rates; however, the company shall not be denied due process as a result of the use of any such management or operation audit.

(3) As used in this section, “management and operation audit” means an appraisal of management performance, including a testing of adherence to governing policy and profit capability; adequacy of operating controls and operating procedures; and relations with employees, customers, the trade, and the public generally.

The audit focused on key management issues including owner involvement and accountability, adequacy of contractor performance, and effective relations with customers and regulators. Specifically, Commission audit staff evaluated Cedar Acres’ compliance with the following Commission rules that govern water and wastewater utilities:

- ◆ 25-30.130 Record of Complaints
- ◆ 25-22.032 Customer Complaints
- ◆ 25-30.311 Customer Deposits
- ◆ 25-30.261 Meter Readings
- ◆ 25-30.125 System Maps and Records
- ◆ 25-30.335 Customer Billing
- ◆ 25-30.320 Refusal or Discontinuance of Service
- ◆ 25-30.460 Application for Miscellaneous Service Charge
- ◆ 25-30.433 Determination of Quality of Service

1.3 Audit Methodology and Standards

Information regarding Cedar Acres’ business operations was gathered through responses to Commission audit staff document requests, on-site interviews with company and contracted personnel, and review of documentation provided to the Commission in Docket No. 140217-WU. Specific information reviewed included:

- ◆ Meter reading logs
- ◆ Customer bills
- ◆ Payment register of accounts receivable
- ◆ Customer complaints
- ◆ Annual Report filed with the FPSC
- ◆ DEP Survey Reports

Commission audit staff’s standard of review for internal controls is primarily the Institute of Internal Auditors’ *Standards for the Professional Practice of Internal Auditing* and the *Internal Control - Integrated Framework* developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Internal controls assessments focus on the COSO framework’s five key elements of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Staff’s audit work is performed in compliance with Institute of Internal Auditors Performance Standards 2000 through 2500.

In assessing Cedar Acres’ current management and operational processes, Commission audit staff relied in part upon a National Regulatory Research Institute (NRRI) study regarding small

water utility management.¹ This study states that effective management of small water companies requires the following:

- ◆ Compliance with regulatory requirements
- ◆ Attracting and retaining quality personnel
- ◆ Providing effective employee training and education
- ◆ Providing excellent customer service
- ◆ Displaying good public relations
- ◆ Employing a strategic business plan

This NRRI study identifies the attributes and practices of successful small systems. By definition, small water utilities have few customers over which to spread fixed costs. Challenges facing small utilities typically include deteriorating infrastructure, maintaining an awareness of regulatory requirements, providing adequate customer service, management training, implementing proper accounting practices, and general lack of financial resources.

The study notes that small systems are more likely to succeed when management maintains proper focus on company operations, especially when providing water is the owner's primary or only business focus. It notes that where the water system is not the owner's top priority, there is risk that problems will go unnoticed and necessary maintenance will be deferred. Most successful small systems have an owner with a passion for the business, one who recognizes and values the utility's public interest obligation.

1.4 Overall Opinion

Commission audit staff believes the successful correction of customer service deficiencies and non-compliance with Commission rules is presently within the grasp of the company but depends upon management taking the initiative. Based upon a complete review of company procedures and activities, Commission audit staff believes that continued proactive participation by management will be critical, particularly in overseeing all meter reading and bill preparation activities.

Commission audit staff believes that if implemented, the following 17 recommendations will fully address the various customer service and Commission Rule compliance issues identified in this management audit. Cedar Acres management has indicated agreement with all of these recommendations and has begun to implement a number of them.

1. **Commission audit staff recommends Cedar Acres develop and implement written procedures to provide a record of customer complaints and inquiries in compliance with Rule 25-30.130, F.A.C., *Record of Complaints*.**

¹The National Research Regulatory Institute identified the attributes and practices of successful small systems in a February 7, 2008, report titled "Small Water Systems: Challenges and Recommendations."

2. Commission audit staff recommends Cedar Acres give prompt attention to customer complaints or inquiries in compliance with Rule 25-22.032, F.A.C., *Complaints*.
3. Commission audit staff recommends Cedar Acres provide its Hollywood office phone number for all customer complaints and inquiries and the phone number for Universal Waters for emergency repairs and services.
4. Commission audit staff recommends Cedar Acres develop and implement written policies and procedures that comply with Commission Rule 25-30.311, F.A.C., *Customer Deposits*.
5. Commission audit staff recommends Cedar Acres develop and implement written policies and procedures that result in accurate meter readings and comply with Rule 25-30.261(1), F.A.C., *Meter Readings*.
6. Commission audit staff recommends Cedar Acres perform an audit of every residential meter to identify its current condition and to prioritize meter replacements.
7. Commission audit staff recommends Cedar Acres continue to identify meters in need of replacement during future bimonthly readings.
8. Commission audit staff recommends Cedar Acres create a comprehensive water system map to comply with Rule 25-30.125, F.A.C., *System Maps and Records*.
9. Commission audit staff recommends Cedar Acres develop and implement written billing policies and procedures to produce reliable bills that comply with Rule 25-30.335(7), F.A.C., *Customer Billing*.
10. Commission audit staff recommends Cedar Acres pursue implementing a new billing system.
11. Commission audit staff recommends Cedar Acres continue to bill customers at only the base facility charge for meters where the usage amount cannot be obtained.
12. Commission audit staff recommends Cedar Acres develop and implement written procedures addressing delinquent accounts, late payment charges, collection and past due balances in compliance with Rule 25-30.335, F.A.C., *Customer Billing*
13. Commission audit staff recommends Cedar Acres appropriately pursue the collection of nonpayments and implementation of a \$5 late payment charge.

- 14. Commission audit staff recommends Cedar Acres develop and implement written disconnection procedures that comply with Rule 30.320, F.A.C., *Refusal or Discontinuance of Service* and Order No. PSC-15-0535-PAA-WU.**
- 15. Commission audit staff recommends Cedar Acres implement a method of notifying customers of the need to boil water that complies with DEP Rule 62-560.410(1)(a), F.A.C. and the Department of Health *Guidelines for the Issuance of Precautionary Boil Water Notices*.**
- 16. Commission audit staff recommends Cedar Acres correct all deficiencies cited in the 2012 and 2015 DEP Sanitary Survey Reports.**
- 17. Commission audit staff recommends Cedar Acres ensure proper operation of the Sensaphone autodialer to notify the company of a pump failure.**

2.0 Background and Perspective

2.1 Company History

Cedar Acres' present water distribution infrastructure has not changed since the development of the Oakland Hills community in 1985. The community's water supply is obtained from a well located in the service area. Wastewater treatment is performed by customer-owned septic tanks.

At the time the infrastructure was first designed, the company was placed under Sumter County jurisdiction. In 1987, the County turned over jurisdiction to the FPSC. However, apparently unaware of the jurisdictional changes, Cedar Acres did not apply for certification by the Commission until 2008. The original certificate was granted by the Commission in August 2009.² Until the recent increase in rates and charges approved in November 2015³ Cedar Acres was operating under the original rates granted in 1985.

Present management (a President and a Finance Manager) took on oversight of Cedar Acres in 2011 upon the death of a relative with ownership interest. Current ownership resides with another non-participating owner and multiple non-profit organizations. The company has no accounting records other than bank statements prior to 2011 due to lack of proper practices by prior management. State and federal penalties have since been assessed against Cedar Acres. As of December 2015, the company had accumulated over \$27,000 in fines.⁴ According to the company, federal penalties have been paid.

The President and Finance Manager conduct company operations in Hollywood, Florida. The President is the designated spokesperson and liaison for the company. He is also responsible for reviewing and approving all technical services that support the utility system, including installations, repairs, and maintenance activities. According to the President, 25 percent of his time is dedicated to the operations of Cedar Acres. The remainder of his time is spent overseeing a separate non-utility business.

The Finance Manager is responsible for all administrative functions including general bookkeeping and accounting, and reconciling and posting bill payments. She also manages the company debt, assists with the preparation of tax returns and annual reports, and coordinates the meter reading and billing functions performed by a third-party contractor. Approximately 90 percent of the Finance Manager's time is dedicated to Cedar Acres.

2.2 Contracted Services

2.2.1 Meter Reading and Billing Services

Since 2008, meter reading and billing services for Cedar Acres have been provided by Artesian Water Treatment (Artesian), a third-party contractor located in Tavares, Florida. Artesian is

² Order No. PSC-09-0541-FOF-WU, issued August 4, 2009, in Docket No. 080098-WU.

³ Order No. PSC-15-0535-PAA-WU issued November 19, 2015, in Docket No. 140217-WU.

⁴ Creditors include FPSC, IRS, Department of Environmental Protection, and Department of Revenue.

owned and operated by a husband and wife and one part-time employee. Artesian's core business is to provide sales, service, and repairs to water equipment, such as installing water softeners and removing iron and chlorine from water. Cedar Acres is the only utility using Artesian for meter reading and billing services. Currently, two Artesian employees are responsible for conducting bi-monthly readings for the 319 meters in the Oakland Hills community. Artesian manually inputs meter readings into an Excel spreadsheet to create customer bills. Once the meter readings are complete, Artesian is responsible for printing and mailing the bills to Cedar Acres' customers. Cedar Acres' Finance Manager is responsible for collecting and posting customer payments. Commission audit staff's analyses of the meter reading and billing processes are addressed in Chapter 3, sections 3.3 and 3.5.

2.2.2 Maintenance and Well Operations

Since 2010, Cedar Acres has contracted with Universal Waters Plant Operations, Inc. (Universal Waters) located in Belleview, Florida to maintain and service the well operations that supply water to the Oakland Hills community. Work performed by Universal Waters includes well usage readings, water testing, water treatment, and servicing of equipment (e.g., wells, pumping station, and customer meters). Universal Waters also meets with on-site inspectors from the Commission, Department of Environmental Protection (DEP), and the Southwest Florida Water Management District. Universal Waters is further responsible for responding to water quality and water pressure complaints, and handling of emergency calls including boil water alerts and repairs of service lines.

In July 2015, an incident occurred that required Cedar Acres' customers to boil water. Cedar Acres initially experienced a power failure as a result of non-payment of its electric bill. The company had switched from receiving paper to electronic billing and had missed the notices for disconnection. A backup generator at the well site turned on but eventually ran out of fuel. Telephone notification to Universal Waters, via a Sensaphone, failed to occur. A Sensaphone is an autodialer that is designed to provide off-site notification of unfavorable conditions, such as a power failure.

As a result of the Sensaphone failure, Cedar Acres is not in compliance with Department of Health (DOH) and DEP standards for issuances of boil water notices. Commission audit staff's analysis of the company's protocol for issuing boil water notices is further addressed in Chapter 3, section 3.7.

3.0 Commission Rule Compliance

During the Commission's Customer Meeting on May 14, 2015 to address Cedar Acres' application for a rate increase, customers raised concerns regarding the proposed rate increase, as well as metering, billing, and service quality issues. Company management was present. Five months later, at the Commission's October 13, 2015 Agenda Conference approving the rate increase, customers again raised concerns with the service provided by Cedar Acres. Company management was not present. The issues raised by customers relate to existing Commission rules regarding customer service, complaint handling, meter reading, billing operations, and water quality notifications. Commission audit staff assessed Cedar Acres' compliance with applicable Commission rules and presents its recommended corrective actions in the remainder of this chapter.

3.1 Customer Complaint Records and Handling

Is Cedar Acres in compliance with Rule 25-30.130 F.A.C., Record of Complaints and Rule 25-22.032 F.A.C., Customer Complaints?

What is the standard?

Pursuant to Rule 25-30.130, F.A.C., *Record of Complaints*, "each utility shall maintain a record of each signed, written complaint received by the utility from any of that utility's customers." By rule, the record is to include the name and address of the complainant, the nature of the complaint, the date received, the result of the investigation, the disposition of the complaint, and the date of the disposition.

Pursuant to Rule 25-22.032, F.A.C., *Customer Complaints* regarding investigation of complaints, "The company shall also provide the Commission staff, within 15 working days after the Commission staff sends the complaint to the company, a written response to the customer's complaint."

What is happening?

Cedar Acres has recently complied with Rule 25-30.130 F.A.C., but has not complied with Rule 25-22.032, F.A.C.

During the October 13, 2015 Commission Agenda Conference, customers noted their repeated inability to reach Cedar Acres personnel for resolution of problems when needed. Commission audit staff believes Cedar Acres has failed to promptly address customers' concerns and to provide an adequate two-way channel for customers to funnel inquiries and complaints.

Customer bills currently provide two phone numbers to call for billing, meter service, or general questions. One number is for Artesian, and the other is for the Cedar Acres Hollywood office. The bill instructs customers to call Artesian for billing and meter questions. Due to the nature and size of Artesian's business, its employees are often performing field work and are unable to take live calls. Artesian claims it does return customer calls, but in the past, has not maintained

records of customer calls or inquiries. Similarly, Cedar Acres management had not, until January 2016, maintained records of customer calls.

Company management acknowledged it was unaware of Commission rules requiring the company to maintain records of written customer complaints. Commission audit staff discussed all related requirements with management and furnished a copy of Commission rules (Rule 25-30, F.A.C.).

The Commission received six formal complaints from 2010 through 2015 filed with its Office of Customer Assistance and Outreach. Five of the complaints pertained to improper billing and one to quality of service. All the complaints have been resolved and closed, the latest on January 29, 2016. However, for each complaint, Cedar Acres failed to timely respond to the Commission within the required 15 working days per Rule 25-22.032, F.A.C.

Commission audit staff believes the number of customer complaints on file is minimal, likely as a result of the company's extremely low usage charge of 4.5 cents per 1,000 gallons that has been in effect since the utility's inception. For example, an error in billing of 10,000 gallons would cause a customer to be overbilled 45 cents, meaning the mistake would likely escape detection. Commission audit staff believes that once new rates are implemented, customer complaints could grow exponentially if the meter reading and billing concerns are not immediately addressed (see sections 3.3 and 3.5.)

What is Commission audit staff's recommendation?

- 1) Commission audit staff recommends Cedar Acres develop and implement written procedures to provide a record of customer complaints and inquiries in compliance with Rule 25-30.130, F.A.C., *Record of Complaints*.** As the Commission rule states, at a minimum, the complaint record should indicate the name and address of the complainant, the nature of the complaint, the date received, the result of the investigation, the disposition of the complaint, and the date of the disposition. Cedar Acres should maintain a log of written complaints and inquiries received by the Commission's Office of Consumer Assistance and Outreach as well as written complaints and inquiries received by the company directly from customers. Commission audit staff also believes that both customers and the company would benefit from the logging of all complaints and service-related inquiries.

According to the previously cited 2008 NRRI study, a utility should have a reputation of working cooperatively with the community it services.⁵ The company should provide timely, accurate information about service outages, water quality issues, watering restrictions and other matters that affect the community. At the May 2015 Commission Customer Meeting and the October 13, 2015 Commission Agenda Conference, several customers openly questioned the responsiveness of the company's management.

⁵The National Research Regulatory Institute identified the attributes and practices of successful small systems in a February 7, 2008, report titled "Small Water Systems: Challenges and Recommendations."

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation and in January 2016 began the practice of logging customer inquiries and complaints received by customers. The log currently contains records denoting customer names, contact dates, the form of contact (i.e., email, telephone, written notice), nature of inquiry, and the status of the company's response.

Cedar Acres agrees with Commission audit staff's recommendation to develop and implement written procedures to provide a record of customer complaints or inquiries. At the request of Commission audit staff, the Cedar Acres' President held a meeting on January 16, 2016, with the Oakland Hills community Homeowners Association. Cedar Acres' contractor, Artesian, also attended the meeting. Approximately 50 residents were present. The President discussed the company's new rates and charges and addressed customer concerns including unreadable or broken meters, billing problems, and quality of service issues.

- 2) Commission audit staff recommends Cedar Acres give prompt attention to customer complaints or inquiries in compliance with Rule 25-22.032, F.A.C., *Complaints*.** The rule requires the utility to file a written response to the Commission within 15 working days from the date the Commission staff sends the complaint to the company.

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation to give prompt attention to customer complaints or inquiries. Though no Commission complaints are currently pending, Cedar Acres management intends to comply with the 15 working day notice requirement.

- 3) Commission audit staff recommends Cedar Acres provide its Hollywood office phone number for all customer complaints and inquiries and the phone number for Universal Waters for emergency repairs and services.** Since Cedar Acres is ultimately responsible for maintaining a record of complaints, and monitoring and tracking complaints, Commission audit staff suggests Cedar Acres provide customers with the Hollywood office number for all customer billing and service inquiries. This should provide greater awareness of all customer issues and the performance of its contractors. Universal Waters is within close proximity to the Oakland Hills community and would be able to provide prompt response to emergency requests.

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation and indicates this change will begin with the March 2016 billing cycle.

3.2 Customer Deposits

Is Cedar Acres in compliance with Rule 25-30.311, F.A.C., Customer Deposits?

What is the standard?

Pursuant to Rule 25-30.311, F.A.C., *Customer Deposits* prescribes how deposits are collected, deposit records are kept, and deposit refunds are granted.

What is happening?

Cedar Acres has never collected customer deposits and is therefore currently in compliance with Rule 25-30.311, F.A.C.

The purpose of collecting customer deposits is to protect both the company and the general body of rate payers against excessive bad debt write-offs. Collection of customer deposits is consistent with one of the fundamental principles of ratemaking and this Commission's practice: ensuring that the cost of providing service is recovered from the cost causer.

Although Cedar Acres has no accounting records prior to 2011, company management stated that no customer deposits for water services have been collected to date. The company currently has no written policies and procedures for the collection of customer deposits. Company management acknowledged its unfamiliarity with Commission rules. Commission audit staff furnished Cedar Acres management with a copy of Commission rules (Rule 25-30, F.A.C) that govern water and wastewater utilities.

What is Commission audit staff's recommendation?

- 4) **Commission audit staff recommends Cedar Acres develop and implement written policies and procedures that comply with Commission Rule 25-30.311, F.A.C., Customer Deposits.** Order No. PSC-15-0535-PAA-WU approved Cedar Acres' increase in rates and an initial customer deposit of \$60 for residential 5/8" x 3/4" meter sizes. The initial deposits for other residential and general service meter sizes should be two times the average estimated bill. Commission audit staff further recommends that Cedar Acres include a copy of the new policies and procedures in its revised tariff filing with the Commission.

Corrective Action Status

Cedar Acres agrees with staff's recommendation to develop and implement written policies and procedures regarding customer deposits. As of the date of publication of this report, the company has yet to write customer deposit procedures, but has indicated that it will begin requesting a \$60 deposit for customers with a history of late payments. The company is currently in the process of creating an accounts receivable aging report to determine which customers should post a deposit.

3.3 Meter Readings

Is Cedar Acres in compliance with Rule 25-30.261(1), F.A.C., Meter Readings?

What is the standard?

Pursuant to Rule 25-30.261(1), F.A.C, *Meter Readings*, "the utility shall read its service meters at regular intervals and, insofar as practicable within regularly scheduled work days on the corresponding day of each meter reading period." Additionally, the utility "shall read the register of each meter in the same units that the utility uses for billing purposes."

What is happening?

Cedar Acres does comply with Rule 25-30.261(1), F.A.C., in that meters are read on a regular schedule. However, meter reading accuracy is problematic. Though not specifically addressed in Rule 25-30.261(1), F.A.C, *Meter Readings*, Commission audit staff believes the rule implicitly assumes a reasonable degree of due care and diligence be used in meter reading. Accuracy is the obvious expectation, though some errors may occur.

As previously mentioned, Cedar Acres' meter reading operations are conducted bi-monthly by Artesian. Commission audit staff obtained and examined copies of Artesian's meter reading logs for two billing cycles covering the period May 2015 through August 2015. The logs have pre-printed lot numbers and should include pre-printed readings from prior months to assist the reader in identifying abnormalities. Commission audit staff believes an insufficient effort is put into reading meters. The logs are poorly organized and errors such as transposition of numbers are made frequently. Upon examination of the logs, Commission audit staff found the following discrepancies:

May-June 2015 Readings

- ◆ Meter reading log pages were missing for 51 residential lots
- ◆ No readings were recorded for four lots
- ◆ The usage reading for 65 lots did not match the reading displayed on the customer bill
- ◆ Two customers were billed for usage, yet the meter reading log denotes no usage

July-August 2015 Readings

- ◆ Prior months' readings were not pre-printed on the log
- ◆ No readings were recorded for 36 lots
- ◆ The usage reading for 54 lots did not match the reading displayed on the customer bill
- ◆ Eleven customers were billed for usage, yet the meter reading log denotes no usage

The lack of built-in parameters or checkpoints in either the meter reading process or the billing system resulted in erroneous meter readings and bills. According to Artesian personnel, when generating customer bills, they have been spot-checked for amounts that seem abnormally high.

Meters are only re-read upon a customer's request. Still, Commission audit staff found numerous obvious meter reading mistakes. The overall impact to each customer bill was minimal since the low 2008 rates and charges were in effect at the time the bills were created.

Cedar Acres customers also raised concerns regarding awareness of Artesian's presence while reading meters in the community. In the past, Artesian's meter readers did not wear uniforms for meter reading activities. Since Artesian is likely to meet customers face-to-face, Cedar Acres may be missing an opportunity to build better customer relations. Commission audit staff believes attention should be given to Artesian's professional appearance.

Meter reading is a simple procedure. Yet the number of errors on the meter reading logs and the failure to note the conditions of meters during each reading indicate Artesian's performance has not been satisfactory. For those meters that can be read, Commission audit staff believes accuracy in meter reading is a reasonable expectation by customers. Incorrect meter readings and incorrect bills represent a substantial customer service failure.

What is Commission audit staff's recommendation?

- 5) Commission audit staff recommends Cedar Acres develop and implement written policies and procedures that result in accurate meter readings and comply with Rule 25-30.261(1), F.A.C, *Meter Readings*.**

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation to develop and implement written meter reading policies and procedures. As of report publication, the company states it is examining written procedures used elsewhere in the water utility industry. Commission audit staff does note that the company has indicated that meter readers now wear uniforms.

- 6) Commission audit staff recommends Cedar Acres perform an audit of every residential meter to identify its current condition and to prioritize meter replacements.**

Corrective Action Status

In December 2015, Artesian conducted an audit of customer meters. The audit revealed 278 meters that were noted as *readable* and 44 as *partially readable* or *unreadable*. Partially readable and unreadable meters were those that were broken, had condensation or mold inside the meter dial cover, or were obstructed by foliage or pests (e.g., bees and snakes). As a result of the meter audit, 30 meters were designated as high priority to replace.

- 7) Commission audit staff recommends Cedar Acres continue to identify meters in need of replacement during future bimonthly readings.**

Corrective Action Status

In Order No. PSC-15-0535-PAA-WU, the Commission approved an accelerated four-year meter replacement program. To ensure the meters are replaced and the customers are protected, the company is to escrow \$2,352 bi-monthly for a total of \$14,110 annually. The

escrowed funds are to be used to replace 78 meters per year for four years. As of report publication, two meters have been replaced. The company anticipates making its first escrow payment in April 2016.

3.4 System Maps and Records

Is Cedar Acres in compliance with Rule 25-30.125, F.A.C., System Maps and Records?

What is the standard?

Pursuant to Rule 25-30.125, F.A.C., *System Maps and Records*, the company shall maintain “suitable maps, drawings, and/or records of its system” to show “size, location, date of installation, and installed costs of major items” of plant facilities.

What is happening?

Cedar Acres is not in compliance with Rule 25-30.125, F.A.C. No system map exists.

During the audit, it became evident that the company was not aware of the locations of all meters. While the company’s billing system is sorted by residential lot numbers, company management states that a comprehensive water mapping system of the community cannot be located. System maps are necessary in coordinating meter reading and repairs, tracking meter locations, and executing capital improvement projects.

A system map would allow the company to denote the location of every meter and meter date of meter installation. Also, in case of a leak in the system, the company would be able to quickly locate the pipes in its system.

What is Commission audit staff’s recommendation?

- 8) Commission audit staff recommends Cedar Acres create a comprehensive water system map to comply with Rule 25-30.125, F.A.C., *System Maps and Records*.**

Corrective Action Status

Cedar Acres agrees with Commission audit staff’s recommendation. The company has downloaded files of the water system plans to serve as its system map.

3.5 Customer Billing

Is Cedar Acres in compliance with Rule 25-30.335(1) and (7), F.A.C., Customer Billing?

What is the standard?

According to Rule 25-30.335(1), F.A.C., *Customer Billing*, customer bills shall be regularly issued and should include beginning and ending meter reading, amount of bill, the date after which the bill becomes past due, and any authorized late payment charge.

According to Rule 25-30.335(7), F.A.C., *Customer Billing*, the utility shall maintain a record of each customer's account for the most current two years to permit reproduction of the customer's bills.

What is happening?

Cedar Acres currently complies with Rules 25-30.335(1) and (7), F.A.C. However, Commission audit staff believes these rules implicitly assume that bills will reflect the *correct* actual current charges and outstanding balances, and be largely free from computational errors.

If the utility is unable to generate reliable bills, it cannot be certain that it is charging just and reasonable rates. Section 367.081 (1)(2)(a)1, F.S. authorizes companies to charge approved rates that are just and reasonable and not unfairly discriminatory.

As was the case with meter reading, Cedar Acres presently has implemented no written billing policies and procedures. The billing process begins with Artesian manually inputting the bi-monthly meter readings into an Excel spreadsheet to generate customer bills. Critical manual inputs included in each customer bill are the *previous* and *current* meter readings. Excel calculates the usage from one billing cycle to another based on the manually input meter readings. Once these inputs have been entered, the Excel spreadsheet calculates the customer bill amount using the applicable base facility and usage rates. After the inputs are complete, Artesian is responsible for printing and mailing approximately 319 bills to Cedar Acres' customers.

Commission audit staff reviewed copies of all Cedar Acres bills over five billing cycles from April 2015 through January 2016. Commission audit staff found an alarming number of errors that it believes should be of concern to Cedar Acres.

The errors detected by Commission audit staff result from inaccurate meter readings and incorrect inputs to the Excel spreadsheet that calculates bill amounts. Bill analysis identified 114 errors over the five billing cycles. Of the 114 errors, 24 were manual input errors that resulted from transposition of digits or missing digits, and 90 were errors that resulted from inaccurate data inputs in calculating gallonage. One customer was billed in error for 659,350 gallons used. This and several other large errors on this customer's account during 2015 were not detected by Cedar Acres. Commission audit staff believes that Artesian has failed to exercise reasonable care in preparing bills and that Cedar Acres management has failed to adequately review customer bills.

With Cedar Acres' new usage charge of \$4.36 per 1000 gallons, the impact on customers of any future billing errors will be much larger. In past years, incorrect billing amounts may have been paid and unnoticed by customers due to the extremely low gallonage charge of \$.045 per 1,000 gallons. For the two-month billing cycles Commission audit staff examined, the average customer paid just 57 cents for two months of water used. Under the old rates, the erroneous customer bill for 659,350 gallons totaled just \$44.67. However, under the new rates the same bill would be \$2,898.61, though it potentially could be caught by the company in the future.

What is Commission audit staff's recommendation?

- 9) Commission audit staff recommends Cedar Acres develop and implement written billing policies and procedures to produce reliable bills that comply with Rule 25-30.335(7), F.A.C., Customer Billing.** Commission audit staff recommends that Cedar Acres modify its bill calculation process and institute a review of each bill for inaccuracies prior to being mailed to customers. This process should include cross-checking the meter reading log input to customer bills.

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation to develop and implement written billing policies and procedures. Though the company states it is examining written procedures used elsewhere in the water utility industry, as of report publication, the company has yet to implement written billing procedures.

With the November-December 2015 bills, the Finance Manager implemented the practice of reviewing each bill for accuracy prior to mailing and also included a payment due date on each bill. Additionally, the company indicates that it has further automated its bill calculation process beginning with the March 2016 bills.

- 10) Commission audit staff recommends Cedar Acres pursue implementing a new billing system.** Commission audit staff is concerned that Cedar Acres' current customer billing system may not adequately protect against manual input errors. Pursuant to Order No. PSC-15-0535-PAA-WU, the Commission approved expenses of \$500 for a new computer and \$150 for updated operating software. Commission audit staff believes that Cedar Acres should promptly pursue acquiring a new billing system.

The current process of manually creating and maintaining customer bills in an Excel spreadsheet format appears to lead to many of the billing errors. A new billing system would reduce the amount of manual input currently required and could be set up to detect anomalies by flagging unusual increases in gallonage charges. The system could provide additional information on customer bills, such as the amount paid during the past billing cycle, date paid, past due balance, and total amount owed.

Corrective Action Status

As of report publication, Cedar Acres management had not replaced the current billing system but states it is exploring available options. As noted, the company did recently begin to review bills prior to mailing.

Is Cedar Acres in compliance with Rule 25-30.335(2) and (9), F.A.C., Customer Billing?

What is the standard?

According to Rule 25-30.335(2), F.A.C., Customer Billing, if a utility estimates a bill it shall indicate on the bill that the amount owed is an estimated amount.

According to Rule 25-30.335(9), F.A.C., Customer Billing, if a utility uses a base facility and usage charge rate structure with no Commission-approved vacation rate, it shall bill the base facility charge regardless of whether there is any usage.

What is happening?

Cedar Acres states that it has never estimated customer bills and therefore is complying with Rule 25-30.335(2) and (9), F.A.C. The company states that it bills only the base facility charge in cases where a meter cannot be read or is non-functioning.

Over the five billing periods examined, an average of 83 customers (23 percent) were billed for no water usage each month. Though some “no usage” bills reflect seasonal customers who are absent for months at a time, some “no usage” bills result from unreadable or malfunctioning meters. In these instances, though an estimated bill would be allowable, the company elects to forgo this option and charges only the base facility charge.

What is Commission audit staff's recommendation?

11) Commission audit staff recommends Cedar Acres continue to bill customers only the base facility charge for meters where the usage amount cannot be obtained. Commission audit staff believes that Cedar Acres’ historical bills are not reliable as a basis for determining estimated usage for meters that are now unreadable or broken. Therefore, for revenue sufficiency and stability purposes, the company should continue to bill the base facility charge and continue to avoid estimating bills.

Corrective Action Status

Cedar Acres agrees with staff’s recommendation. The company will begin billing customers for its approved increase in rates and charges, which will be reflected on the March 2016 bills. For meters that cannot be read or those identified as broken, the company has agreed to continue billing customers at only the new base facility charge of \$11.92 per month.

Is Cedar Acres in compliance with Rule 25-30.335(4), F.A.C., Customer Billing?

What is the standard?

Under Rule 25-30.335(4), F.A.C., *Customer Billing*, a utility may not consider a customer delinquent in paying his or her bill until the 21 days after the utility has mailed or presented the bill for payment.

What is happening?

Cedar Acres appears to be in compliance with Under Rule 25-30.335(4), F.A.C., since the company has never made efforts to collect past due balances nor disconnected customers for nonpayment. No late charge has been implemented to date.

Commission audit staff is concerned about the company’s failure to pursue collection of past due accounts. Audit staff obtained a copy of Cedar Acres’ payment register showing accounts receivable for service provided between November 2014 through October 2015. The register did not provide all information necessary for Commission audit staff to create an accounts receivable

aging report. However, for each period, Commission audit staff determined the amount billed, amount collected, and the number of customers who failed to pay. As shown in **Exhibit 1**, the company billed \$35,544 over the entire period, but was only able to collect \$22,593 or 64 percent of billings. Out of 319 customers billed each cycle, 124 or 39 percent, on average, did not pay.

Cedar Acres, Inc. Number of Uncollected Bills November 2014-October2015					
Service Dates	Amount Billed	Customer Payments	Percentage of Revenues Collected	Number of Nonpaying Customers	Percentage of Non-paying accounts
Nov-Dec 2014	\$5,938	\$3,840	65%	116	36%
Jan-Feb 2015	\$5,874	\$3,617	62%	128	40%
Mar-Apr 2015	\$5,867	\$4,000	68%	116	36%
May-Jun 2015	\$5,991	\$3,773	63%	124	39%
Jul-Aug 2015	\$5,961	\$3,870	65%	121	38%
Sep-Oct 2015	\$5,914	\$3,493	59%	139	43%
Total	\$35,544	\$22,593	64%	744	39%

Exhibit 1

Source: Document Request Response 2.3

What is Commission audit staff's recommendation?

- 12) Commission audit staff recommends Cedar Acres develop and implement written procedures addressing delinquent accounts, late payment charges, collection and past due balances in compliance with Rule 25-30.335, F.A.C., Customer Billing.**

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation. Though the company states it is examining written procedures used elsewhere in the water utility industry, as of report publication, the company has yet to implement written billing procedures.

- 13) Commission audit staff recommends Cedar Acres appropriately pursue the collection of nonpayments and implementation of a \$5 late payment charge.** Order No. PSC-15-0535-PAA-WU authorizes the company to implement a \$5 late payment charge.

Corrective Action

In December 2015, Cedar Acres sent a notification letter to inform customers of its new rates and charges. In a separate letter, the company detailed its new collection process. The supplemental letter informed customers that the new collection process will include late payment fees and possible discontinuation of service for unpaid bills. As a result, in January 2016, customers with past due bills have begun to pay. The company has collected approximately \$1,436 of past due bills amounting to 11 percent of the \$12,951 uncollected revenues. Additionally, bills issued in January 2016 began to specify a payment due date. The company has indicated to Commission audit staff that in April 2016, it will begin the process of posting nonpayment notices on customers' doors.

3.6 Service Disconnections

Is Cedar Acres in compliance with Rule 25-30.320, F.A.C., Refusal or Discontinuance of Service, and Rule 25-30.460(1),(c), F.A.C., Application for Miscellaneous Service Charge?

What is the standard?

Pursuant to Rule 25-30.320, F.A.C., *Refusal or Discontinuance of Service*, a utility has the right to refuse or discontinue a customer's service under several specified conditions.

Pursuant to Rule 25-30.460(1)(c), F.A.C., *Application for Miscellaneous Service Charges*, a utility is authorized to initiate a violation reconnection charge for discontinuance of service for a cause.

What is happening?

The company is in compliance with Rule 25-30.320 and Rule 25-30.460(1)(c), F.A.C.; it states it has never disconnected a customer's service.

Commission audit staff believes Cedar Acres lacks effective internal controls and safeguards to protect both the company and its general customer base from losses due to non-paying customers. On average, 39 percent of customer accounts go unpaid each month. Pursuant to Order No. PSC-15-0535-PAA-WU, the Commission authorized Cedar Acres to implement violation reconnection charges of \$80 for normal hours and \$105 for after hours.

What is Commission audit staff's recommendation?

- 14) Commission audit staff recommends Cedar Acres develop and implement written disconnection procedures that comply with Rule 30.320, F.A.C., *Refusal or Discontinuance of Service* and Order No. PSC-15-0535-PAA-WU.** Upon implementation of disconnection procedures, Commission audit staff cautions the company from disconnecting customers before determining whether errors in meter reading, customer billing, or customer payment handling might be involved. Pursuant to Rule 25-22.032(3), F.A.C., a company shall not discontinue service to a customer who has an open complaint on file with the Commission regarding a disputed unpaid bill. Commission audit staff stresses the need for internal controls to provide reasonable assurance that the company's disconnection for nonpayment activities is effective and efficient.

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation. Though the company states it is examining written procedures used elsewhere in the water utility industry, as of report publication, the company has yet to implement written billing procedures. Cedar Acres states that it will review each past due account on an individual basis.

3.7 Quality of Service

Is Cedar Acres in compliance with Rule 25-30.433 (1), F.A.C., Determination of Quality of Service Provided by the Utility?

What is the standard?

Pursuant to Rule 25-30.433(1), F.A.C., *Determination of Quality of Service*, during every rate case, the Commission determines the quality of service provided by the company by evaluating the utility's effectiveness addressing customer satisfaction, the quality of the utility's product, and the status of operational conditions of the utility's plant and facilities.

The Commission also considers Department of Environmental Protection (DEP) reports, violations, and outstanding citations. Pursuant to Rule 62-560.410(1)(a)1., F.A.C., DEP requires public water systems experiencing violations, exceedances, situations, or failures that may pose an acute risk to human health to issue a notice advising customers to boil water no later than 24 hours after the system learns of the violation, exceedance, situation, or failure.

The Department of Health *Guidelines for the Issuance of Precautionary Boil Water Notices* states that boil water notices shall be issued via telephone, hand-delivery, radio, or television no later than 24 hours after the water system learns of the violation, exceedance, situation or failure.

What is happening?

Topics related to customer satisfaction previously addressed earlier in the report include complaint handling, meter reading, and billing.

In Order No. PSC-15-0535-PAA-WU, the Commission found Cedar Acres' level of customer service to be unsatisfactory. This determination was based on factors including the repeat violations in the 2012 and 2015 DEP Sanitary Survey Reports and the compliance issues regarding boil water notices. The Sanitary Survey Report by DEP on July 2015 found five deficiencies with the operations of Cedar Acres. These included:

- ◆ No signed and sealed report documenting a tank inspection for the 5,000 gallon hydro-pneumatic tank
- ◆ No emergency preparedness/response plan available for review
- ◆ No cross connection control panel plan on file
- ◆ No record that the calibration of the finished drinking water flow meter had been checked
- ◆ Damaged well pedestal

The Commission found the company's boil water notice procedures do not comply with DEP and Department of Health rules. Prior to December 2015, Cedar Acres had notified customers of boiled water notices and rescission of boiled water notices by asking a member of the Home Owner's Association post a sign at the front entrance of the neighborhood. This notification method does not comply with DEP Rule 62-560.410(1)(a)1., F.A.C. The sign does not provide all the customers with an immediate notification.

As mentioned in subsection 2.2.2, in July 2015, the company experienced an interruption in service and failed to notify customers of the need to boil water.

What is Commission audit staff's recommendation?

- 15) Commission audit staff recommends Cedar Acres implement a method of notifying customers of the need to boil water that complies with DEP Rule 62-560.410(1)(a), F.A.C. and the Department of Health *Guidelines for the Issuance of Precautionary Boil Water Notices*.** The notification method must, within 24 hours, communicate boil water notices once the company becomes aware of situations posing health risks.

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendations and has created a new notification system for boil water notices. The company has implemented a customer telephone "message blast" notification system. This system provides a pre-recorded boil water telephone message. Cedar Acres is in the process of collecting customer phone numbers to build its database.

- 16) Commission audit staff recommends Cedar Acres correct all deficiencies cited in the 2012 and 2015 DEP Sanitary Survey Reports.**

Corrective Action Status

Cedar Acres agreed with Commission audit staff's recommendations and states it has corrected all the deficiencies in the July 2015 DEP Sanitary Survey Report.

- 17) Commission audit staff recommends Cedar Acres ensure proper operation of the Sensaphone autodialer to notify the company of a pump failure.** The Sensaphone autodialer is designed to call the operator of the water system when an abnormal situation occurs to the water system.

Corrective Action Status

Cedar Acres agrees with Commission audit staff's recommendation. According to the company, the Sensaphone is expected to be online during March 2016.