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**ORIGINAL
FILE COPY**

DIRECT TESTIMONY OF FORREST L. LUDSEN
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
on behalf of
SOUTHERN STATES UTILITIES, INC.
AND DELTONA UTILITIES, INC.
DOCKET NO. 920199-WS

DOCUMENT NUMBER-DATE
08054 JUL 22 1992
FPSC-RECORDS/REPORTING

1 Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

2 A. My name is Forrest L. Ludsen and my business
3 address is 1000 Color Place, Apopka, Florida
4 32703.

5 Q. WHAT IS YOUR POSITION WITH SOUTHERN STATES
6 UTILITIES, INC. AND DELTONA UTILITIES, INC.?

7 A. My position is Vice President in charge of
8 Customer Services for Southern States Utilities,
9 Inc. and Deltona Utilities, Inc. (which I will
10 refer to collectively as "Southern States").

11 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK
12 EXPERIENCE?

13 A. I am a graduate of the University of Minnesota
14 where I received a Bachelor of Arts degree in
15 Business and Economics. Prior to holding my
16 current position with Southern States, I was
17 employed by the Minnesota Power & Light Company
18 ("Minnesota Power") from 1969 until 1989. I
19 began my career in Minnesota Power's accounting
20 department and subsequently worked for 16 years
21 in the rates department, ultimately as its
22 manager. As manager of the rates department, I
23 was responsible for revenue requirement
24 determinations and the filing and administration
25 of rate case applications. While with Minnesota

1 Power I directly oversaw the preparation and
2 filing of over a dozen major rate cases.

3 **Q. WHAT ARE YOUR PRESENT DUTIES AS VICE PRESIDENT**
4 **IN CHARGE OF CUSTOMER SERVICES?**

5 A. Generally, I am responsible for all matters
6 relating to customer service including the
7 administration of customer billing, complaints
8 and service requests as well as the determination
9 of Southern States' revenue requirements,
10 administration of rates, filing and
11 administration of rate applications and the
12 coordination of all activities required to comply
13 with the rules and regulations of the Florida
14 Public Service Commission.

15 **Q. HAVE YOU EVER TESTIFIED BEFORE A REGULATORY**
16 **AGENCY?**

17 A. Yes, I testified before the Florida Public
18 Service Commission on behalf of Southern States
19 and United Florida Utilities Corporation in
20 Docket No. 900329-WS. I have submitted pre-filed
21 direct testimony on behalf of Lehigh Utilities,
22 Inc. in Docket No. 911188-WS. I also have
23 testified on behalf of Minnesota Power before the
24 Minnesota Public Service Commission and the
25 Federal Energy Regulatory Commission.

1 Q. PLEASE DESCRIBE THE SCOPE OF YOUR TESTIMONY IN
2 THIS PROCEEDING.

3 A. First, I will present the information contained
4 in Southern States' filing to satisfy the
5 Commission's minimum filing requirements
6 ("MFRs").

7 Q. I SHOW YOU EXHIBIT _____ (FLL-1) UNDER COVER PAGE
8 ENTITLED "FINANCIAL, RATE AND ENGINEERING MINIMUM
9 FILING REQUIREMENTS OF SOUTHERN STATES UTILITIES,
10 INC. AND DELTONA UTILITIES, INC." WERE THESE
11 MFRS PREPARED BY YOU OR UNDER YOUR DIRECTION AND
12 SUPERVISION?

13 A. Yes, I had ultimate responsibility to ensure that
14 the MFRs contained the information required in
15 the Commission's rules. Of course, I am not
16 qualified to address certain portions of the
17 voluminous information contained in the MFRs.
18 However, Southern States believes it will be
19 easier to identify the MFRs as one exhibit and to
20 introduce other witnesses with the necessary
21 expertise to describe and sponsor various
22 portions of the MFRs for Southern States. A
23 further point regarding Southern States'
24 application. As a result of the denial of rate
25 relief in Docket No. 900329-WS, Southern States'

1 financial situation is tenuous at best. Indeed,
2 Southern States was unable to cover its debt
3 costs from operating revenues in 1991.
4 Therefore, we have attempted to file the most
5 non-controversial case possible. Disputed issues
6 such as consolidated rate structures, charitable
7 contributions and organization costs have been
8 eliminated since we are not seeking recovery of
9 associated costs in this proceeding. However,
10 Southern States reserves the right to pursue
11 recovery of these and other such costs in future
12 proceedings.

13 Q. I SHOW YOU EXHIBIT ____ (FLL-2) UNDER COVER PAGE
14 ENTITLED "SUPPLEMENTAL INFORMATION SUPPLIED BY
15 SOUTHERN STATES ON JUNE 17, 1992 TO COMPLY WITH
16 THE COMMISSION'S MINIMUM FILING REQUIREMENTS."
17 WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR
18 DIRECTION AND SUPERVISION?

19 A. Yes, it was.

20 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

21 A. This exhibit contains information submitted on
22 June 17, 1992 in response to certain alleged
23 deficiencies in the MFRs previously submitted on
24 May 11, 1992 as well as information intended to
25 supplement and/or revise certain portions of the

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MFRs.

Q. WILL YOU BE PROVIDING ANY ADDITIONAL TESTIMONY?

A. Yes. For purposes of this filing, the administrative and general (A&G) expenses of Southern States have been rolled into the A&G expenses of Southern States' affiliate, Lehigh Utilities, Inc. ("Lehigh"). All A&G type services including accounting, customer service, legal, engineering, pensions and benefits, etc. for Southern States and Lehigh are provided on a consolidated basis. The consolidated A&G expenses and the expenses allocated to each of Southern States' systems are set forth in Volume I, Book 2 of the MFRs. I will provide an overview of the A&G expenses which Southern States seeks to recover from customers served by each of the 127 systems included in this proceeding and demonstrate that the costs we seek to recover are reasonable. I also will discuss the impact on A&G expenses of internal corporate restructuring made in large part to comply with recommendations made by the Commission through its audit staff in a management audit report issued in September 1988. After review of the audit recommendations, Southern States determined

1 that many of the recommendations were consistent
2 with Southern States' plans for growth as well as
3 its goal to provide the highest quality water and
4 wastewater service at the lowest possible cost.
5 Therefore, Southern States initially agreed with
6 62 of the 79 audit recommendations. Commission
7 Staff aggressively pursued implementation of the
8 17 recommendations with which we disagreed and
9 ultimately we agreed with Staff to implement,
10 with modifications, 15 of the remaining 17. By
11 letter dated June 2, 1992 to Charles E. Wood,
12 Vice President of Southern States, staff
13 recognized our completion of the implementation
14 phase of the audit process and commended Southern
15 States as follows:

16 Thank you for your cooperation and
17 dedication to the requirements of the
18 implementation program. The timeliness and
19 quality of the documentation you have
20 provided has been appreciated. We wish to
21 commend you and all other participants
22 involved in implementing these
23 recommendations, for the professional manner
24 in which you have responded and completed
25 this program.

1 Finally, I will describe the methodology used to
2 allocate common costs to each of our systems in
3 this proceeding.

4 **Q. DID SOUTHERN STATES PERFORM AN ANALYSIS OF ITS**
5 **O&M AND A&G EXPENSES DURING THE TEST YEAR AND**
6 **COMPARE THEM TO THE COMMISSION'S "GUIDELINES"?**

7 **A. Yes. The results of this analysis are presented**
8 **in Volume I, Book 3 of the MFRs. Volume I, Book**
9 **3, pages 1 through 15 explain the process**
10 **Southern States used to apply the Commission's**
11 **benchmark "guidelines" and identify the**
12 **categories of expense which exceed such**
13 **guideline. As demonstrated in these pages,**
14 **Southern States' expenses, including those which**
15 **fall above the guideline, are reasonable for a**
16 **water and wastewater utility operating**
17 **approximately 150 systems and serving**
18 **approximately 160,000 customers in 27 counties**
19 **in Florida.**

20 **Q. I SHOW YOU EXHIBIT _____ (FLL-3) UNDER COVER PAGE**
21 **ENTITLED "FPSC SEPTEMBER 1988 MANAGEMENT AUDIT**
22 **REPORT." WAS THIS EXHIBIT PREPARED BY YOU OR**
23 **UNDER YOUR DIRECTION AND SUPERVISION?**

24 **A. Yes, it was.**

25 **Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?**

1 A. This exhibit contains a copy of the Final Report
2 of the Management Review of Southern States
3 Utilities, Inc. issued in September of 1988 "by
4 authority of The State of Florida for The Florida
5 Public Service Commission" ("Audit Report"). The
6 audit was conducted and the report prepared by
7 the Commission's Bureau of Management Studies,
8 Division of Auditing and Financial Analysis. As
9 the introduction to the Audit Report states,

10 . . . the Commission has established the
11 Bureau of Management Studies within the
12 Division of Auditing and Financial Analysis
13 to perform Management Audits on a selected
14 basis. While the results of these audits
15 are not intended to reflect directly on the
16 ratemaking process, they are intended to
17 provide important supplemental information
18 as to the overall prudence of the way the
19 utility conducts its business.

20 The Audit Report further defines the scope and
21 objectives of the audit (p. 2) as follows:

22 The scope of our review was designed to be
23 comprehensive in nature, comprising all
24 major aspects of the management and
25 operations of Southern States Utilities . .

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. The primary objectives of this review were as follows:

-To provide an independent and comprehensive review of the effectiveness and efficiency of Southern States' management and of selected company operations.

-To develop meaningful, cost-effective recommendations for improvement.

-To produce an accurate and comprehensive report of our findings, conclusions and recommendations

-To ensure the satisfactory implementation of our recommendations.

I emphasize the last stated objective since it was Southern States' experience in its last rate filing that Public Counsel disputed the authority behind, if not the very merits of, the Audit Report. These objectives clearly establish the less than "permissive" character of the Commission's recommendations contained in the Audit Report. In addition, as I indicated previously, the Commission's Division of Auditing and Financial Analysis has aggressively required implementation by Southern States of all of the Audit Report recommendations.

1 Q. I SHOW YOU EXHIBIT _____ (FLL - 4) UNDER COVER
2 PAGE ENTITLED "PSC AUDIT CORRESPONDENCE." WAS
3 THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR
4 DIRECTION AND SUPERVISION?
5 A. Yes, it was.
6 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?
7 A. Yes, this exhibit contains copies of various
8 correspondence between Southern States and the
9 Commission concerning the Audit Report
10 recommendations for change, improvement and
11 supplementation of Southern States' internal
12 corporate structure. This exhibit also contains
13 several examples of the status update reports
14 filed by Southern States which the Commission
15 required Southern States to provide on a
16 quarterly basis as well as a copy of the June 2,
17 1992 letter from Staff to Mr. Wood to which I
18 referred earlier.
19 Q. WHY DOES SOUTHERN STATES BELIEVE THE AUDIT REPORT
20 IS RELEVANT AT THIS TIME?
21 A. As indicated in Staff's June 2 letter, the
22 implementation process for the audit
23 recommendations only recently has been completed.
24 Therefore, we believe a discussion of the Audit
25 Report is timely. Moreover, discussion of the

1 Audit Report is critical to the Commission's
2 understanding of Southern States' current A&G
3 expenses which we seek to recover from our
4 customers in this proceeding. As I mentioned
5 earlier, we have rolled together the A&G expenses
6 of Southern States and Lehigh and allocated the
7 pool of expenses to each of the systems operated
8 by these utilities based on the number of
9 customers served by each system. This is the
10 same method used in Docket No. 911188-WS
11 concerning Lehigh's request for a rate increase.
12 If any of the systems included in this proceeding
13 attempted to purchase or provide the level and
14 scope of A&G services currently provided by
15 Southern States, the stand alone costs to each
16 system would be significantly higher than those
17 which Southern States seeks to recover in this
18 proceeding. The ability of Southern States to
19 offer these services is in large part
20 attributable to the internal restructuring of
21 Southern States which was initiated after receipt
22 of the Commission's findings and recommendations
23 in the Audit Report.

24 **Q. COULD YOU BRIEFLY DISCUSS THE AUDIT REPORT'S**
25 **FINDINGS AND RECOMMENDATIONS?**

1 A. The Commission's Audit Report foresaw Southern
2 States' growth through acquisitions and commended
3 Southern States for several steps it had taken to
4 accommodate such growth, including moving
5 corporate management activities to its current
6 Central Florida location in Apopka, foreseeing
7 the need to construct a larger corporate
8 headquarters facility in Apopka and understanding
9 the need to perform a major upgrade of Southern
10 States' electronic data processing capabilities.
11 However, as early as September 1988, the
12 Commission's Staff confirmed that:

13 Many responsibilities are at the point of
14 needing to become separate from each other
15 and are on the verge of requiring added
16 specialization for those who occupy the
17 positions. Functions throughout the Company
18 are becoming more departmentalized, adding
19 structure to the organization. All
20 management tasks, but especially those of
21 the upper managers, are in the process of
22 changing from a hands-on approach to one of
23 guidance and decision-making.

24 The transition from a "Mom and Pop" company
25 to a small business is not necessarily a

1 gradual evolution. Southern States is
2 experiencing this "threshold" phenomenon,
3 the point at which change becomes necessary.
4 The proper management of this change
5 separates companies which are marginal from
6 those which become successful.

7 The Commission's Audit Report further
8 acknowledges that:

9 . . . it is quite common for any company
10 undergoing rapid growth and expansion to
11 require extensive changes in its management
12 functioning. Southern States is no
13 exception. While management has performed
14 well in many respects, there are still a
15 number of improvement opportunities to be
16 acted upon. As Southern States expands, the
17 management functions of planning,
18 organizing, directing, and controlling will
19 need to become more differentiated,
20 formalized, and systematic.

21 Again, I have emphasized certain of the
22 statements made in the Commission's Audit Report
23 because these statements are consistent with the
24 findings and conclusions of Southern States'
25 management -- that the ability to provide high

1 quality water and wastewater service to a large
2 customer base in today's regulatory environment
3 at the lowest cost possible requires a large
4 utility company with the financial capability and
5 internal corporate expertise to satisfy
6 regulatory requirements and achieve economies of
7 scale to the greatest extent possible. Of
8 course, to maintain the financial capability to
9 meet the ever expanding base of regulatory
10 requirements, Southern States must be authorized
11 to charge its customers rates which at least give
12 it an opportunity to earn the return ultimately
13 authorized by the Commission. It also must be
14 noted that even after achieving the current
15 economies of scale, Southern States often can
16 only minimize inevitable cost increases
17 associated with the ever expanding and ever more
18 strict multitude of federal, state and local
19 rules, regulations, standards and laws impacting
20 Florida's water and wastewater utilities. We
21 also are striving to minimize increases in the
22 level of costs incurred to serve our customers
23 whenever possible. In this regard, we must note
24 our dissatisfaction with requirements such as
25 those imposed on Southern States in the "Order

1 Establishing Procedure" issued by the Commission
2 on July 10, 1992 in this proceeding which require
3 Southern States to provide no less than 4 notices
4 of service hearings and evidentiary hearings to
5 each customer in this proceeding, including 3
6 direct written notices to customers and a
7 newspaper notice. Compliance with such
8 requirements will cost the Company, and
9 ultimately our customers, approximately \$100,000.
10 While we recognize the need to keep our customers
11 informed, we wonder whether the majority of our
12 customers would be pleased to know that they will
13 be required to pay this kind of money for a
14 series of duplicative notices. I also wish to
15 note that the Company experiences similar
16 frustrations in our attempts to reduce the cost
17 of serving our customers when the Environmental
18 Protection Agency and Florida Department of
19 Environmental Regulation continue to promulgate
20 and enforce costly regulations to reduce
21 (allegedly) the risk of one person getting cancer
22 from drinking water in this state by 1 in
23 100,000. The extreme nature of such
24 regulations is highlighted by the fact that EPA
25 bases estimates of risk from contaminated

1 drinking water on the premise that individuals
2 consume two liters of drinking water per day from
3 the same contaminated source for seventy (70)
4 consecutive years. It is these types of
5 regulatory requirements which unnecessarily
6 increase the cost of providing service to our
7 customers. It is our goal to work with
8 regulators to eliminate such inefficient
9 requirements in the future.

10 Q. COULD YOU SUMMARIZE THE COMMISSION'S AUDIT
11 RECOMMENDATIONS?

12 A. Yes, the Commission made 79 recommendations for
13 changes to Southern States' internal corporate
14 structure, policies and procedures. These
15 recommendations generally include, but are not
16 limited to, the following:

17

- 18 1. The need to concentrate on (Executive/
19 planning and operational All
20 guidance to staff through Departments)
21 the creation and dis-
22 semination of formal
23 policies and procedures;
- 24 2. The need to secure more (All
25 personnel, equipment and Departments

- 1 materials to make assimilation of acquisitions easier;
- 2
- 3
- 4 3. The need to commit more (All
5 personnel, money, time, Departments)
6 materials, equipment and
7 know-how of the required
8 quality and quantity to
9 meet long-term organiza-
10 tional needs;
- 11
- 12 4. The need to establish an (Parent
13 internal audit review Company Audit
14 function as well as an Services)
15 internal review program
16 for the company's computer
17 system;
- 18
- 19 5. The need to formalize and (Budget
20 computerize the budgeting Department)
21 process, including the
22 training of management
23 personnel in the budgeting
24 process and the provision of
25 budget and budget deviation

- 1 reports to managers;
- 2
- 3 6. The need to provide revenue (Rates
4 and gallonage billing com- Department)
5 parisons;
- 6
- 7 7. The need to implement a work (Property
8 order and property records Accounting
9 system; Department)
- 10
- 11 8. The need to create written (Accounting
12 accounting department Department)
13 policies and procedures;
- 14
- 15 9. The need to computerize the (Accounting/
16 preparation of annual Information
17 reports to the Commission; Systems (IS)
18 Departments)
- 19
- 20 10. The need to establish and (Treasury
21 implement more formalized Department)
22 internal controls of cash
23 management, including the
24 separation of cash manage-
25 ment duties among various

1 employees rather than
2 having one employee perform
3 all cash management functions;
4

5 11. The need to explore alter- (Treasury
6 native long-term borrowing Department/
7 mechanisms which, while Parent
8 unavailable to small, self- Company
9 sustaining wastewater Services)
10 utilities, might be avail-
11 able to the larger utility
12 resulting from Southern
13 States' growth;

14
15 12. The need to upgrade or (Information
16 replace the then existing Systems
17 telephone system or develop Department)
18 a totally new means of
19 communication with field
20 personnel;

21
22 13. The need to develop and (Treasury
23 implement guidelines and Department)
24 written criteria for max-
25 imizing interest earnings

- 1 on customer payments;
- 2
- 3 14. The need to secure detailed (Customer
4 information from customers Services
5 applying for service to Department)
6 reduce bad debt expenses;
- 7
- 8 15. The need to re-institute (Customer
9 use of collection letters; Services
10 Department)
11
- 12 16. The need to develop and (Customer
13 implement a comprehensive Services
14 policy and procedures manual Department)
15 for all customer service
16 functions;
- 17
- 18 17. The need to develop and (Human
19 implement a salary and wage Resources
20 administration program which Department)
21 establishes salary guide-
22 lines, ensures salaries are
23 competitive and consistent,
24 and reduces employee turnover;
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plan as well as emergency and
fire procedures to prevent
risk of loss of data;

Department)

21. The need to develop and pro-
duce computer operating
statistics for management
review;

Budgets/
Systems and
Procedures
Department)

22. The need to use computers
to generate customer notices,
when feasible;

(Information
Systems
Department)

23. The need to remove employee
payroll entry responsibility
from the managerial level to
lower level employees;

(Payroll
Department)

24. The need to centralize the
purchasing function;

(Purchasing
Department)

25. The need to develop and
implement policies and
procedures for bulk purchase
decisions;

(Purchasing
Department)

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30. The need to develop and (Administra-
implement scheduled preven- tive Services
tive maintenance procedures Department)
for vehicles;

31. The need to develop and (Administra-
implement written policies tive Services
and procedures for transport- Department)
ation management; and

32. The need to develop and (Administra-
implement controls to prevent tive Services
the potential misappropria- Department)
tion of gasoline purchases
including a computerized
tracking system.

Mr. Sweat will address those portions of the Audit
Report relating to field operations, training and
related subjects as well as Southern States'
compliance with related Commission recommendations.
As previously noted, each of the recommendations I

1 listed above and virtually all of the other
2 recommendations, with modifications, were accepted
3 and implemented by Southern States after careful
4 analysis and study.

5 Q. I SHOW YOU EXHIBIT _____ (FLL-5) UNDER COVER PAGE
6 ENTITLED "PRE AND POST-AUDIT REPORT STAFFING
7 MODIFICATIONS OF SOUTHERN STATES. " WAS THIS
8 EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECTION AND
9 SUPERVISION?

10 A. Yes, it was.

11 Q. PLEASE BRIEFLY DESCRIBE THIS EXHIBIT.

12 A. This exhibit identifies the structure of the
13 various departments within Southern States that
14 provide administrative and general services to all
15 of our systems as opposed to the structure which
16 existed prior to the issuance of the Audit Report.
17 This exhibit demonstrates that Southern States has
18 achieved the departmentalization and specialization
19 of services which the Audit Report indicated would
20 be required to enable it to become a successful
21 utility company as opposed to its prior "Mom and
22 Pop" existence. Indeed, Southern States and Lehigh
23 combined currently provide service to approximately
24 160,000 customers or almost 4 times as many
25 customers as when the Audit Report was issued. As

1 demonstrated in the exhibit, Southern States was
2 not capable of providing the services required of
3 a large utility company prior to the post-Audit
4 Report modifications.

5 **Q. DID THE COST OF PROVIDING UTILITY SERVICE RISE AS**
6 **A RESULT OF THE POST-AUDIT REPORT MODIFICATIONS?**

7 **A.** Yes, they did. However, as indicated throughout
8 the Audit Report, the structures and procedures
9 which existed prior to the indicated modifications
10 were deficient in many ways and were not conducive
11 either to the proper running of a large utility
12 company or to the rendition of high quality utility
13 service to our customers. Perhaps if we had not
14 made these required modifications, we would now be
15 in receivership like the prior owner of our
16 affiliate, Lehigh. However, we believe that with
17 our current structure and operations, and given
18 appropriate regulatory treatment, we can become the
19 preferred provider of utility service to many more
20 Florida residents.

21 **Q. COULD YOU BRIEFLY DISCUSS THE INTERRELATIONSHIP**
22 **BETWEEN THE IMPLEMENTATION OF THE AUDIT REPORT**
23 **RECOMMENDATIONS AND THE CURRENT CORPORATE STRUCTURE**
24 **OF SOUTHERN STATES IDENTIFIED IN YOUR EXHIBIT _____**
25 **(FLL-5)?**

1 A. The Audit Report admonished us by pointing out that
2 we needed to commit the "personnel, money, time,
3 materials, equipment and know-how . . . of the
4 required quality and quantity if SSU is to meet
5 long-term organizational needs." I hasten to point
6 out that since the Audit Report was issued Southern
7 States has spent more than \$50 million in plant
8 improvements and expansions, that Southern States
9 employs more than 450 employees, that the O&M and
10 A&G expenses of Southern States now exceed \$24.5
11 million and that the general plant assets of
12 Southern States now exceed \$17.2 million.

13 In general, implementation of the recommendations
14 has created a more defined corporate structure
15 comprised of various new departments with clearly
16 defined areas of specialization. For instance, I
17 identified 3 audit recommendations relating to
18 inadequate purchasing functions. In response, we
19 created a purchasing department (3 employees) which
20 established and implemented formal purchasing
21 guidelines and bidding procedures. The purchasing
22 department also oversees the bidding of all
23 purchases and capital projects to ensure that we
24 receive the most reasonable prices possible.

25 In response to the numerous recommendations

1 concerning the need to upgrade and increase
2 utilization of our computer system, including the
3 production of annual reports to the Commission,
4 management reports, customer notices, budget
5 reports, etc., I note that our information systems
6 department is now staffed by 12 employees which
7 serve Southern States' 160,000 customers. Revenue
8 and billing comparisons are now available to
9 management due to the creation of a rates
10 administration department (including billing
11 personnel) (10 employees) with the required
12 equipment to make these reports possible. In
13 addition, we created a budget department (2
14 employees) which is responsible for developing
15 budgets, training management personnel in the
16 budget process and producing budget deviation
17 reports. Our accounting department has developed
18 and implemented written policies and procedures and
19 established a property records department (3
20 employees). A treasury department (5 employees)
21 also has been established which has developed and
22 implemented written procedures and controls for
23 cash management. The treasury department also
24 monitors our sources of funds and is primarily
25 responsible for obtaining debt funds at the most

1 favorable terms possible, although access to such
2 funds has become virtually impossible under current
3 circumstances. A manager no longer performs
4 payroll entry activities but rather these and other
5 related functions are performed for our 450
6 employees by our payroll department consisting of
7 3 employees. Our customer service department (11
8 employees, including meter readers) has revised our
9 application for service, developed and implemented
10 written policies and procedures and undergoes
11 appropriate training in customer relations and
12 communications from an employee certified to
13 conduct such training. It is noted that effective
14 January 1, 1992, customer service personnel,
15 including meter readers, throughout Southern
16 States' service territory and at Lehigh report
17 directly to the customer service department in
18 Apopka rather than operations. On that basis,
19 total customer service personnel including meter
20 readers is 69 employees. The expertise required to
21 conduct a wage and salary analysis, establish
22 salary guidelines, develop and implement employer
23 and managerial evaluation procedures, administer
24 our pension and benefits programs and other related
25 activities are now performed by members of our

1 human resources department (4 employees). Our
2 administrative services department (1 employee) has
3 developed and implemented a Fleet Management
4 Program which includes the utilization of the
5 services of Wright Express for the monitoring of
6 vehicle maintenance requirements and gas purchases
7 for our vehicles. This department also is
8 responsible for bidding out insurance coverages and
9 administering our insurance policies. We also have
10 created a records retention department (1 employee)
11 which is responsible for filing and maintaining
12 critical documentation regarding our operations,
13 including the project files referred to in the
14 Commission's Audit Report.

15 Q. I SHOW YOU EXHIBIT ___ (FLL-6) UNDER COVER PAGE
16 ENTITLED "DESCRIPTIONS OF THE DUTIES AND
17 RESPONSIBILITIES OF THE ADMINISTRATIVE AND GENERAL
18 DEPARTMENTS OF SOUTHERN STATES. " WAS THIS EXHIBIT
19 PREPARED BY YOU OR UNDER YOUR DIRECTION AND
20 SUPERVISION?

21 A. Yes, it was.

22 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

23 A. Yes. This exhibit identifies the duties and
24 responsibilities of the various departments which
25 provide A&G services for all of our systems. In

1 addition to the duties and responsibilities I have
2 identified earlier in my testimony (which are in
3 direct response to the Commission's Audit Report),
4 each of these various departments provides many
5 other services which are integral to the effective
6 and efficient operation of a water and wastewater
7 utility company in today's regulatory environment.

8 **Q. DID THE AUDIT REPORT IDENTIFY ANY DEFICIENCIES IN**
9 **GENERAL PLANT FACILITIES TO WHICH SOUTHERN STATES**
10 **RESPONDED?**

11 **A.** Yes. However, before I discuss the identified
12 deficiencies I would like to restate that the
13 Commission's Audit Report commends Southern States'
14 foresight and planning in centralizing its
15 management in Apopka, Florida and constructing a
16 new office building to accommodate the consolidated
17 operations. In addition, we have made significant
18 investments to upgrade and replace our computer
19 facilities and communications systems. These
20 investments have assisted us both in satisfactorily
21 addressing the Commission's concerns regarding our
22 communications systems, and fulfilling the
23 recommendations concerning the computerization of
24 reports, customer notices, billing, Commission
25 filing, etc.

1 Q. COULD YOU BRIEFLY DESCRIBE THE METHODOLOGY USED TO
2 ALLOCATE COMMON COSTS TO THE SOUTHERN STATES WATER
3 AND WASTEWATER SYSTEMS INCLUDED IN THIS PROCEEDING?
4 A. Yes. The methodologies used to allocate common
5 costs are set forth in Volume I, Book 2, page 2 of
6 the MFRs. Customer accounts, A&G and general plant
7 expenses were allocated to each water and
8 wastewater system based on the number of customers
9 served by them as a proportion of the total number
10 of customers served by and receiving the benefits
11 of Southern States' A&G services. The allocation
12 of common costs based on the number of customers
13 served by individual systems is the established
14 methodology of the Commission for water and
15 wastewater utilities as evidenced by the use of
16 this methodology by all such utilities which must
17 allocate common costs similar to those we allocated
18 in this proceeding. Southern States is not aware
19 of any water and wastewater utility in this state
20 which currently allocates common costs on any other
21 basis. In addition, Southern States is not aware
22 of any Commission order which indicates that an
23 allocation based on the number of customers served
24 by individual systems is unreasonable. There is no
25 logical basis for distinguishing Southern States

1 from other water and wastewater utilities in this
2 state for purposes of selecting a reasonable and
3 appropriate allocation methodology. For these
4 reasons, we believe that the allocation of customer
5 accounts, A&G and general plant based on the number
6 of customers served by each of the water and
7 wastewater systems included in this proceeding is
8 reasonable and proper.

9 As also indicated on page 2 of Book 2 of Volume I
10 of the MFRs, deferred taxes, investment tax credits
11 and the parent debt adjustment were allocated based
12 on either a gross plant allocation factor or a
13 combination of gross plant and CIAC allocation
14 factors. These allocation methodologies also are
15 consistent with past Commission practice and thus
16 are reasonable and proper.

17 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

18 A. Yes, it does.

19

**FINANCIAL, RATE AND ENGINEERING MINIMUM
FILING REQUIREMENTS OF SOUTHERN STATES
UTILITIES, INC. AND DELTONA UTILITIES, INC.
(PREVIOUSLY FILED WITH THE COMMISSION
AND ALL PARTIES)**

**SUPPLEMENTAL INFORMATION SUPPLIED BY
SOUTHERN STATES ON JUNE 17, 1992 TO
COMPLY WITH THE COMMISSION'S MINIMUM FILING
REQUIREMENTS
(PREVIOUSLY FILED WITH THE COMMISSION AND ALL PARTIES)**

Exhibit ____ (FLL-3)
Cover Page

**FPSC SEPTEMBER 1988
MANAGEMENT AUDIT REPORT**

State of Florida
Public Service Commission

Final Report
Issued Sept 1988



Auditing
and
Financial Analysis
Division

FINAL REPORT
OF THE
MANAGEMENT REVIEW OF SOUTHERN STATES UTILITIES, INC.
ISSUED SEPTEMBER 1966

BY AUTHORITY OF
THE STATE OF FLORIDA
FOR
THE FLORIDA PUBLIC SERVICE COMMISSION

BUREAU OF MANAGEMENT STUDIES
DIVISION OF AUDITING AND FINANCIAL ANALYSIS
(REPORT NO. SSU]-C-1-6352/FINAL)

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I. INTRODUCTION

AUTHORITY AND RESPONSIBILITY

The Florida Public Service Commission (Commission) by state law, is charged with the responsibility for regulating not only the rates used, but also the quality of the service provided by the private, investor-owned utilities which serve the public throughout the State of Florida. As directed by Florida Statutes, the Commission sets and monitors all rates for utilities under their jurisdiction. Such rates are set at a level which allows a reasonable rate of return on a Commission approved investment base, and which recognizes an acceptable level of service quality being received by the utilities' customers.

In order to meet their mandated responsibilities, the Commission employs a staff of analysts and auditors to calculate and monitor the rate structure and to verify the existence of the investment base. In addition, the auditors may review all or selected portions of the day-to-day operations and management of the company as a means of verifying the extent to which that utility provides an effective, efficient and economic product while still giving customer satisfaction.

More specifically, the Commission has established the Bureau of Management Studies within the Division of Auditing and Financial Analysis to perform Management Audits on a selected basis. While the results of these audits are not intended to reflect directly on the ratemaking process, they are intended to provide important supplemental information as to the overall prudence of the way the utility conducts its business.

BACKGROUND

This report represents the first comprehensive management review of a water and sewer utility conducted by Management Studies. It was undertaken in response to a request of the Division of Water and Sewer which has primary responsibility for the regulatory oversight of the industry. Their primary concern at the time of request was with the efficiency of Southern State's management, more specifically, that the Company was engaged in "crisis" management at an ultimate increased cost to its customers.

Although this review centers on Southern States Utilities, Inc. (SSU), other companies of a similar size and nature may enhance their effectiveness and efficiency by reviewing their own operational and management practices in light of our findings and recommendations at Southern States.

SCOPE AND OBJECTIVES

While the scope and objectives of this audit were defined by Management Studies, they were done with due consideration of the specific concerns expressed by staff of the Division of Water and Sewer.

The scope of our review was designed to be comprehensive in nature, comprising all major aspects of the management and operations of Southern States Utilities. Specifically, the following areas were covered:

- o Organization and Management
- o Financial Management
- o Field Operations
- o Customer Services
- o Personnel Management
- o EDP Controls
- o Purchasing and Inventory Control
- o Transportation Management

The primary objectives of this review were as follows:

- o To provide an independent and comprehensive review of the effectiveness and efficiency of Southern States' management and of selected company operations
- o To identify functions being performed well
- o To develop meaningful, cost-effective recommendations for improvement
- o To produce an accurate and comprehensive report of our findings, conclusions, and recommendations
- o To ensure the satisfactory implementation of our recommendations.

It is our sincere intention that this report describes the Company's strengths, as well as its potential areas for improved managerial and operational practice.

METHODOLOGY

The review of each individual area was conducted in three primary phases:

- o Orientation/Preliminary Survey
- o Review and Analysis
- o Report Writing

During the Orientation/Preliminary Survey phase of each area, the Commission staff visited Company facilities and met with key management personnel in order to develop an understanding of the Company and its environment, and to introduce management to the audit process. Appropriate documents were gathered and reviewed, providing technical definition and direction, as well as a better understanding of the Company's key areas. Upon completion of this phase, the staff developed comprehensive work plans detailing the timing and topics in each area of review.

The Review and Analysis phase consisted of two major steps: 1) data collection and 2) review and analysis. Data was collected through interviews with Company personnel, review of documents and reports, observation of field operations and facilities, and written surveys. All key personnel from senior management to line personnel were interviewed, representing the most time-consuming aspect of the review. Data analysis was then performed in each area under review. The analysis consisted of summarization, development of performance measures, and evaluation. Utilizing both qualitative and quantitative measures, the Company's overall performance was evaluated, identifying strengths as well as areas of potential improvement.

The culmination of the process was the Report Writing phase. Upon completion, report drafts were provided to the Company for review purposes. The findings and recommendation were discussed with Company representatives to verify supporting data, and to ensure the Company's understanding of those findings.

An Executive Summary (under separate cover) provides an overall assessment for each area reviewed at SSU. Following the assessments are the recommendations for that particular area. For the Company's benefit, each recommendation has been prioritized by assigning a value of high (H), medium (M), or low (L). The value signifies the relative importance of each recommendation as perceived by our staff. The Company's verbatim responses appear directly underneath each recommendation, and where appropriate, additional staff comments follow the Company's response. A true understanding of the issues, however, can only be accomplished by reading this final report.

ACKNOWLEDGMENTS

The successful performance of a management audit such as this is highly dependent upon the degree of cooperation and assistance given by the Company in general, and the individual participants in particular.

For this reason, the staff of the Management Studies Bureau wishes to express its sincerest appreciation to all the management and operations' employees of Southern States Utilities, Inc.

We would especially like to thank Ms. Judith J. Kimball who coordinated our data requests and our interview scheduling throughout the audit.

Finally, we must acknowledge the exceptional attitude of cooperation and encouragement which was exhibited by the Company's President, Mr. Charles L. Sweat. As a result of his efforts, we experienced a positive, congenial, and professional atmosphere throughout the organization.

II. COMPANY OVERVIEW

BACKGROUND

Southern States Utilities, Inc. (SSU), a Florida corporation headquartered at 1000 Color Place, Apopka, Florida provides water and wastewater utility services in 17 Florida counties. The firm was established in 1961 by its current Vice-Chairman Tom Kravitz. In 1968, SSU was purchased by Universal Telephone, Inc. (UTI) and continues as a 99.5% owned subsidiary. During 1984, UTI and its subsidiaries, including Southern States, were acquired by Topeka Group, Inc., a wholly-owned subsidiary of Minnesota Power.

BUSINESS OVERVIEW

Southern States exists as a regulated public utility providing water and sewerage services primarily to residential communities through its own network of plants and distribution facilities. At present, the Company has almost 41,000 customers with a revenue base of approximately \$7,000,000 all serviced by approximately 100 employees. Growth in the Company's business during the 1980's has been moderately high across all measures. Water service has consistently accounted for the largest portion of activity.

As of October 1987, the Company operated in 17 Florida counties, predominately in central and northeast Florida with a recent acquisition on the west coast. Each system is regulated by the state's Public Service Commission (PSC)--or in some instances local county government. The Florida Department of Environmental Regulation (DER) takes a lead role in setting and enforcing operational standards.

Much of the Company's asset build-up arises from contributions made by developers and builders. These contributions-in-aid-of-construction (CIAC) include cash from connection fees, title to constructed water-sewer lines and land. Such contributed property is accounted for as additions to utility plant and as an offset to its rate base. While SSU's 1985-87 Business Plan indicated that part of the Company's business strategy involved selling systems and plant assets, primarily to governmental entities, all top management officials currently agree that their goal under Minnesota Power is to maintain acquired assets and grow into a large water and sewer utility company.

Since acquisition by Minnesota Power in August 1984, significant steps have been taken to acquire additional water and sewer systems. Of the existing 41,000 customers as of October 1987, over 21,000 have been acquired since August 1984. Also, in 1985 and 1986, Minnesota Power acquired a major interest in the Deltona Corp. and currently holds an option to acquire Deltona's water and sewer systems in Florida which serve 73,000 customers. Minnesota Power has stated that the merger would create "Florida's largest privately owned water supplier as early as 1988."

III. EXECUTIVE MANAGEMENT AND ORGANIZATION

OVERVIEW

This chapter presents an assessment of Southern States' executive management processes and overall organizational structure.

An overall assessment of a company's management and organization must reflect the quality of its planning, organizing, directing, and controlling functions. For a company to achieve its stated goals and objectives in an efficient and effective manner, these basic functions of management must exist. Planning forms the basis for each of the other functions. It involves setting goals and objectives and developing strategies for achieving them. Organizing is the process of establishing sound organization structures and relationships. Directing involves moving resources toward a goal through effective leadership, motivation, and communication. The Controlling function ensures that directed action is carried out as planned in order to achieve a desired objective.

BACKGROUND AND PERSPECTIVE

Southern States Utilities, Inc., (SSU) is a water and wastewater treatment company with headquarters in Apopka, Florida. Founded in 1961, the Company was purchased by Universal Telephone, Inc. in 1968, which was subsequently purchased in 1984 by Topeka Group Inc., a wholly-owned subsidiary of Minnesota Power and Light (MP&L). Exhibit I shows the current organizational relationship, as well as the interrelated services between each affiliate. Although SSU's management currently reports to Universal Telephone, Inc., the latter's actual involvement in SSU's decision-making process is only minimal. While the formal organizational chart says one thing, the reality of the situation finds SSU being more involved with the Topeka Group, i.e., there is an "informal" structure operating here. As a result, steps are now being taken to make SSU a direct subsidiary of the Topeka Group. Minnesota Power & Light also actively participates with Topeka Group in setting SSU's direction, i.e., SSU obtains limited financial and management services from both Topeka and MP&L.

It should be noted that SSU has a sister affiliate which also reports to the Topeka Group: The Deltona Corporation. During 1985 and 1986, Topeka acquired a major interest in Deltona. Deltona is a land developer with significant water, sewer and gas utility holdings in the Florida market. SSU conducts no business transactions with Deltona.

SOUTHERN STATES' AFFILIATES

Electric Power Utility



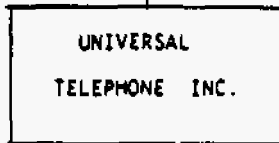
- o Prepares state and federal tax returns
- o Provides Internal Audit support for year-end external audits and audits of pending acquisitions
- o Receives no services from SSU

Holding Company For MP&L Acquisitions



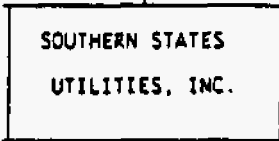
- o Provides analysis and review assistance on pending acquisitions
- o Provides technical and financial planning assistance upon request
- o SSU provides management oversight of water utility in Carolinas

Holding Company For Various Telephone Utilities



- o Provides management services in form of management, administrative, and legal review
- o Provides financial statement review and overall financial planning
- o Receives no services from SSU

Water and Sewer Utility



- o SSU performs all administrative support functions
- o VGU has own field and office staff
- o VGU provides no services to SSU
- o SSU is responsible for developer agreements and construction contracts

In order to gain a better perspective on the size and complexity of the problems associated with managing a firm like SSU, we need to understand the magnitude of its operations. Exhibit II shows us the geographical dispersion of their varied operating units which are primarily controlled from the central office in Apopka, Florida. The Company coordinates all plant operations, maintenance, and line connections and disconnections through this central office; the work is carried out through local offices using maintenance and service trucks which are in contact with Apopka. While the majority of the administrative, billing and clerical functions are performed at the Apopka office, the Company maintains an office in Miami, which handles only acquisitions and financing.

The Company's water and sewer mains are generally installed along roads and highways by virtue of utility easements and aggregate about 275 miles of water mains and 120 miles of sewer mains. They own a fleet of 47 maintenance and service trucks to carry out their daily operations, which service approximately 41,000 customers.

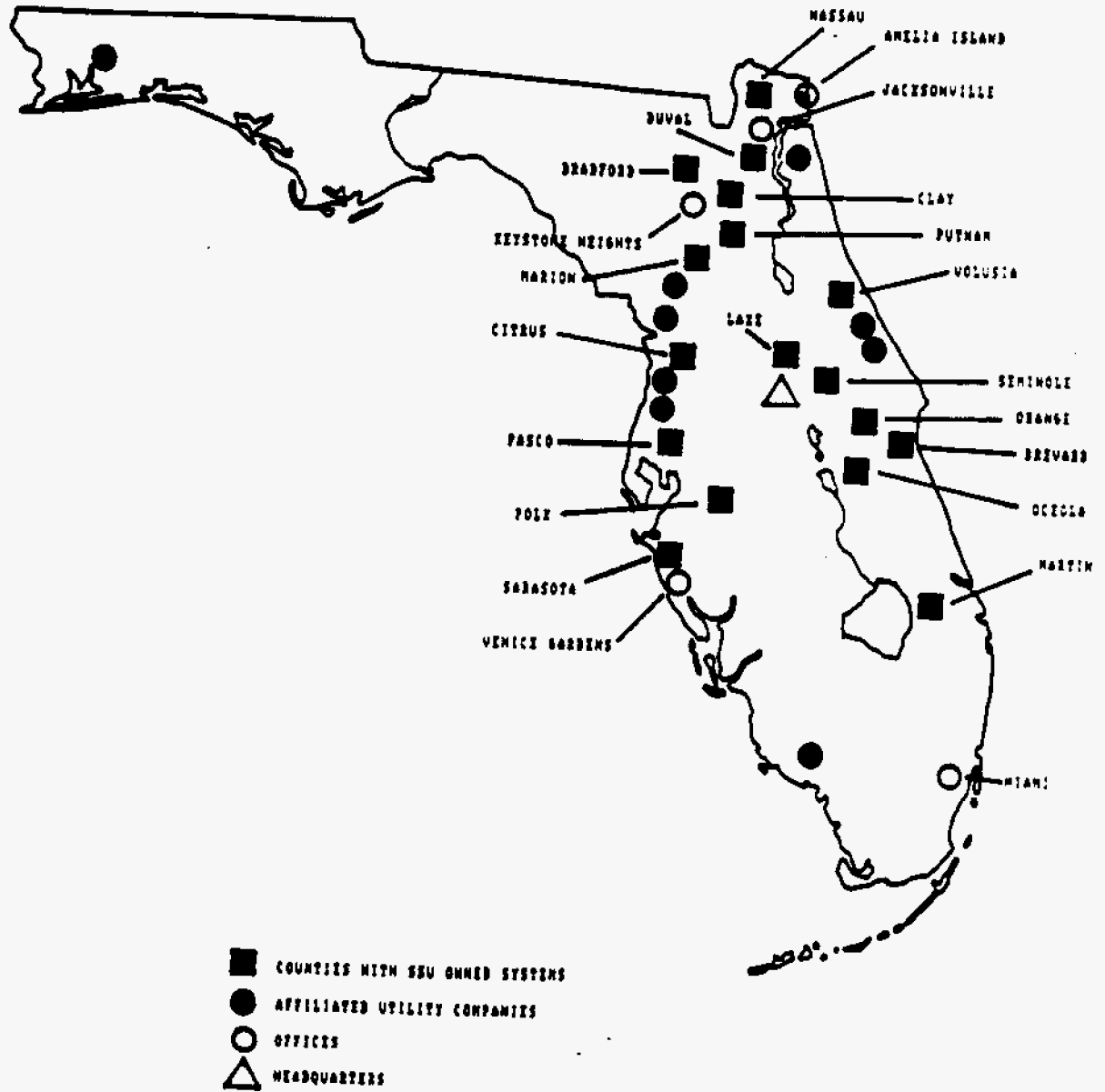
Exhibit III provides us with a view of top management's organizational relationships, while the charts depicting the Field Operations staff can be found in Exhibits VIII and IX in the Field Operations chapter. It can be noted that the President also bears the responsibility of being the Chief Operating Officer. He has been with the Company since 1963 and has worked his way up through the ranks, assuming his current position in 1984. The founder of the Company currently holds the titles of Vice Chairman of the Board and Vice President of Finance and is the only member of management operating out of the Miami Office.

It is also important to understand that the only other person on a vice presidential level (Business Development) is a fairly recent addition to the organization whose appointment was sponsored by Minnesota Power and Light (MP&L) and whose salary is paid by them. He is essentially there to learn the water and sewer business and help Southern States to develop their business in a manner consistent with MP&L's goals.

While SSU has been a small business organization for some time now, they still have several vestiges of a "Mom and Pop" operation. The typical growth pattern characteristics are easily recognizable at Southern States. Its history as a "Mom and Pop" business is reflected in the observations that the President is not a full-time administrator; he spends much time in direct operations. He personally knows everyone in the Company; he knows their strengths, weaknesses, and ambitions. Employees understand what is expected of them through example and tradition. Levels of management are limited; the organizational structure is simple. Everyone performs multiple jobs as needed, and the plans and budgets are informal, if they exist at all.

**SOUTHERN STATES UTILITIES, INC.
SERVICE AREAS**

EXHIBIT II



SOURCE: COMPANY RECORDS

Many responsibilities are at the point of needing to become separate from each other and are on the verge of requiring added specialization for those who occupy the positions. Functions throughout the Company are becoming more departmentalized, adding structure to the organization. All management tasks, but especially those of the upper managers, are in the process of changing from a hands-on approach to one of guidance and decision-making.

The transition from a "Mom and Pop" company to a small business is not necessarily a gradual evolution. More often it is a recognizable point at which decisions about growth are forced upon management. Southern States is experiencing this "threshold" phenomenon, the point at which change becomes necessary. The proper management of this change separates companies which are marginal from those which become successful.

It is our observation and opinion that Southern States has made some important first steps in becoming a successful small business entity. They are to be commended for: (1) their decision to move their base of operations from Miami to Orlando which is more centrally located in their operating area; (2) their foresight in recognizing the need for a larger facility in Apopka which would be able to serve them through their next surge of expansion; and (3) their clear understanding of the need to install a major upgrading of their EDP capacity to handle information processing needs resulting from planned customer growth over the next several years.

However, it is quite common for any company undergoing rapid growth and expansion to require extensive changes in its management functioning. Southern States is no exception. While management has performed well in many respects, there are still a number of improvement opportunities to be acted upon. As Southern States expands, the management functions of planning, organizing, directing, and controlling will need to become more differentiated, formalized, and systematic.

FINDINGS AND RECOMMENDATIONS

Responsibility Has Not Been Properly Identified And Authority Has Not Been Adequately Assigned, Resulting In Inefficiencies Of The Management Function.

Managers at Southern States frequently act as individuals rather than as members of a smoothly functioning management team. This results from a combination of factors. Top management has not clearly identified the responsibilities of mid-managers, nor have they adequately delegated the corresponding authority to the managers. Furthermore, the lines of authority are sometimes unclear and the chain-of-command is often ignored. More specifically, the President has a tendency to become personally involved in too many operational details, rather than delegating and relying on his mid-managers. Too many decisions, which should be made at the mid-management level, are being made by the President. Such a process causes unnecessary delays in operational execution because the President is often engaged in business activities other than the one for which a decision is being sought.

Accordingly, management is often in a position of being reactive to the situation at hand, rather than doing adequate advance planning. To quote the term used by one interviewee, they are often in a "crisis mode" with no time for planning.

As other examples, mid-managers have little or no opportunity to participate in planning for their areas of responsibility. They have no input to the business plans, budgets, or goals and objectives for their unit. (See related Recommendation 4 on page 17.) Similarly, they lack the authority to make some relatively minor decisions, such as expenditures for purchases or repairs involving very modest sums. Also, they do not receive feedback in the form of management reports on how well they are doing so they may gauge their success. (See Financial Management Recommendation 13, page 27 and Field Operations Recommendation 36, page 56.) In summary, they do not have the opportunity to participate in performing many of the functions basic to management.

A standard or criteria for improvement should be considered by the Company. More specifically, top management must continue to monitor themselves to assure that they are adequately performing the basic management functions of planning, organizing, directing and controlling.

Planning should be conducted so that unit managers are formally instructed to submit suggestions regarding their respective operations. Proper organization requires that each business entity formulate a structure along distinct lines of authority and responsibility. The structure must adequately serve the demands of the organization and the chain-of-command must be understood, accepted and followed.

After the planning and organizing functions are in place, directing must be addressed. Directing requires that the appropriate responsibility and the corresponding amount of authority be delegated to the unit manager. Senior management must then provide broad, clear-cut guidance and direction, such as providing adequate policies and procedures. They must also allow mid-management the necessary latitude and discretion to carry out their respective responsibilities.

Finally, senior management must engage in controlling operations, by holding mid-management accountable. Techniques for controlling include checking for compliance with company policies and procedures, monitoring management reports, and making spot checks and observations. (See the Financial Management and Field sections of this report).

To summarize, the effects of not adhering to the above criteria are apparent at Southern States. Managers are uncertain of their authority and responsibility. Too many minor decisions are referred to higher management. Lines of authority are not distinct and the chain-of-command is often ignored. Much of management is reactive and frequently in a crisis mode, devoting inadequate time to planning.

1.(H) Management Must Develop A Written Departmental Mission Statement Which Spells Out The Responsibilities And Authority Delegated To Each Manager.

In developing a clear and concise statement, management must assess the anticipated risk of delegating responsibility in any given area. Similarly, management must determine the level of accountability which will be required for a task. Furthermore, the statement must make apparent a clear chain-of-command throughout the organization.

Planning. As A Tool Of Management. Is Not Being Effectively Utilized To Coordinate, Communicate, And Carry Out The Company's Goals And Objectives.

Management at Southern States does plan for their business future. They have produced a formal written Business Plan for 1985-87 and they have written a Future Organization Plan - Phase I. They are also in the process of updating their Business Plan for the 1988-90 time-frame.

However, our review of their overall planning efforts leads us to believe that the level of effort so far put forth is insufficient to provide adequate guidance for a company that is on the threshold of such rapid expansion--an increase from 34,000 customers to 110,000 plus by 1990; revenues from \$4,000,000 to \$44,000,000.

Their entire planning effort centers around only one of the three phases of a good management planning process: the medium-range phase. A good systematic approach to business planning should include a long-range (5-10 years) strategic view; a medium-range (2-5 years) business plan with detailed goals and objectives; and a short-range (1-2 years) operational or departmental plan which has been specifically integrated throughout all levels of the business to ensure the proper execution of the longer range aspects of both the strategic and the business plans.

At Southern States, we found only a medium-range Business Plan and that effort does not address some of the vital bits of information required to ensure the smooth and orderly attainment of the Company's goals and objectives. The answers to the questions of who, what, where, when, and how, are either answered inadequately or are not sufficiently clear to guide those people who have the practical tasks of making the Company's goals and objectives happen as planned. Southern States' current Business Plan seems to us to be more of a description of how growth will affect the various functional areas of the business than a plan that answers the preceding questions in detail. It seems like a plan written more to inform the parent company of where Southern States intends to go, than how or when they intend to get there or who is responsible for carrying out the plan.

This business plan ~~is not~~ a working document that is capable of providing operational guidance to the staff and management of Southern States. It is a reasonable starting point, but to create an effective tool some missing elements need to be addressed in more depth. Two of the first elements that need to be addressed are the "why?" and the "what?" The Business Plan does not provide a detailed description of the physical structure of the business. It does give us an "overview" which helps us relate to the geographic size and location of the operating systems, but fails to give us any idea of what actually constitutes the resources available to apply to attaining the Company's goals. Likewise, there is no available description of the key people responsible for the application of this plan. We know nothing of their abilities to execute the plan, nor of their individual responsibilities within the plan. The closest the plan comes to discussing personnel is the forecasting of the number of bodies required to meet certain growth demands.

Next we find no real assessment of the Company's strengths and weaknesses which would involve detailed analysis of at least the products and services provided, distribution channels (if applicable), reputation and image of the Company, suppliers, product cost, capacities and facilities, and financial resources.

In the area of marketing analysis, we find only a brief listing of prospective acquisition companies and an even briefer indication of four areas the Company will evaluate for non-utility expansion. There is absolutely no indication that any analysis of Southern States' utility (water and sewer) market share has been done; however, the plan does indicate that studies will be done on each of the four areas of interest for non-utility diversification with additional analysis to be done if warranted by the studies. In either case, (utility or non-utility) there is no discussion, beyond generalities, of acquisition tactics, costing, priorities, reasons for or against purchase or development, or other such factors.

Likewise, we find only a cursory mention of the Company's external environment. It is vitally important that management understands who the competition is and how they operate, what makes up its potential market, what laws and regulations affect their operations--present and future, and how changing technology can make the Company more efficient and productive. The current Business Plan makes no attempt to summarize all the external opportunities and threats that may present themselves in the process of growing the Company into the 1990's.

Impact
SDWA
Clean Water Act

In addition to the preceding deficiencies, there is a notable lack of milestone guidelines as to when desired events will take place, i.e., it is very hard to be able to measure meaningful progress toward the goals set forth. Granted, there are some timing indications, but they are mostly in terms of years or quarters of years and never approach the level of tactical or operational plans which can be quantified and measured. While there are income and expense projections, they only cover the first year (1985) of the three-year plan and there are no cash-flow projections.

Finally, the most important element that is underplayed in the current planning process is "how" the Company intends to get from its present state to its newly defined future state. This "how" element is the link that integrates all the thinking and information that goes into a business plan. When utilized properly, it enables the plan to become a working document that helps managers to manage the Company on a day-to-day basis. Although there is some element of how the goals will be pursued, none of the projects are spelled out in any implementing detail--they address the intent of the project itself only in the most general terms.

Having reviewed the Company's efforts at addressing the medium-range planning phase, we would be remiss in our obligations if we failed to discuss their efforts in the other two phases--strategic and operational.

Southern States' management's approach to planning does not appear to include a recognition of the commonly accepted timing concept of business planning, i.e., the long, medium, and short range phases. Consequently, they do not produce a system of integrated plans which leads to their management style being more reactive than proactive. This in turn, leads to the uncertain allocation of scarce resources or even a lack of resources at the required time.

Southern States does not have a definitive plan that could qualify as long-range or strategic. As previously stated, their basic effort revolves around a medium-range outlook. Also, as discussed previously, they do not prepare annual operating plans. They rely upon the limited direction implied by their operating and capital budgets and the President's yearly objectives. It is important to realize that Southern States' budgets and its President's objectives are not adequate to function as annual plans because:

- information contained in them is not available to everyone as a shared goal
- they are not tied directly back to the objectives in the Business Plan, nor to the goals of the Company in general
- they are not being used to set priorities
- the process by which they are established includes only minimal input from the individual department managers, i.e., specific local objectives are not being developed by the various departmental managers
- the crucial element of management feedback concerning performance variance is insufficient.

It is a common practice for smaller companies to overlook the value of committing time and resources to the production of detailed operational planning documents. Many of them rely solely upon budgets and maybe a generalized set of objectives such as takes place at Southern States.

- 2.(H) Southern States Officers And Board Members Should Develop A Long-Range (Strategic) Plan Prior To Completion Of The 1988-1990 Business Plan Update.

This plan needs to be written in such a manner that it readily brings forth a mental image that clearly defines (for the reader) the goal that is being pursued, e.g., when President John F. Kennedy defined the goal of NASA to be--"We will place a man on the surface of the moon and return him safely to earth by the end of this decade." Without this type of visual picture (standard) against which to develop their objectives the Company will have a tendency to waiver in their resolve and commitment because their focus will change with the capriciousness of daily operations.

- 3.(H) Management Should Update Their Current Business Plan Correcting The Deficiencies Noted And Ensuring Its Integration With Both Strategic And Departmental Plans.

This plan should be updated annually to give a rolling three year outlook and years two and three should reflect as much detailed data as possible.

- 4.(M) Management Should Develop Operational Plans For Each Department And Ensure Their Integration With The Business Plan.

While such plans may not need to be greatly detailed, it is necessary that they be documented and integrated with the Company's larger goals and objectives. The personnel in each department must give organized thought as to what their specific roles are which will enable the Company to attain its goals and objectives. More specifically, department managers must not only be allowed, but actually required, to participate in the planning process, a process which includes both financial (budgets) and operational categories. While budgets are normally documented, the operational plans are not, and without documentation there are no supportable standards and therefore no means to measure progress.

- 5.(H) The Board Of Directors Should Establish A Policy To Ensure The Communication, Coordination, And Commitment Of Resources For Each Phase Of The Planning Process.

Without the wholehearted support and active participation of the highest levels of management, planning cannot be carried out effectively.

Senior Management Has Not Given Sufficient Priority To The Establishment Of A Formalized System Of Policies And Procedures.

Southern States has developed only a limited number of policies and procedures. These are found in the Employees Handbook, a copy of which is given to each employee. While we commend the Company for including policies on such topics as open communication, customer satisfaction, honesty, cooperation, and problem-solving, these statements of policy primarily address expected general conduct and required personnel or paperwork routines. The procedures that have been developed so far are limited mainly to the customer service and water meter areas of operation.

Although the Company has recognized the need for policies and procedures and implemented those mentioned above, their efforts remain minimal and incomplete. Management has not addressed policies and procedures in a systematic manner, but created them individually as the need arose.

Policies and procedures are both fundamental means by which managers can direct and control functions within their enterprise. Although each serves a different function, they are related in their purpose of communicating management's expectations to employees. Policies should state the general intent of management, and guide employees in their decision-making. They should act as signposts or limits within which managers may operate. A well designed system of policies should therefore provide a hierarchy of guides to managerial thinking throughout the Company. At the upper-level, the statements tend to be broad based, while further into a Company's subsystems, policies normally address more specific activities.

Procedures, on the other hand, are the methods used to instruct employees in how to carry out specific activities which conform to the previously prescribed policies, i.e., they reflect decisions already made and standardized. For all levels of management, procedures should specify, in advance, areas of latitude and discretion. They should reinforce Company-wide performance targets by specifying the most efficient work methods. They can also serve as a quality control in that, if procedures are followed, employees should perform to a specified level or produce a specified result.

From a general management perspective, the effect of an inadequate system of policies and procedures is a degradation of the important management functions of direction and control. By transforming Company goals and objectives into specific policies and procedures, management can focus Company efforts on priority areas, communicate these to employees, and direct that tasks be performed using the most efficient method. Management can then evaluate performance against standards and correct any deviations.

The effect on employees is to deprive them of written guidance and consistent direction. This is a particularly critical factor because the Company's field employees are geographically dispersed and operate with minimum supervision--a condition which may escalate as the Company acquires new systems.

In addition to a lack of Company-wide focus, the various departments and functions within the Company do not have specifically applicable policies or procedures. The need for specific policies and procedures at the operating level is addressed under the individual sections of this report:

- o Financial Management, page 25
- o Field Operations, page 45
- o Customer Services, page 61
- o Personnel, page 67
- o Electronic Data Processing, page 77
- o Purchasing and Inventory Control, page 92
- o Transportation Management, page 97

Committee 6.(H) Management Should Appoint A Committee To Oversee The Development Of A More Complete Set Of Policies And Procedures Applicable To Both Company And Departmental Goals And Objectives. And to Set A Specific Timetable For Their Completion.

The Effectiveness, Efficiency And Economy Of Both Growth And Operations Are Being Seriously Impaired By The Improper Allocation Of Resources.

In the process of executing an aggressive acquisition program, Southern States is carrying out a long-range goal of Minnesota Power. However, the process by which this goal is being pursued does not give due consideration to the effect upon Southern States' resource base which must bear the brunt of the increased workload.

While a good return on equity is a commendable goal to pursue, it must be tempered with the long-term need for a healthy and stable organization which is capable of continuing operations at an acceptable level. Southern States' acquisition program has been pursued to this point at such an accelerated pace that the Company's underlying resource base shows signs of administrative and operational strain.

FIELD

Problems arise mainly from the demands that the acquisition program places upon SSU's regular operating routines. These demands divert an excessive amount of time from SSU's normal management functions. Each acquisition, whether for 50 or 1,000 new customers, requires approximately the same number of administrative tasks. Though the staff has been expanded somewhat, it is not enough. The Company now has more difficulty absorbing the marginal increase in workload that each new acquisition entails. The situation is especially critical in field operations because supervisory positions have not been filled, leaving the General Manager overburdened with both acquisition details as well as his everyday operational duties (See page 51 in the Field Operations Chapter).

Administratively and operationally, SSU needs more personnel, equipment, and materials to make assimilation of its acquisitions easier. Also, Company personnel need more time to share the "lessons learned" so as to assure that any mistakes will not be repeated. For example, the transition of one recently acquired large operation was not carried out as smoothly as it could have been because SSU was unable to devote enough time to the planning and coordination of the project. As a result, some problems occurred due to a lack of adequate communications with the new customers. They were not clearly informed about changes in the utilities ownership, billing practices, and office locations. There was also inadequate guidance and training of the newly acquired employees. Administrative time is even more critical now, because SSU has recently become involved in the management of a large operation located out-of-state.

Another element of the problem appears to be diminished capacity to fund for the additional personnel, equipment, and materials. Whether the lack of investment in the resource base is attributable to insufficient funds or to a conscious decision by management that they can do the job with present resources, the result is an impairment of administrative and operational effectiveness and efficiency, as well as an economic detriment to the long-term growth being sought.

7.(M) Management Should Formally Reevaluate Its Current Allocation Of Resources In View Of The Conflicting Goals Of Its Acquisition Program And The Adequacy Of Its Current Operations.

Goals can be accomplished only with proper and adequate resources: personnel, money, time, materials, equipment, and know-how. Management must be willing to commit resources of the required quality and quantity if SSU is to meet its long-term organizational needs.

To be most effective, the evaluation called for here should be formalized to the point of producing a document which defines the various resources required to support the desired rate and type of growth. The process should also involve a review and sign-off by the Board of Directors.

Control Over The Management Process Is Unnecessarily Weakened By Lack Of An Internal Audit Review Process.

While the Company's President has recognized the need for an internal audit review process, he has not yet established a formal commitment to an audit program. The Company has no Internal Audit department, which is not uncommon for a firm its size. However, they do have access to the internal auditing group from Minnesota Power and Light. Also, outside auditors could be hired on a temporary basis for one-time specialized reviews, if required.

Internal auditing is a major control function which serves to evaluate all other management controls (administrative and accounting) throughout a company. It is a function which also provides oversight for all operations being conducted, i.e., the eyes and ears of management when the firm has grown too large for management's personal observation of all functions. With growth comes the need to develop an internal audit capability. The rapid growth and expansion of Southern States and the commensurate expansion of the President's duties make personal observation a control process which is no longer adequate.

8.(M) Management (SSU) Needs To Strengthen Their Control Over The Management Process By Developing An Active Internal Review Program.

This program should be in place and functioning by the last quarter of 1988. One of the first priorities of this program should be to focus on the system and programming controls of the newly installed computer system. ~~Since~~ many of the Company's critical functions are being automated, there is a need to install a whole new set of management and system controls to ensure proper safeguarding of the data-base assets.

While this program may originally involve outside auditors, it should have as its ultimate goal the establishment of an internal audit function within the Company.

The Executive Management Functions Are Unnecessarily Separated By SSU's Maintaining A Second Office In Miami.

Miami was the site of Southern States' main office until 1983 when it was moved to Orlando to be more centrally accessible to the service area. However, the founder and former President of the Company still maintains his office in Miami. He carries out his duties under his present titles of Vice-Chairman of the Board and Vice President-Finance from that location, aided by a staff of three part-time employees who provide clerical support.

The Vice President-Finance states that both his knowledge of and history with Miami banking institutions have been extremely advantageous to Southern States in obtaining more favorable loan rates. (See pages 39 and 40 of the Cash Management section for a more detailed discussion of the borrowing terms negotiated by SSU in 1986.) He believes this type of relationship is unavailable in other locations, including Orlando. While we agree that Southern States should obtain the most favorable bank rates available, interviews with other Company managers indicate that favorable rates may be duplicated outside of Miami. Until recently, however, Company management has made only a limited effort to establish relationships with banks in the Orlando area.

The head of the Miami office estimates average monthly expenses to be:

Rent/Power	\$ 864
Telephone	\$ 484
Salaries/Benefits	\$7,705

\$ 108,636 4/2

It should be noted that expenses for travel and postage and other office overhead are not reflected in this estimate.

We recognize that the financial savings from closing the Miami office would not be enormous since at least, the Vice President-Finance's salary, would still be an expense. Our primary concern is that the major management functions should be consolidated. Executive management functions need to be readily accessible to each other, particularly in this critical growth period when coordination within the Company is so important.

9.(L) Southern States Should Develop A Time-Table To Phase-Out The Miami Office And Move All Needed Services To Apopka.

Southern States needs to consolidate and streamline its financial management functions. This can be accomplished gradually by transferring functions to the main office as appropriate. A time-table should ensure a smooth transition.

SSU should also begin to develop contacts with financial institutions in the Orlando area, in an effort to obtain favorable loan rates. Such action is an important first step toward duplicating the relationships which have been established with Miami financial institutions.

The Process By Which Newly Acquired Systems Are Evaluated Leaves The Company At Risk For Costly Undiscovered Defects.

During the evaluation of a system for potential acquisition, Southern States must look carefully for hidden defects which need to be considered in the offering price. A defect may manifest itself as a problem with the facilities, a need for plant expansion, an inaccurate estimate of rate base, a contingent liability, or other such difficulty. In earlier years, more of the systems acquired were in poor operating condition and more likely to contain a hidden defect. However, as recently as 1985, SSU acquired a group of systems that produced several hidden defects which were substantial. Consequently, an unanticipated expenditure of several hundred thousand dollars was required to correct the defects. This situation must be avoided in future acquisitions.

While the Company has improved its general procedures for the acquisition process, including the development of "check lists," and accounting and engineering audits for major acquisitions, they still lack a formal program for comparing the actual costs incurred with the costs anticipated at the time of purchase. Such a cost analysis program will highlight weaknesses in the process and thereby protect the Company and ratepayers.

Each public utility is obligated to carefully evaluate a potential acquisition to assure that it will not be a detriment to the existing ratepayers. Similarly, the acquired customers should benefit from being purchased, often by receiving improved or more reliable service. Finally, the utility as an investor, must avoid making an imprudent investment which might be disallowed for ratemaking purposes.

At the same time, management must also avoid spending a disproportionate amount of effort or funds while reviewing and auditing a potential purchase. Having made the acquisition, there must be an after the fact measurement of whether all is proceeding as planned. That should always include a comparison of the actual cost incurred for a facility versus the anticipated costs. This assists management in refining the acquisition process.

10.(H) SSU Should Implement A Cost Comparison Program So That The Actual Costs Incurred For Each System Acquired Would Be Compared To The Original Anticipated Costs.

This will provide a formal comparison of management actions versus their plans.

- 11.(H) SSU Should Implement A Written Procedure Which Formalizes Existing Check Lists And Sets Forth Specific Instructions For System Acquisitions.

The existing check lists require that the users possess an extensive knowledge of each step itemized, whereas the proposed written procedures should assume that the users have a very limited knowledge. It is also essential that some provision be made to ensure that the procedures are periodically updated to reflect the lessons learned from each new acquisition.

- 12.(M) SSU Should Have The Parent Company Perform An Operational Audit Of All System Acquisition Procedures.

This will assist management to identify specific areas for further improvement.

IV. FINANCIAL MANAGEMENT

OVERVIEW

This chapter covers the three major functions included under the broad scope of Financial Management: Budgeting, Accounting, and Cash Management. The efficiency and effectiveness with which these functions are carried out is significant to the direction and progress of any company.

The first section of the chapter focuses on the Budgeting function. A primary benefit of budgeting is that it helps a company achieve better planning of its current and future operations. A budget that is properly developed provides an opportunity for individual managers to evaluate and control the operations for which they are responsible, and then to develop plans for improving the operational results.

The second section of the chapter focuses on the Accounting function. Accounting information is one of management's most useful tools for effectively evaluating company operations and providing guidance in decision-making. Financial records and the sources of documentation supporting these records must be properly administered, maintained, and controlled. Top management's reliance on an efficient and effective accounting system significantly increases as the business grows and becomes more complex.

The final section focuses on the Cash Management function. A sound cash management program is designed to control the flow of cash receipts and cash disbursements. Cash management activities are directed at increasing the availability of cash, regularizing cash flows to minimize the need for outside borrowings, and investing surplus cash to maximize supplementary earnings.

BUDGETING

BACKGROUND AND PERSPECTIVE

Southern States' projected operating revenues for 1987 are \$7,248,000, while their projected operating expenses total \$4,879,000. As of December 31, 1986, the Company's assets totaled approximately \$35,000,000.

The Comptroller and the General Manager are responsible for developing the Company's annual operating and capital budgets. Both positions report directly to the President, as illustrated in Exhibit III on page 10. The Comptroller assesses the budgetary needs of each department on an ongoing, informal basis, through the weekly manager's meetings. The General Manager has the responsibility of determining the budgetary needs for Field Operations and submitting this information to the Comptroller. Based on each department's needs and the President's objectives, the Comptroller then develops a proposed Company budget. This proposed budget is first submitted to the President for his review and approval, and then to the management of Minnesota Power, Southern States' parent company, for their approval.

A formal budget was first utilized by Southern States during the early 1980's and the process has been further refined since then. At present, the process is still manual, although it is anticipated that it will be computerized during 1988. Company management expects that computerization will expedite the budget preparation process, particularly after several years of historical data have been compiled.

We commend Southern States for the refinements they have made in the budgeting process during the early 1980's. Along with these accomplishments, however, are several opportunities to further improve the process.

FINDINGS AND RECOMMENDATIONS

Management's Control Of Finances Is Hindered By Inadequate Budget Reporting.

A basic element of financial control is budgetary control. At present, Southern States only prepares an operating budget for the entire Company; there is no detail by system or by functional department. Consequently, management is unable to evaluate each system's actual versus budgeted expenses. Furthermore, they are unable to track expenditures for individual projects or to determine what has been accomplished toward each. The same situation exists with the capital budget.

Southern States recently purchased a computer system which Company management states has the capability to furnish budget data by system and functional area. The benefits of this financial data--as a control mechanism and for the value of the feedback it furnishes--must be recognized. Otherwise, management cannot anticipate expenses, assess the point at which the Company will be at risk, determine the need for expenditures, or obtain many other pieces of information needed for cost/benefit analyses and decision-making. Once the computer system is fully operational, management must ensure that all managerial personnel are trained in budget preparation and analysis.

13.(H) SSU Managers Should Receive Periodic Budget Reports Covering Their Respective Responsibilities For Operations, Projects, And Capital Items.

Budget reports should be distributed to all Company managers on at least a quarterly basis. Such a reporting system will help managers gain better understanding and control of operating expenditures.

14.(M) Managerial Personnel Should Be Trained In Budget Preparation.

In conducting the training, the Company has the option of utilizing in-house personnel with expertise in budget preparation or retaining the services of a budget specialist from Minnesota Power. Such training will provide managers with a better understanding of budget preparation, so as to maximize their input into this process.

Completion Of The Budget Has Not Been Timely.

Company management has not established adequate time deadlines in its budget development and approval process. The President's goal is to begin the process in August of each year. However, preparation of the 1987 budget did not begin until November 1986, due primarily to conflicting demands on the Comptroller's time. Consequently, the budget was not completed in a timely manner.

The budget preparation process should be planned so that both the President and Minnesota Power management have adequate time to review and assess its components prior to the beginning of the budget year. Without such planning, budget development and approval may receive less emphasis than required.

15.(M) The Company Should Establish Firm Time Deadlines In Its Budget Preparation Process.

The General Manager and the Comptroller should be held to specific deadlines for completing the budget and submitting it to the President. These deadlines will enable the President to amend and approve the budget prior to the beginning of the budgeted year.

Information Contained In The Company Budget Is Not Adequately Documented.

According to the Comptroller, all known factors related to estimated budget expenditures are identified as part of the budget development process. For example, the Comptroller may contact a chemical company vendor to determine how much the cost of chemical supplies has increased from the previous year and then incorporate this information into the proposed Company budget. However, there is minimal written documentation which supports these budget expenditures.

Adequate written documentation is needed to justify budget expenditures. A lack of such justification makes it difficult for the Company President and Minnesota Power managers to analyze whether the expenditures are necessary, realistic, and consistent with Company objectives. Furthermore, it becomes more difficult to make decisions regarding inter-department resource allocation.

16.(M) The Comptroller Should Provide Written Documentation To Support All Budgeted Expenditures.

When estimated expenditures are adequately documented, management can review and analyze the proposed budget more efficiently. Also, variances between budgeted and actual expenditures can be accounted for in a more efficient manner.

No Prescribed Levels Have Been Established At Which Variances Between Budgeted And Actual Expenditures Are Analyzed.

At present, there are no prescribed levels at which variances between budgeted and actual expenditures are analyzed. The Comptroller stated that an effort is made to analyze actual expenditures which are approximately three percent above or below budgeted expenditures. However, when there are conflicting demands on the Comptroller's time, variance analysis becomes a low priority activity. The new computer system, which should be fully operational by early 1988, is expected to assist in the analysis of variances.

Variances are often due to such critical factors as lack of proper supervision, inefficiency of operations, or a change in conditions which invalidates the budget. Budget policy should therefore require an explanation when actual expenditures deviate by a stated percentage from budgeted expenditures. Without such a requirement, it is difficult for top management to maintain proper control of operating expenditures.

17.(M) A Company Policy Should Be Developed Which Establishes Prescribed Levels At Which Variances Must Be Analyzed.

Such a policy will help management gain better understanding and control of operating expenditures.

The Company Does Not Perform Revenue And Gallonage Billing Comparisons For Each Individual System To Assure That All Revenue Has Been Billed.

The Accounting Department is responsible for maintaining adequate controls so as to ensure that all revenues are properly billed and recorded. Accordingly, the Company presently prepares year-to-date revenue comparisons on a "company-wide" or aggregate basis. However, such comparisons are not sufficient to identify missed or incorrect billings for the following reasons: (1) the Company is rapidly adding new systems; (2) existing systems are experiencing growth; and (3) the billing cycles for an area may be either monthly, bi-monthly, or quarterly.

It is important that the Company analysis be made at a level of detail sufficient to ensure detection of significant revenue deviations within each water or sewer system. Failure to provide such controls may result in an entire system or portion of a system being unbilled or underbilled.

18.(M) The Company Should Perform Revenue And Gallonage Comparisons For Each System, Year-To-Date With The Prior Year.

Such comparisons may be performed in various formats, but must be sufficiently detailed so as to reveal irregularities which the Company believes to be material. 11

ACCOUNTING

BACKGROUND AND PERSPECTIVE

Southern States' financial reporting activities are performed within the Accounting Department. The department is headed by a Comptroller. The staff also includes an Assistant Comptroller and two Accounting Clerks, as illustrated by Exhibit IV.

The Comptroller is responsible for maintaining all accounting records needed to prepare and analyze monthly financial statements, as well as for submitting various reports and data requests to governmental agencies. The Assistant Comptroller is responsible for maintaining the necessary records for cash flow, reconciling all bank statements, preparing the Public Service Commission's Annual Report, and performing other accounting functions as needed. The two Accounting Clerks perform general accounting duties, as assigned by the Assistant Comptroller.

It should be noted that the position of Comptroller was held by two employees during the course of this audit. The first Comptroller held the position throughout most of the audit's review and analysis phase. The majority of interviews which covered accounting and budgeting activities were conducted with this employee. Therefore, unless otherwise indicated, our report addresses these activities as they were performed by the first Comptroller.

FINDINGS AND RECOMMENDATIONS

The Company's Work Order And Property Record Systems Are Not Presently In Compliance With Commission Order 17043.

Commission Order 17043, dated December 31, 1986 (Docket No. 860325-WS), states "...the utility does not use a work order and property record system for accounting for utility plant-in-service. The utility's current system implements a plant activity ledger which reflects all direct material and labor charges by NARUC account, by system..." While no specific date for completion has been established, the Commission's final ordering paragraph reads, "...ORDERED that the utility shall implement a work order and property record system as set out in the body of this order." ¹

A "work order system" provides for a proper recording of all pertinent data for each project. This includes a job description, all costs for each project, identification of those costs, plant items to be retired and other data. A "property record system" establishes an account for each classification of plant or equipment. It permits the itemization of assets for field verification, the identification and cost of items being retired, and information for depreciation and other purposes. Such Company information has not been readily available in a usable format. This has caused inconveniences to both Company and regulatory personnel, as well as inaccurate records, particularly with reference to the consistent recording of the retirement of plant assets.

As part of the Company's present conversion of accounting records to a new computer software package, a work order and a property record system will be implemented to interface with other accounting applications. The Company has projected that implementation of the computerized work order system will be completed by the end of 1987. They anticipate implementation of the property record system to be completed by August 1989.

19.(H) The Company Should Continue Implementing A Computerized Work Order And Property Record System, In Compliance With Commission Order 17043, And Ensure That The System Is Designed To Interface With Other Accounting Applications.

The Management Studies staff considers these projects to be of a high priority. Therefore, we urge the Company to complete them by the end of 1988.

¹ Such a requirement is also mandated by the NARUC Uniform System Of Accounts For Class "A" Water Utilities (1984).

The Monthly Financial Reports Have Not Been Completed On A Timely Basis.

The Comptroller is responsible for developing monthly financial reports. These reports consist of an income statement, a balance sheet, and other detailed financial information.

The Comptroller's goal is to complete each month's financial report by the tenth working day of the following month. During the period of our audit field work, however, the monthly financial reports were not completed on a timely basis. For example, the monthly report for March 1987 was not completed until June 1987. This rather lengthy span between the end of a month and the closing of the financial books is due, to a large extent, to a lack of electronic data processing support. This situation is expected to be remedied during 1988 with the installation and operation of the new computer system.

Timely financial information is essential to top management in assessing the Company's financial condition, as well as in analyzing variances between actual and budgeted net income. (See Recommendation 18 on page 29). It is also necessary in forecasting the Company's short-term cash needs and surpluses.

20.(H) The Company Needs To Take Appropriate Steps To Complete Each Month's Financial Report By The Tenth Working Day Of The Following Month.

Timely financial reports will allow top management to more adequately assess the Company's overall financial condition.

The Accounting Department Lacks Written Policies And Procedures.

Accounting Department personnel use Minnesota Power's accounting policies and procedures to guide their activities. However, no written policies and procedures specific to Southern States' operations have been developed.

Written policies that are consistent with management's goals and objectives are needed to guide employees in making decisions. Written procedures establish order in that they provide detailed instructions specifying how to perform certain activities and operations in conformity with prescribed policies. Both are critical when activities require the participation of new employees of the organization or employees external to the department.

An absence of written policies and procedures makes it difficult to verify whether employees are conducting business operations in a manner that is consistent with management's goals and objectives. Also, if the Comptroller or Assistant Comptroller terminates employment with Southern States, an absence of formal policies and procedures may create an extended period of turmoil within the Accounting Department.

21.(M) Written Policies And Procedures Should Be Developed Within The Accounting Department And Communicated To All Departmental Employees.

Both the Comptroller and the Assistant Comptroller should immediately begin writing down every policy or procedure they execute. Department policies and procedures should be reviewed annually and updated as required to ensure that they are consistent with management's goals and objectives.

The Wastewater Treatment Agreement Between Southern States And The City Of Altamonte Springs Has Not Been Satisfactorily Finalized.

The Company provides sewer service to two areas in Seminole County for which it does not operate a treatment plant. The City of Altamonte Springs provides the treatment and is compensated for its service based upon the amount of water measured through the meters of the Company's customers, i.e., the total customer usage is multiplied by 66% and then by \$1.20 to arrive at the amount due the City.

The Company's tariff also provides for sewer bills to be based on customer water usage, but sets the maximum amount billable to customers at 20,000 gallons bi-monthly. However, as noted above, the city's tariff of gallons billable to the Company includes no maximum. Therefore, the difference between the two rate structures poses a potential problem.

The Division of Water and Sewer has reported "...numerous customers using 50,000 to 120,000 gallons bi-monthly..." (Docket No. 860325-WS, Dec. 2, 1986). Thus, the Company may be caught in a "squeeze" between the two rate structures, particularly during periods of heavy lawn sprinkling. While the Company must pay the city for all gallons used, they may not bill their customers for usage in excess of 20,000 gallons.

22.(L) The Company Should Continue To Pursue A Renegotiated Sewer Agreement With The City Of Altamonte Springs.

The Company has attempted for some time to renegotiate the agreement with the city, but to date has been unable to finalize it satisfactorily. The Company should continue to pursue a new agreement.

The Florida Public Service Commission Accounting Adjustments Are Not "Booked."

The Company does not adjust its books and records to reflect the accounting adjustments which are included in the Commission's orders. While the Company is well aware of the problem, correcting it has received low priority.

In order for regulatory commissions to rely on utility information, accounting transactions are generally required to be recorded uniformly and consistently following Commission policy. Furthermore, any Commission ordered adjustments represent an interpretation of the policies and should be reflected in reports to stockholders and regulators. "Booking" those adjustments ensures that. Failure to "book" adjustments obviously results in inaccurate records and requires that auditors make appropriate challenges.

23.(M) The Accounting Department's Written Procedures Should Require "Booking" Accounting Adjustments to Reflect All Commission Orders.

By consistently recording the Commission's adjustments, the level of reliability will improve.

Preparation Of The Company's Annual Report To The PSC Requires Excessive Manual Effort.

The Annual Report is presently compiled manually by the Assistant Comptroller. As it is several inches thick, it requires considerable effort to complete. This task primarily involves the completion of a routine format for the numerous areas in which the Company operates and is therefore well suited for computerization.

Failure to computerize this function in prior years has resulted in the Company now having to expend approximately 26 weeks each year of the Assistant Comptroller's time on this activity. The Company's rapid growth, caused by acquiring additional systems, has compounded the problem.

It is estimated by the Company that the 1987 Annual Report (due in 1988) will be partially computerized and that the 1988 report (due in 1989) will be fully computerized.

24.(H) The Company Should Implement Full Computerization Of The PSC Annual Report No Later Than the 1988 Report.

CASH MANAGEMENT

BACKGROUND AND PERSPECTIVE

Southern States' Vice-Chairman of the Board/Vice-President of Finance (Vice-Chairman) has primary responsibility for the Company's cash management activities, although the function is somewhat fragmented. The Vice-Chairman is responsible for seeking out and negotiating financing opportunities consistent with the Company's objectives, and for analyzing existing debt for refinancing opportunities. He handles all financial investments for Southern States and keeps the Board of Directors apprised regarding the Company's finances and investments. He maintains his office in Miami, and claims that his contacts with Miami financial institutions justify this situation. (See Recommendation 9 in the Organization and Management section of the report for a more detailed discussion of this point.) An Executive Secretary assists the Vice-Chairman with his cash management responsibilities by tracking incoming and outgoing cash, and by transferring funds from one account to another.

Other personnel with major responsibilities in the cash management area include the President, Comptroller, and Assistant Comptroller. The President's primary responsibilities in this area are to review and co-sign all accounts payable and payroll checks, and to ensure that appropriate cash management strategies are utilized. The Comptroller co-signs all checks and ensures that they are prudent and proper. The Assistant Comptroller reconciles all bank statements and develops the "cash sheet," which is a daily listing of all Company bank account balances. The information contained on this cash sheet is verified with the Executive Secretary in Miami on a daily basis.

FINDINGS AND RECOMMENDATIONS

The Three-Year Note Program Has An Inadequate System Of Internal Control.

Since December 1978, the Company has developed a very innovative and unique method for obtaining a significant portion of its debt capital from utility customers through the issuance of notes. Offering Circular No. 8, dated December 31, 1986, authorizes an issuance of seven million dollars in three year notes of indebtedness.

However, administrative procedures of the program reflect several significant weaknesses in the system of internal control (See Exhibit V). A critical concern is that most procedures are conducted by only one person, thus not providing for an adequate segregation of duties. The Administrative Assistant in the Miami Office is responsible for handling most aspects of the note program.

The Administrative Assistant communicates directly with the customers (investors), responding to investment inquiries. When an investment is made, she may be the person to process incoming mail. She receives, intact, each investor's purchase application and check for processing, and gives the check to the Executive Secretary for deposit. The Administrative Assistant then prepares the note input sheet and sends it to Apopka. After a ten day waiting period to allow the check to clear, she prepares and mails the original certificate of indebtedness to the investor. She is also responsible for maintaining the investors' file containing all pertinent data.

Each week the Data Processing Department in Apopka prints batches of interest checks and sends them to the Administrative Assistant for processing. They are reviewed, signed by other personnel in the Miami Office, and mailed to the investors as the interest becomes due. As the three year term due date of each note approaches, she informs the investors of their two options, to "roll over" (reloan their funds) or to request redemption. When they opt for redemption, the certificate is endorsed and returned to her. She phones the Accounting Department personnel in Apopka, who manually prepare a refund check for the principal amount. The check is then mailed directly to the investor from the Apopka office. Having initiated the refund, she places a red dot on the certificate to signify cancellation and prepares the note input sheet, which is sent to Data Processing in Apopka.

Management has a responsibility to maintain a system of internal control which provides an adequate segregation of duties and responsibilities. It should avoid autonomous duties for an area of responsibility and instead divide the various tasks to provide cross checks. Failure to establish such a separation of duties not only "allows" a single employee to deviate from established management procedures, but almost

"ensures" that some deviations will occur. Avoidances of the potential for deviations ensures that transactions are carried out in a manner consistent with management authorization and that assets are safeguarded.

25.(H) The Following Internal Controls Must Be Applied To The Three Year Note Program Through Changes In The Policies And Procedures:

- (a) The Administrative Assistant Should Not Open Incoming Mail.
- (b) The Administrative Assistant Should Not Receive An Investor's Check.
- (c) The Administrative Assistant Should Not Issue Certificates.
- (d) Certificates For Redemption Should Be Cancelled Immediately Upon Receipt, Using A Method Which Is Both Easily Recognizable And Unalterable.
- (e) Redemption Checks Should Only Be Issued After The Note Input Sheet Has Been Received In The Apopka Office.
- (f) Interest Checks Should Be Mailed Directly To Investors By The Apopka Office.

Implementation of the above changes will give management greater assurance that the risk of irregularities within the note program has been reduced.

The Company Faces Major Risks Because 85% Of Their Debt, Which They Classify As "Long-Term", Is Regularly Due In Cycles Of Three Years Or Less.

The Company is to be commended for the excellent borrowing terms negotiated in 1986. They have obtained an unsecured five million dollar bank line of credit at the prime rate (7.5% at December 31, 1986), which is due in December of 1988. As of August 1987, nearly five million dollars is still owed.

Additionally, the Company implemented a unique note program in December 1978, which borrows funds from utility customers. As of August 1987, it had over a five million dollar liability outstanding. The program has historically shown an 85% "roll over" (reinvestment of funds) by investors. The Note Offering Circular No. 8 of December 31, 1986, explains how the total seven million dollars worth of three year notes will be issued at rates which may vary from 9% (yield through June 30, 1987) up to 15%. The interest rate is adjusted every six months to a rate of 2% over the yield of six month U.S. treasury bills.

The above two types of debt obligations represent some 71% of the total "long-term" debt outstanding for the Company. Of all debt obligations outstanding, 85% is due and payable within cycles of three years or less. (See Exhibit VI.)

Public utilities generally attempt to secure long-term financing for periods ranging from 15 to 30 years. This allows the utility to "ride-out" short-range economic problems and choose the most appropriate time frame for refinancing.

The Company faces two major risks with its current financing. First, the cost of debt, while relatively low at this time, is expected by some economic forecasts to return to much higher levels in the next few years. Since the interest rates paid by the Company "float", a significant increase in the cost of debt could easily result. Thus, the Company should attempt to "lock in" debt at current rates.

Next, any major economic change, whether Company specific or not, may cause lenders to be reluctant to renew the existing debt. While the Company note program currently enjoys a favorable reinvestment rate, there is no assurance that it would continue should a major economic change occur.

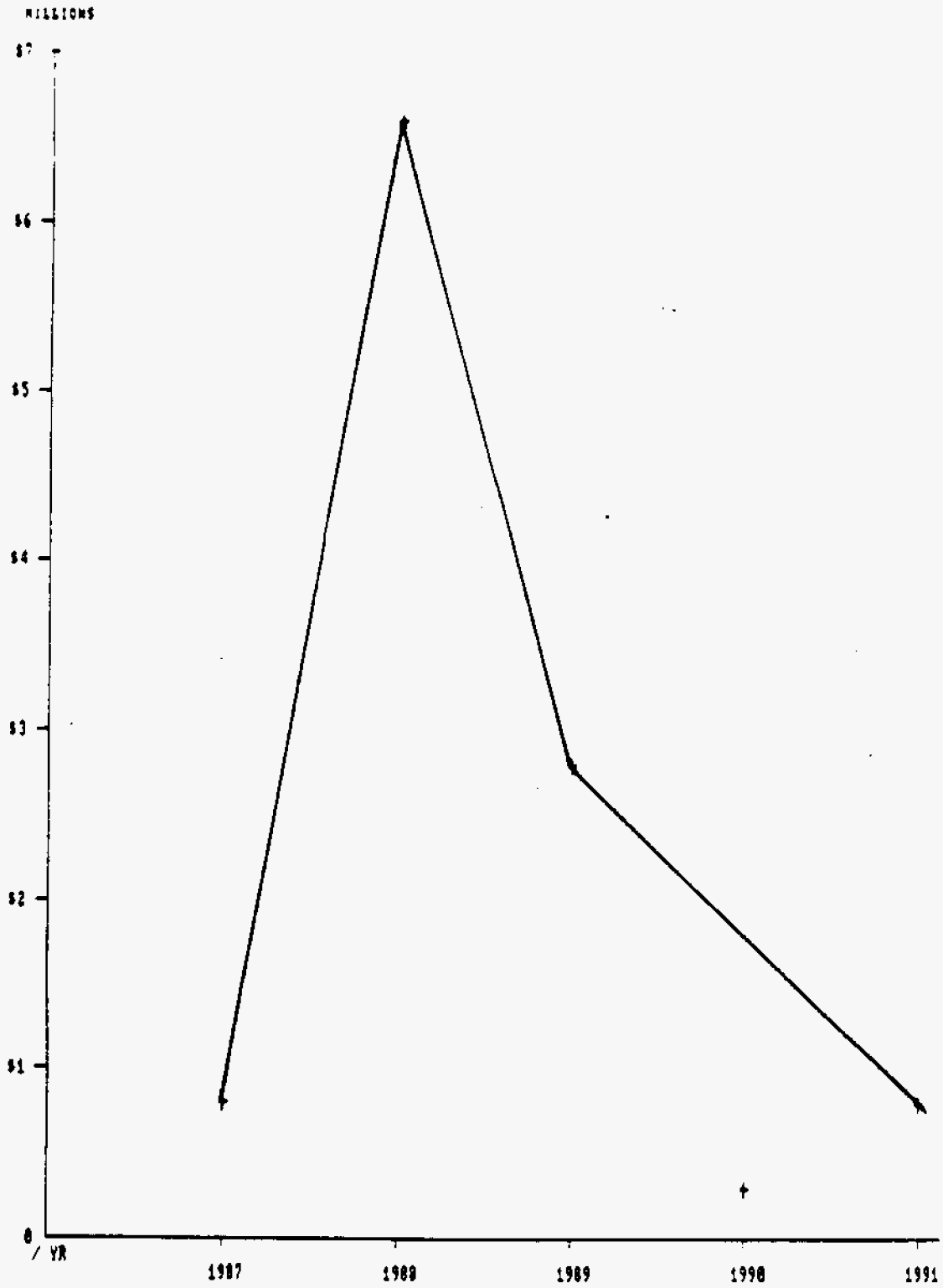
26.(H) The Company Should Explore Alternative Means of Borrowing, Which Provide For A Payback Of 15 To 30 Years.

Admittedly, "long-term paybacks" have been virtually impossible to arrange in recent years for small, self sustaining water and sewer utilities. However, the Company has experienced significant growth, enjoys a unique level of sophistication in debt financing, and may call upon its parent company, Minnesota Power, for assistance.

The Company Has Not Established A Formal Cash Management Program.

One of the President's corporate objectives for 1986 was to implement a formal cash management program. The program was not implemented during 1986, nor has any progress been made toward its implementation in 1987. According to Company management, the project has been postponed for the following reasons: (1) other projects have been given higher priority; and (2) there has been a minimal cash surplus, since money is rapidly used for the acquisition program. (See pages 20 and 23 in the Organization and Management section of this report for a more detailed description of the acquisition program).

SOUTHERN STATES UTILITIES, INC.
LONG-TERM DEBT/PRINCIPAL MATURITIES



Source: FPSC Analysis

A cash management program is necessary to Company management in determining cash availability and developing a sound investment strategy. Without such a program, the Company may not be maximizing its interest during periods of a cash surplus, nor will it be able to predict with any accuracy the amount of cash that will be available for future operations. Furthermore, if a cash deficiency occurs, the Company could be put in a position of having to borrow funds unnecessarily.

27.(M) Southern States Should Develop And Implement A Formal Cash Management Program Before The Next Fiscal Year Begins.

Such a program would assist management in determining cash availability and developing a sound investment strategy.

Company managers stated that they are planning to discuss cash management program options with local bank officials in the near future. We strongly encourage them in this endeavor.

The Company Has Not Developed Criteria For Transferring Customer Payments From The Depositories Into Interest Bearing Accounts.

Customer payments are deposited in non-interest bearing depository accounts at banks located throughout the SSU system. The decision to transfer these funds to other accounts is made by personnel in either the Apopka or Miami office, with notification of staff in the other office. However, no clear guidelines exist for the transfer of these funds. One Company official informed us that funds are transferred from a depository account when its balance reaches \$3,000. Other personnel provided us with responses which conflicted with this statement.

A primary objective of any cash management plan should be the establishment of criteria to minimize idle cash. Without such guidelines, the Company is probably not maximizing its interest earnings. For example, Company records indicate that during one period in 1987, the balance in the non-interest bearing Fernandina Beach account had reached \$17,000. If proper guidelines for the transfer of funds had been in place and followed, interest might have been earned on this otherwise idle cash, thereby increasing the Company's cash flow.

28.(M) The Company Should Establish Written Guidelines And Criteria For Transferring Customer Payments Into Interest Bearing Accounts.

These guidelines should be clearly communicated to all Company personnel involved in the transfer of funds.

Swift Action By The Company's New Comptroller Curtailed A Questionable Practice Regarding The Handling Of Payments For Contributions-In-Aid-Of-Construction (CIAC).

During July 1987, a new Comptroller was appointed and soon recognized there was a problem for which corrective action has now been taken.

As developer agreements were being executed, the required CIAC payments were being made to the Apopka office. Apopka personnel were then mailing the payments, intact, to the Miami Office, where the funds were being deposited in a local bank.

As a consequence of the above procedures, the Company was losing the use of these CIAC deposits, during the transit days in which the money was not in any Company account. (See Table 1) In addition, these procedures were also increasing the risk that the payments could be lost (or further delayed) in the mail, or that they might be misplaced or misappropriated.

Because of the new Comptroller's alertness and initiative, all CIAC payments are now being deposited in an Apopka bank upon receipt.

Table 1
CIAC Deposits

<u>Years</u>	<u>Amounts</u>
1983	\$ 616,806
1984	\$1,521,361
1985	\$1,419,114
1986	<u>\$ 716,215</u>
	<u>\$4,273,496</u>

The Company's Practice Of Paying All Employees On A Weekly Basis Appears To Be An Inefficient Use Of Cash And Personnel Resources.

Payroll checks for 105 employees are processed by the Office Manager/Personnel Manager on a weekly basis. The costs associated with processing payroll include several hours of employee and computer time, as well as checks, envelopes, and postage.

Company management indicated that the concept of a less frequent payroll system had been discussed at a manager's meeting. However, the concept was discarded due to the potential decrease in employee morale which could result from its implementation. Company managers have not conducted an objective analysis of the costs and benefits of such a system.

We fully recognize that employees are accustomed to a weekly paycheck and that it would take time to adjust to a less frequent payroll system. However, our experiences in other companies lead us to the conclusion that a bi-weekly or semi-monthly payroll system would result in less employee time spent on payroll processing and less material usage, thus lowering administrative costs. Furthermore, the Company would earn additional interest on payroll funds held for an additional week. Without a thorough, objective analysis of these factors, the Company cannot adequately evaluate such a system.

29.(M) The Company Should Conduct A Thorough Analysis To Determine The Costs And Benefits Of A Less Frequent Payroll System.

In conducting such an analysis, consideration should be given to the fact that the Company is growing rapidly and that additional costs will be incurred for payroll processing as the growth continues. Subsequently, the impact of a less frequent payroll system will increase.

If the results of the analysis indicate that a less frequent payroll system would be beneficial, one option that should be considered is a "staggered" bi-weekly payroll. Under such a system, staff would be more efficiently utilized in that only half of the payroll is processed each week.

V. FIELD OPERATIONS

BACKGROUND AND PERSPECTIVE

This chapter focuses on Field Operations, which included a review of work force management, plant construction, plant operations and plant maintenance.

The 1987 budget projects an operating and maintenance expense (salaries, electricity, chemicals, repairs, and other such costs) of \$2,210,000. The Company's 1987 list of projects for construction and/or system improvements is estimated to be \$3,128,550.

The Properties

The Company's Note Offering Circular No. 8, dated December 31, 1986, page 10, on Utility Plant and Property reads:

"The Company's property consists of land, buildings, pipelines and the necessary structures and equipment required to provide water and sewer services in the areas served by the Company. Each of the 66 water plants and 19 sewage systems and/or treatment plants owned by the Company is located on a parcel of land ranging in size from approximately 1/4 acre to 50 acres, aggregating about 130 acres.

What is believed to be the world's largest known subsurface source of fresh water underlies the state of Florida. This allows the treatment process in most areas of Florida to be relatively simple. The Company's water treatment plants consist of deep wells, ground storage tanks and aeration for the removal of hydrogen sulfide and iron. The final treatment is chlorination. Chlorination of public water supplies represents the most important process used in the production of water having a safe and sanitary quality. The wells vary in depth, but all approximate a depth of several hundred feet.

The Company's Sewage treatment plants use what is known as "The Activated Sludge Process". This process consists of the following steps: (1) Mixing the activated sludge with the sewage to be treated; (2) Aeration and agitation of this mixed liquid for a required period; (3) Separation of the activated sludge from the mixed liquid; (4) Return of the activated sludge. The development of this process marked an important advance in the secondary treatment of sewage. It is a biological contact process whereby living aerobic organisms and organic solids in the sewage are brought together in an environment favorable for the aerobic decomposition of solids.

The Company's water and sewer mains are generally installed along roads and highways by virtue of utility easements and aggregate about 275 miles of water mains and 120 miles of sewer mains.

The Company owns 47 maintenance and service trucks. All of the foregoing property is in good operating condition and adequate for the conduct of the Company's business."

As of October 1987, the Company operated in 17 Florida counties generally lying in a corridor from Venice Gardens on the west coast through Apopka (Orlando) to Jacksonville and Amelia Island on the east coast. From December 31, 1986 to October 1987, the number of water plants/systems had increased from 66 to 73 and the number of sewer plants/systems had increased from 19 to 24. During that same period, the number of customers increased from 23,400 to 41,000. (In developing the number of customers, a single household receiving both water and sewer service is counted as two.) The number of customers served by a water or sewer plant may vary from six to 6,000, but typically they range between 50 and 500.

Workforce Management

The General Manager, located at the Apopka headquarters, is responsible for all field operations and personnel. As of October 1987, there was a total of 76 employees in field operations, 20 of whom report directly to the General Manager. This high number of direct reports results from the fact that there are two Field Supervisors positions standing vacant (See Recommendation 30, page 52). The 20 employees reporting directly to the General Manager hold a variety of job titles: three area managers, seven chief operators, two operators, one supervisor, five maintenance specialists, one meter reader and one dispatcher.

Eleven of the direct reports are based in the Apopka area and the other nine are scattered throughout the rest of the system. The General Manager meets weekly with the Apopka area people, but otherwise he only comes in contact with them as necessary. For those nine in the outlying areas, his primary method of communication is the telephone. Typically, he makes direct contact with each of the nine at least once per week, but with many he is in contact daily. He attempts to make an on-site inspection of each area monthly.

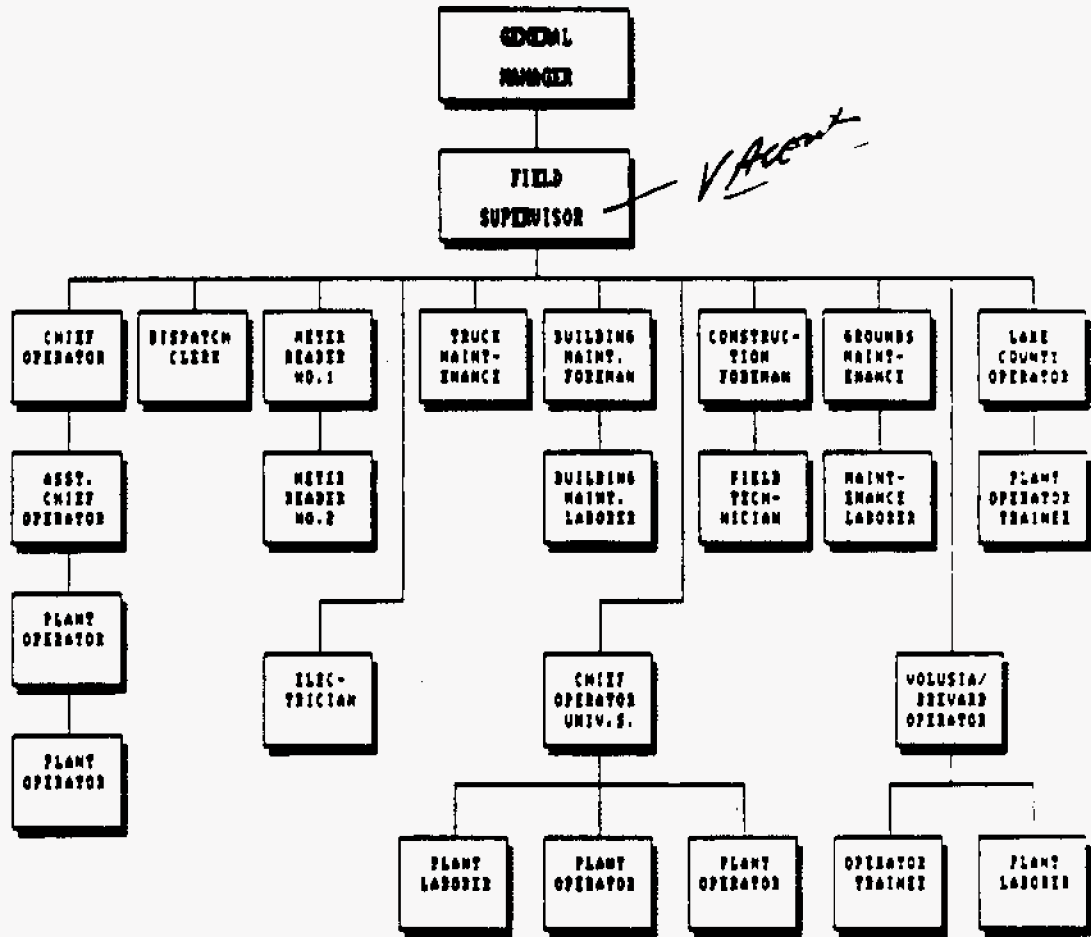
Exhibit VII shows an area-by-area distribution of the Company's field operations. Exhibit VIII shows the operational structure of the Apopka operations and Exhibit IX shows the out-of-town operations.

SOUTHERN STATES UTILITIES, INC.
FIELD OPERATIONS DATA
OCTOBER 1987

<u>County</u>	<u>Vicinity</u>	<u>Customers</u>	<u>Employees</u>
-	Apopka (field support staff)	-	12
Bradford	Keystone Heights	196	-
Brevard	Mims	324	-
Citrus	Inverness	685	2
Clay	Keystone Heights	1,061	4
Duval	Jacksonville	7,652	8
Lake	Leesburg	1,388	2
Marion	Ocala	887	2
Martin	Stuart	1,501	2
Nassau	Amelia Island	1,620	6
Orange	Orlando	4,417	5
Osceola	Kissimmee	1,010	1
Pasco	Zephyrhills	2,889	2
Polk	Lakeland	1,173	-
Putnam	Palatka	1,381	5
Sarasota	Venice Gardens	12,550	21
Seminole	Orlando North	3,230	1
Volusia	New Smyrna Beach	<u>956</u>	<u>3</u>
		<u>40,920</u>	<u>76</u>

SOURCE: Company Records

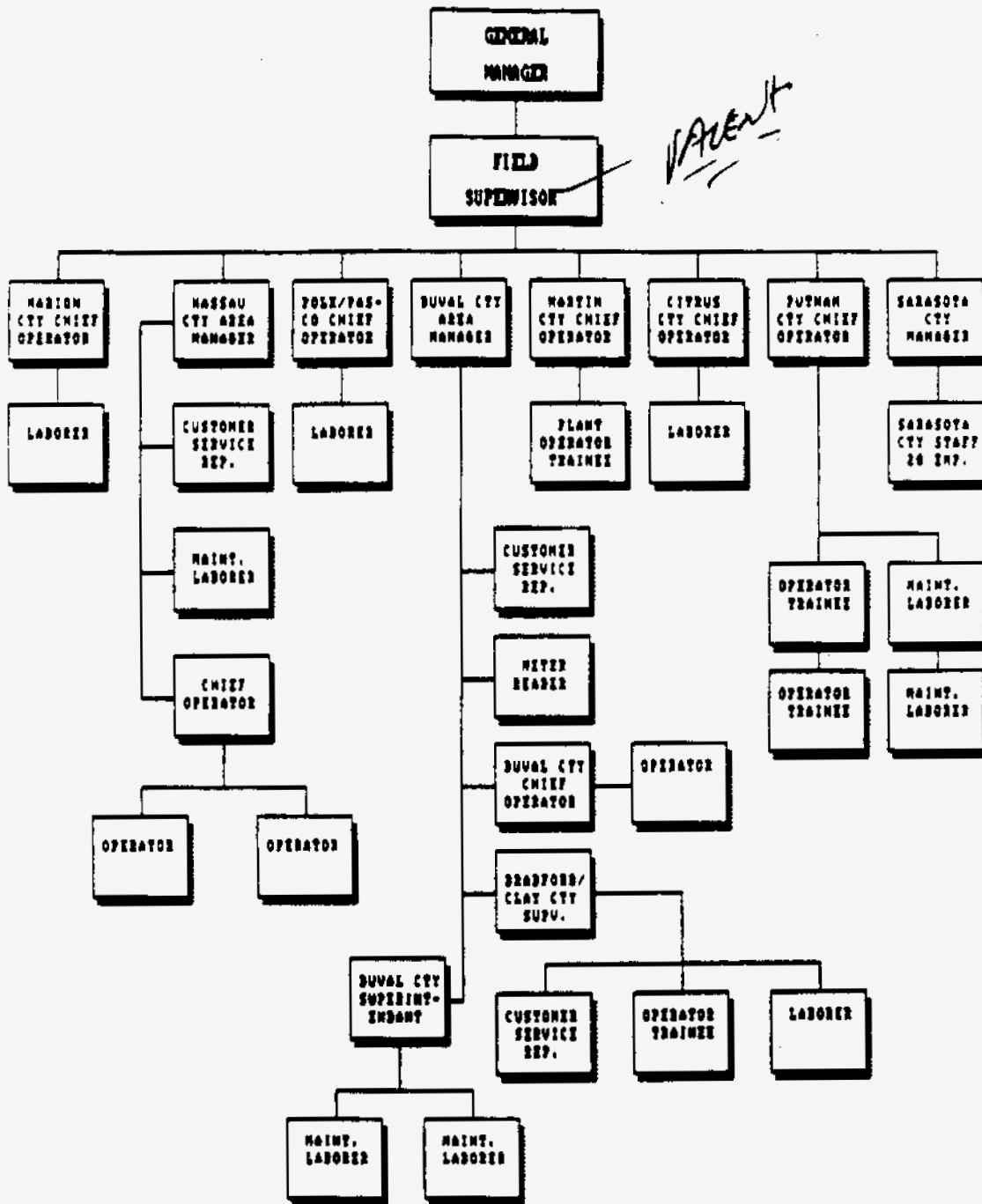
SOUTHERN STATES UTILITIES, INC.
 FIELD OPERATIONS
 (APOPKA AREA)



COUNTIES: SEMINOLE/OSCEOLA/ORANGE/LAKE/VOLUSTIA/BREVARD

Source: Company Records/FPSC Analysis

SOUTHERN STATES UTILITIES, INC.
FIELD OPERATIONS



COUNTIES: NASSAU/DUVAL/MARION/MARTIN/PUTNAM
CITRUS/SARASOTA/SARASOTA/CLAY/POLK/PASCO

Source: Company Records/FPSC Analysis

FINDINGS AND RECOMMENDATIONS

The General Manager Of Field Operations Is Overburdened Because Of An Excessive Span-Of-Control, Which Results In Inadequate Supervision, Delays In Operating Decisions, And An Inadequate Reporting And Analysis Process.

More specifically, the following situations exist:

- a. The field operators are not receiving adequate supervision.
- b. Operating decisions are being delayed or unnecessarily passed on to the President.
- c. Operating reports and data analyses are not being generated and/or reviewed adequately.

While the organizational structure, exhibits VIII and IX, shows that only two field supervisors report directly to the General Manager, those two positions have been vacant for several years. In actual practice, the General Manager directly supervises the 20 positions reporting to the two supervisors. Those 20 positions range from area managers to laborers to the dispatcher. The two field supervisor positions have been vacant for several years because management claims it has been unable to find capable people to fill these vacancies.

Such an excessively flat organization in this critical area of the Company overburdens the General Manager. As the Company has continued to grow, the major impact has fallen on the General Manager. He is involved in assessing potential acquisitions, preparing proposals, assimilating new acquisitions into the Company, directing capital projects, and supervising day-to-day operations of an ever-increasing number of systems. When too many demands are pressing, the natural tendency is to deal with the crises and to let the normal management practices slide. Based on our interviews and observations, this is the situation at SSU.

Primary leadership and supervision currently comes directly from the President and General Manager. However, the company has grown too large for this approach. Leadership and supervision must begin coming from field personnel, so that top management will be available to oversee the broader aspects of running the company.

It is the responsibility of management to structure and organize staff into operating units which permit a single manager to directly supervise, generally, not more than eight persons, depending on the nature of the work. Such a span-of-control allows the manager to effectively follow-up on the work of subordinates. When a manager is held accountable for a much greater number of direct reporting subordinates, a number of significant management tasks begin to deteriorate or not take place at all.

30.(H) The Company Should Fill The Two Vacant Supervisor Positions As Soon As Possible.

While it is important that management fill these vacancies, it is equally important that these two supervisors be allowed to function as managers. They must have clearly identified responsibilities, as well as, the corresponding authority. Further, they must be held accountable for their actions. This aspect is more fully discussed under the Organization and Management section of this report.

There Are No Written Policies And Procedures Governing Field Operations.

Since policies and procedures have not been developed for Field Operations, it makes it difficult to verify whether employees are conducting business operations in a manner that is consistent with management's goals and objectives.

Written policies that are consistent with top management goals and objectives are used to guide employees in making decisions. Written procedures establish order in that they provide detailed instructions specifying how to perform certain activities and operations in conformity with prescribed policies. When activities or operations require the participation of new employees, written policies and procedures are especially needed.

31.(M) Written Policies And Procedures Should Be Developed For All Field Operations And Then Communicated To All Employees.

Written policies and procedures will enable the General Manager to better evaluate employee performance. It will also be more efficient to train and cross-train Company employees to perform various tasks. Policies and procedures should be reviewed annually and updated as required to ensure that they are consistent with top management goals and objectives.

Routine Communications Between Field Personnel And The Apopka Office Is Neither Efficient Nor Effective.

In view of the centralized type of operation, daily telephone communication between the Apopka Office and the field is a vital link. Without it, the field personnel are unable to obtain needed approvals, receive daily work orders, or discuss numerous operating matters. In order to conduct that business, they are required to use a toll free telephone line.

This line must be shared with an ever increasing customer base, i.e., field personnel and customers are both instructed to use it to contact Apopka. The line is often busy, causing delays for those personnel attempting to conduct operational business, resulting in needless unproductive time. There are two "incoming" lines which may be dialed. Also, there is one "outgoing" line which only the Apopka Office may access. While there is some indication from management that field employees should be well aware of good calling practices to the Apopka Office, there is no evidence that guidelines have been provided.

It is essential that field personnel have a reasonably effective method for contacting the Apopka Office; one which does not cause the loss of productive time. Such a loss can not only cause a breakdown in effective operations, it can also create morale problems.

32.(M) The Company Should Adopt A Written Procedure Instructing Personnel On How To Most Effectively Use The Toll Free Lines.

The Company needs to survey the existing pattern of incoming calls and consider which, if any, could be redirected from high traffic time periods to lower periods. Management may then instruct field personnel as to the preferred hours for using the toll free lines, as well as, providing guidance on when to resort to the toll lines. Management could then monitor whether the instructions are being followed.

Further, the Company may wish to inform customers of the high and low traffic time periods. This would allow customers to adjust their calling patterns, improve the traffic flow and thereby benefit themselves, as well as, field personnel.

While this is not a final solution it should help to lessen the current overload situation.

33.(M) The Company Should Assess Present And Future Communications Requirements And Develop A Plan To Upgrade Or Replace The Current Telephone System Or Devise A Completely New Means Of Communicating With Field Personnel.

Importantly, the telephone system must be sufficiently flexible to meet the demands of a rapidly growing business, however, the bottom line here is the improvement in communications and control between the central office and the field personnel.

The Lack Of Proper Support Documentation For System Operations Places The Company At Significant Risk For Operational And Safety Compliance.

While some of the Company's operating systems possess adequate documentation, others do not. It depends upon the documentation received from the prior owners of the acquired system, as well as the initiatives taken by individual operating personnel. While it is reliably estimated that "as built" drawings exist for some 80% of the systems, no consensus exists as to the existence of plant manuals or job check lists. The best available estimate is that manuals exist for between 30 and 40% of the systems.

System-by-system documentation is important in order to assure consistency with the safety and operating standards required by management and regulators. Often there are significant differences between the job skills and training of various employees. Documentation assists in providing continuity in a given situation, such as when a change in field personnel occurs. It allows permanent personnel to have a reliable source of information with which to solve problems and with which to look for opportunities to improve operations. The documents serve as an aid in training new employees and assisting temporary personnel who fill in during sickness or vacation periods.

Manuals and check lists are valuable in learning the specific tasks required, as well as avoiding errors. "As built" drawings of a system are required to assist in locating underground facilities, such as a valve during a main break, or locating existing lines in order to connect to newly constructed lines.

System documentation has received low priority during the Company's many years of rapid acquisitions. Recently, however, greater emphasis has been placed upon the importance of "as built" drawings.

34.(H) The Company Should Survey Each System And Develop A Prioritized Schedule For Creating Or Improving Documentation Of All Current Operations.

Based upon the survey results, the Company should establish a system-by-system time frame for the orderly preparation of the following documentation:

- o A complete set of operating and service manuals
- o A comprehensive set of "as built" drawings
- o Job check lists prepared for each system and plant

The time frames for completion should be set based upon the priorities involved. The schedule should be completed and the initial action started within one year.

35.(M) Actual Documentation Of All Major Operations And Tasks And Drawings Should Be Completed Within One To Three Years Following The Completion Of The System Documentation Survey.

Upon completion, each operating system should have a full set of the above documentation readily available to operating personnel, with back-up copies located in the Apopka Office.

Management Feedback And Control Over Operational Performance Is Seriously Impaired By The Lack Of Prescribed Performance Indicators.

Management does not prepare, nor do they require people in the field offices to prepare, performance reports based on the results of operations. Our study revealed that there is no formalized attempt by the Company to measure excessive water loss, excessive sewage infiltration, the KWH per 1,000 gallons treated, or various operating costs per customer. However, there is some attempt by a few individual area offices to develop such indicators, but primarily for their own reference only.

Every business enterprise needs to establish performance indicators and reports which are the basis for periodic evaluations of how well various segments of the business are performing. Ideally, measurement parameters should be constructed to avoid the overlapping responsibilities of several managers. The indicators serve as a measure of success or a signal to the manager that all is not well. Without such indicators, management may be unaware that a problem exists or where the specific problem lies. Thus, failure to develop such indicators translates into missed signals to take corrective action.

Reports of performance should consist of a series of repeatable data generated as a result of the day-to-day operation of the system. This data, when collected on a regular or periodic basis, can and should be used to reflect period-to-period comparisons.

36.(H) The Company Should Develop Selected Performance Indicators Area-By-Area, Generate Periodic Comparative Reports For Distribution To Managers, And Establish Written Procedures For The Reporting Process.

The Company must develop meaningful quantitative and qualitative indicators of operational performance. The indicators should be applicable to operations throughout the entire system, when possible. They should start by surveying those field offices which have already taken some steps in this direction.

The development of such a list of indicators will provide an invaluable tool to assist managers in focusing on the more important segments of operations.

The Company Does Not Have An Adequate Preventive Maintenance Program.

There is no formalized preventive maintenance program in place. Service and maintenance are the result of individual initiatives and assessments by field personnel. Therefore, each area has different operating practices. Frequently, the only record of maintenance is made on the Department of Environmental Regulation (DER) forms which are not kept at the field site. It is often inconvenient to research the maintenance and repair history for a plant item; so it is not likely to be done as often as necessary. The "bottom line" is that management has very "loose" control over maintenance.

Any organization operating a significant amount of equipment, where reliability is important, should have a formalized program to assure management that adequate maintenance is being performed. Currently there is no assurance of uniformity of maintenance from area to area or from plant operator to plant operator. Also, when the workload becomes heavy, preventive maintenance is likely to be deferred; and that may lead to greater problems later on.

37.(H) Management Should Develop A Preventive Maintenance Program Which Encompasses All Their Water And Sewer Facilities.

Features of such a program should provide for:

- o A company-wide, management controlled, uniform program with written procedures
- o Maintenance priorities and schedules which are predetermined and approved by management

- o Ready access to the records by management and field personnel
- o Records which reflect the maintenance and repair history of a plant item, indicating work done, date, and person(s) responsible
- o Some action or report by responsible field personnel which requires an attest that the work was performed
- o Precise identification of plant items by location with name plate information, serial numbers, or other such identifying data
- o Ready access to service manuals
- o Independent compliance spot checks by management
- o Periodic advance reports to alert field persons of scheduled maintenance
- o Periodic reports reminding field and management of the backlog of deferred maintenance
- o Rapid integration of the assets of newly acquired water and sewer systems

It is very likely that a software package which is compatible with the new computer equipment and which meets the above criteria, is readily available. The Company should have the system in operation by October 1989.

The Energy Costs Of The Apopka Office And Warehouse Are Excessive.

In July 1987, the Company move their main offices from downtown Orlando to the outskirts of Apopka. The Company's Apopka headquarters consists of a single structure with 6,200 square feet of office space in the front area and 7,000 square feet of warehouse space in the rear. After the Management Studies staff questioned energy costs, the Company arranged for a Florida Power Corporation Energy Audit Report for the entire office/warehouse facility. Exhibit X summarizes the written FPC energy audit findings. It points out that the Company presently has the opportunity to save \$2,504 in energy costs annually if they invest \$4,774 in improvements.

Our staff has also made inquiries concerning a change in the ductwork, which would additionally save about 25% of the cost of cooling and heating the warehouse each year. The warehouse is largely (75%)

**SOUTHERN STATES UTILITIES, INC.
APOPKA OFFICES AND WAREHOUSE
ENERGY AUDIT REPORT**

	<u>TOTAL</u>	<u>WAREHOUSE AIR COND/ HEAT</u>	<u>OFFICE AIR COND/ HEAT</u>	<u>LIGHTING</u>	<u>OTHER^a</u>
SPACE VOLUME (CU.FT.)	155,888	118,888	44,200	N/A	N/A
ENERGY USAGE (KWH)	187,500	58,354	59,891	55,928	21,335
ENERGY COST PER YEAR	\$12,757	\$ 4,284	\$3,158	\$3,832	\$1,571
INVESTMENT RECOMMENDED	\$ 4,774	\$ 128	\$ 128	\$2,469	\$2,865
POSSIBLE SAVINGS (Annual)	\$ 2,584	\$ 571	\$ 918	\$ 717	\$ 386
YEARS TO RECOVER INVESTMENT	1.9	0.2	0.1	3.4	6.7

^a
NOTE: WHETHER OR NOT TO PROCEED WITH THE RECOMMENDATIONS APPEARING IN THE "OTHER" COLUMN IS LEFT TO THE DISCRETION OF SOUTHERN STATES.

Source: Energy Audit Report done by Florida Power Corporation

unused at this time, so the cooling and heating is not a requirement. We contacted the FPC Energy Auditor who estimated that, under the present warehouse layout, if the ductwork were changed, the Company could save \$1,100 per year. It would eliminate cooling and heating the major portion of the warehouse.

The Company President has informed us that plans are presently being drawn so that a major portion of the present warehouse area will be converted to offices over the next two years. Construction will probably be undertaken in several phases, on an as-needed basis. Therefore, the Company is reluctant to consider modification of the heating/cooling system for what may be an interim period.

The Company has an obligation to seek out and take advantage of every opportunity to conserve energy.

38.(M) The Company Should Implement The FPC Energy Auditors' Written Recommendations Regarding Cooling, Heating And Lighting.

This would require spending \$2,709 (\$120 + 120 + 2,469) (See Exhibit X). It would generate annual savings of \$2,198 (\$571 + 910 + 717) and result in the recovery of the investment in 1.2 years.

39.(L) In Conjunction With The Company's Drawing Of Plans To Convert The Existing Warehouse Facility To Offices, They Should Obtain Cost Estimate Alternatives For Reducing Or Eliminating Air Conditioning/Heating In Areas Being Used For Warehouse Purposes.

While the Company warehouse area may be converted to offices in two years, it very likely will occur over a much longer period. In any event, the Company should be aware of the potential for saving those energy costs.

Equipment Limitations And Management Oversight Has Resulted In A Backlog Of Work Orders For Construction/Maintenance In The Apopka Area.

A two member crew is responsible for additions and repairs to the water distribution system and the sewer collection system in the three county area of Orange, Seminole and Osceola. The work includes repairing service lines and broken mains, as well as, making line taps, service installations, and line extensions.

The crew has developed a backlog of projects which cannot be performed due to the frequent system and service line leaks which take priority for repair. Part of the problem was that the crew was in need of a backhoe. Although a backhoe was recently acquired, a trailer to haul it is still needed.

It is imperative that a utility have the capability of responding in a timely manner so as to meet the reasonable service needs of customers. An awareness for safety and the potential for lawsuits must be an ever present concern of management. Delays in dispatching a crew may not only cause customer inconvenience, but result in the problem further deteriorating, as in the case of a bad leak causing a washout beneath a sidewalk or street.

The backlog of work orders may be a temporary situation. Certainly the Company experiences more customer growth during the summer months. Past experience has demonstrated that the workload is subject to fluctuations.

The Company may, for an intermediate period, use temporary outside help or borrow existing field staff to assist the crew to get their projects up to date. Eventually the Company may find the need for a second crew. However, there is insufficient data to justify such action at this time.

40.(L) The Company Should Require The Construction Maintenance Foreman To Prepare A Monthly Report Of The Backlogged Projects.

This report will permit the General Manager or Field Supervisor to review pending projects and set priorities. Furthermore, it will allow them to develop a history of the projects backlogged in order to make a judgment as to the need for a second crew.

VI. CUSTOMER SERVICES

BACKGROUND AND PERSPECTIVE

At a small utility, such as SSU, many employees are unofficially part of the customer services network. As the organization chart in Exhibit XI shows, the actual customer services function consists of three employees with the customer service supervisor reporting to SSU's Office Manager. In addition, four field offices are staffed with positions that perform customer service tasks, such as, service orders, deposits, payments, and inquiries.

At the Apopka office, three customer service employees have a number of responsibilities as described below:

1. Collections
2. Telephone Inquiries - Includes service orders, credit arrangements, service questions, and high bill inquiries. SSU maintains two toll free and two regular customer lines.
3. Customer Correspondence
4. Report Preparation
5. Facilitation of Paperwork - Account establishment, non-pay disconnects, deposit refunds, bad checks, bank deposits, and collection actions require appropriate paperwork generation and routing.

Meter reading does not come under the auspices of customer services at SSU. Rather, this function is handled by the field staffs reporting to the General Manager.

Billings are generated by EDP and then processed and sent out by the mailroom. Most operating systems receive bi-monthly bills, four are on monthly schedules, and two are still billed on a quarterly basis. The Company is currently evaluating the various options for their relative cost-effectiveness.

Requests for service can be made over the phone, in person at Apopka, or at one of the other field customer service offices. Deposits must be received prior to connection, and are held for 25 months, then refunded to customers with good paying habits.

SSU's collections program is both informal and personalized. No progressive, state-of-the-art techniques are employed here, yet bad-debt write-offs have remained low. Field Offices often work their own collection accounts. The simple write-off percentages, based on total billed revenue, for the past three years were under one percent:

1984	.76%
1985	.37%
1986	.57%

FINDINGS AND RECOMMENDATIONS

SSU Does Not Secure Adequate Information On Service Applications.

Second only to an appropriate deposit, information obtained from new customers is a company's best defense against excessive bad debt write-offs. SSU requests only minimal data to establish the account, that is, name and address. There apparently has been little thought given to the needs of the collections staff when accounts become uncollectible. While not a major problem now, as SSU grows collections will most likely require a more sophisticated approach.

Most, if not all, of Florida's telephone companies request name, address, telephone number, employer, social security number, landlord's name, permanent/other address, nearest living relative, and a "can-be-reached-at" number. The benefits and usefulness of this information are apparent when it becomes necessary to collect a delinquent or final account. Much of it is essential to any type of effective skip-tracing efforts. While the typical water and sewer company may not need all of the information discussed above, the data currently secured by SSU is inadequate.

- 41.(M) Revise The Service Application So That Additional Customer Information Is Requested.

The Decision To Purchase An Electronic Meter Reading (EMR) Capability Was Not Adequately Analyzed.

The installation of the new computer has given SSU numerous opportunities for automation in all areas of the Company. If chosen judiciously, these systems can have a tremendous positive impact on operations. However, the Company's lack of planning can easily compromise the benefits of the new computer. In the absence of good planning, SSU's decision-making process must ensure that all capital expenditures are carefully scrutinized.

One such decision that was not adequately supported was the purchase of the EMR capability. As of May 30, 1987, SSU had spent over \$20,000 for six hand-held meter reading devices and related software and accessories. There are also plans to expand this capability into other operating areas, which will require additional hardware expenditures.

EMR can have numerous benefits associated with its use, especially in the areas of manpower utilization, standards formulation and measurement, information gathering, and cash flow. These benefits most often accrue to larger electric utilities however. We do not believe that SSU can realize anything approaching those kinds of benefits. Whether they can or not is really a moot point. The Company did not perform the research and cost-benefit analyses that an expenditure of this magnitude warrants.

42.(H) Develop An Improved Decision-Making Process Which Incorporates Objective Feasibility Studies And Cost-Benefit Analyses.

Once this process is complete, it should also be utilized when considering future purchases of EMR hardware.

SSU Is Not Taking Advantage Of Lower Cost, Bulk Postage Rates.

The Company mails out an average of 19,000 bills per month at the standard 25¢ postage rate. The new computer system provides SSU with the capability of sorting mailings by zip code, thus enabling the company to utilize bulk postage rates. Potential savings are apparent, and SSU should pursue this cost-cutting measure.

43.(M) Utilize Bulk-Postage Rates Whenever Feasible.

The Use Of Collection Letters Has Been Discontinued.

At one time, SSU mailed a series of three, progressively more stern collection letters to those customers posing potential bad-debt risks. The letters were generated internally and mailed from the Company. The customer services staff reported a reasonable level of success resulting from the utilization of these letters, but no records are available to verify that success.

Such a collections technique, however, is widely regarded as basic to any collections program. Yet, apparently on the advice of an attorney, the Company discontinued the use of this series of letters in spite of their perceived success rate. If the letters contained language that was not appropriate for Company collection efforts, then that language should have been revamped. But the technique of the progressive collection letter series should be retained for use.

Some companies find it both more palatable and cost-effective to contract with a third party for the collection letter service. And this may be SSU's preferred course of action. Either way, the collection letter series should be brought back as part of the Company's overall collection strategy.

44.(H) Evaluate The Available Options And Re-Institute The Use Of Collection Letters.

The Customer Service Supervisor's Job Responsibilities Are Not Compatible With Her Title And Position.

As Exhibit I shows, the Customer Service Supervisor (CSS) has two Customer Service Representatives (CSR) reporting to her. This relationship appears to be more of a paper assignment than a true functional reporting relationship. The CSS does not administer the representatives' evaluations, nor does she approve leave requests and time records. These duties fall to the Office Manager, who has much less contact with the CSRs and therefore, is not as familiar with their performance. In addition, the office manager is physically removed from their immediate work area and cannot provide the day-to-day guidance needed. Yet, she must evaluate them.

It appears that the current CSS is fully capable of performing the duties typically expected of a supervisor and senior management should be willing to give her that opportunity.

45.(L) Reassign All Customer Service Supervisory Responsibilities To The Customer Service Supervisor.

Customer Services Does Not Have A Procedures Manual.

When staff requested a procedures manual from SSU, a copy of the employee handbook was provided. As mentioned throughout this report, this handbook is little more than a collection of memos and random policy statements. It is neither comprehensive nor acceptable as a procedures manual. Nor is it up-to-date.

As a result, customer services is not the efficient, coordinated, consistent function it should be. What management believes is being done may well not be, because the process has no effective way of being communicated throughout the organization without policies and procedures. As the Company expands, things will only get worse.

46.(H) Develop A Comprehensive Policies And Procedures Manual For All Customer Service Functions.

VII. PERSONNEL

BACKGROUND AND PERSPECTIVE

Southern States' personnel function includes recruitment, employee selection, orientation, training, and performance evaluation. The Office Manager/Personnel Manager, who has minimal responsibility for coordinating personnel activities, primarily maintains personnel records and processes the weekly payroll. The responsibility for performing other personnel activities is shared among several Company employees.

When a position becomes vacant, announcements are posted in prominent locations throughout the corporate office in Apopka. A replacement is sought from within the Company whenever possible. When it is necessary to recruit outside of the Company, recruitment efforts consist primarily of placing advertisements in local newspapers and industry magazines.

APU / Department managers are responsible for interviewing prospective employees and participating in the selection process. The President approves all final hiring decisions. An affirmative action report containing detailed hiring information is submitted to Minnesota Power, Southern States' parent company, on a quarterly basis.

The orientation process for new employees is informal. The Personnel Manager provides each new employee with a Company Employee Handbook. The handbook contains Company organizational charts and job descriptions, as well as information regarding employee requirements and benefits. The employee is also provided with brochures which explain the Company's benefits in greater detail. The Personnel Manager then processes the necessary forms to place the new employee on the payroll. Finally, the employee views a videotape which provides an introduction to Minnesota Power Corporation and its subsidiaries. When a system is acquired by Southern States, the Personnel Manager visits that location to familiarize the employees with Company personnel policies.

The Company's employee training and development activities are informal. Most of the training is on-the-job training and is carried out by the employee's immediate supervisor. On occasion, the President will obtain training films or send selected employees to courses relating to their specific responsibilities. For example, operator trainees who are attempting to qualify as certified operators attend a two week "short school," which is the culmination of a home study program.

Annual performance evaluations of each employee are conducted as a component of the salary administration process. (See page 72 for a more detailed discussion of wage and salary administration.) Employees are reviewed by their immediate supervisor each December, with salary

adjustments becoming effective on January 1. Salary increases are decided upon by the Southern States President and are subject to final approval by the General Manager of Topeka Group, the intermediate holding company under Minnesota Power.

Southern States provides an employee benefit program for all full-time employees. The program includes partially subsidized health and insurance plans and a fully subsidized pension plan. Partial retirement benefits are available to an employee after five years of creditable service and full benefits are payable after fifteen years. In addition, Southern States personnel are offered the option of purchasing Minnesota Power stock at a five percent discount. Employees are also given vacation time in accordance with their years of service, as well as holidays, sick leave, and personal leave. According to Company records, benefits accounted for 12.5% of payroll expenditures in 1986.

FINDINGS AND RECOMMENDATIONS

There Is A Lack Of Uniformity In The Training Effort For Field Personnel.

The training activities in Field Operations are not adequately coordinated. For example, a meeting is held each Monday morning for field personnel based in the Apopka area. A primary purpose of these meetings is to discuss training and safety topics, as well as general Company policies. However, field personnel based in outlying areas, such as Venice Gardens and Amelia Island, are not required to attend. Furthermore, information addressed at these meetings is not routinely disseminated to these employees.

Interviews with field personnel in numerous locations provided further evidence of this lack of uniformity. In one location, for example, local safety council officials provided area personnel with vital safety information. In another location, area employees met with representatives from a chlorine company to discuss the hazards of chlorine and other chemicals. Although the information generated at such training sessions is often relevant for field personnel system-wide, it is rarely disseminated back to Field Operations management in the Apopka office for general distribution. It should be recognized, of course, that some local training is plant-specific and would not be applicable to all field locations.

The lack of uniformity appears to be primarily due to understaffed Field Operations, particularly at the management level. Consequently, the General Manager is over burdened with responsibilities and is unable to provide the necessary emphasis to the training function. (Refer to Field Operations Recommendation 31 for a more detailed discussion of this situation.)

To provide maximum effectiveness to all field personnel, training activities must have a focal point through which information and methods can be coordinated and uniformly administered. Without such a focal point, information which would be beneficial to all employees may never be disseminated beyond the area at which it is generated. A coordinated training effort would provide benefits in the following areas:

- o Uniformity of training: a system-wide training effort would assist in raising all field personnel to a similar skill level
- o Safety: a system-wide effort would better ensure that all field personnel are exposed to vital safety information
- o Quality and quantity of work: a system-wide effort should ensure a more efficient and effective workforce.

47.(H) The Training Of Plant Personnel Should Be Uniformly Administered And Coordinated At The Management Level Within Field Operations.

One management level employee, who reports directly to the General Manager and who is skilled in providing training, should have the responsibility for acting as the focal point for the training effort. This individual should be responsible for ensuring that adequate emphasis is placed on the administration and coordination of training activities.

Training and safety -
At present, 75 of the Company's 105 employees work in Field Operations. Therefore, the need for a uniform training effort is most critical in this area. However, as the overall staff increases in size, top management may want to consider hiring a training coordinator to plan and organize the training function Company-wide.

The Company Has Not Adequately Evaluated Its Present Training Needs Or Planned For Future Training Needs.

In certain field locations within the Southern States' system, certified operators are in short supply. Consequently, many field employees are initially hired as operator trainees. Although field employees are hired with varying levels of experience and knowledge, neither their current nor future training needs are formally evaluated.

Interviews with field personnel throughout the Southern States' system provided additional evidence of inadequate emphasis being placed on employees' training needs. Several field employees informed us that they had been assigned certain responsibilities with minimal knowledge of how these duties should be carried out. Others stated that Field Operations management had never inquired as to their training needs or the needs of their associates.

In addition to the lack of assessment of technical training needs, several employees mentioned that they had never received customer relations training to assist them in dealing with the public. Consequently, they occasionally found themselves in a position where they were unable to answer customers' questions, particularly those which addressed the Company's rate structure.

For a training program to provide maximum effectiveness to all field personnel, current training needs must be evaluated and future training needs must be planned for. Without such an effort, employee motivation and productivity may be significantly lowered. A strong emphasis on training needs would assist in raising all field personnel to a similar skill level and should result in an increase in the quality and quantity of work performed.

48.(H) Develop A Plan For Current And Future Training Needs Within Field Operations.

The Company should identify its training needs within Field Operations and incorporate these needs into a comprehensive training plan. Special emphasis should be placed on providing field personnel with customer relations training.

This recommendation ties in closely with previously discussed Recommendation 47. As with that recommendation, one management level employee, with skills in training, reporting directly to the General Manager, should be responsible for ensuring that adequate emphasis is placed on both the planning and the coordinating of training activities.

The Company's Wage And Salary Administration Program Is Inadequate.

The objectives of a wage and salary administration program should be external competitiveness and internal consistency. A review of Southern States' program indicates that the Company is not fully meeting these objectives. Deficiencies were noted in the following areas: (a) an in-depth analysis of employee salaries has not been conducted to determine a fair and competitive salary structure; (b) salary guidelines have not been established to address how the salaries of personnel in those companies newly acquired by Southern States will be brought into line with the existing structures; and (c) salary ranges have not been developed as a component of the salary program. Each of these areas is discussed below in greater detail.

a. Inadequate Analysis of Employee Salaries

Primary responsibility for administration of the Company's wage and salary structure rests with the President. Officials of other utility companies are periodically contacted by the President for the purpose of comparing the salaries in those companies to the salaries at Southern States. During 1986, the Company participated in a salary survey of fourteen private and public utility companies in Central Florida; the survey was conducted by Sanlando Utility Corporation. While these efforts are a step in the right direction, they appear to be inadequate for several reasons.

First, although other utility companies are contacted regarding their current salary structures, this is only done on a periodic basis, and no one at Southern States utilizes the data for in-depth comparisons. Subsequently, factors unique to the organization and its environment, as well as variations in employee experience, are not considered.

Second, our review of the Saniando salary survey indicated that its usefulness was limited. Although salaries were analyzed for seventeen position titles, only six of these exactly matched titles at Southern States. Furthermore, the survey did not address salary differences based on such factors as variations in level of responsibility or span of control.

Finally, interviews with Company personnel revealed that several field employees based in the Apopka area believe that their salaries are not competitive with those of other utility companies in central Florida. We did not find firm evidence to either substantiate or refute this claim. However, in light of the issues raised above, we believe it deserves further attention by Company management.

When determining employee salaries, an in-depth analysis must be conducted periodically to ensure that: (1) the Company is competitive with others in the industry and area; and (2) factors unique to the organization, its employees, and its environment are considered. Without such an analysis, the turnover rate may increase as a result of employee dissatisfaction with the salary structure. Furthermore, the Company's wage and salary administration program will be ineffective in achieving the objectives of external competitiveness and internal consistency.

b. Lack Of Salary Guidelines Following An Acquisition.

According to Company officials, the salaries of personnel from those companies acquired by Southern States are brought into line with Company salaries gradually. For example, if an employee of an acquired company is earning more than a Southern States employee in a comparable position, he will retain his former salary. However, his future salary increases may be less substantial than those of other Company personnel. Although the Company should be commended for its effort to be fair to personnel in acquired companies, no guidelines exist for either how or over what period of time these salaries should be adjusted, or indeed, if they should be adjusted at all.

As previously mentioned, one of the primary objectives of a wage and salary administration program should be internal consistency. Such consistency does not necessarily mean that all employees with the same title should earn the same salary or wage. There may be a need for some flexibility based on such factors as geographical differences in the cost of living and variations in responsibilities, longevity, and performance (merit). However, without proper guidelines to address how and when salaries of newly acquired employees will be adjusted to ensure proper integration into the Southern States current structure, the objective of consistency will surely not be achieved. Furthermore, employee morale may be seriously jeopardized if the effort to adjust salaries of newly acquired employees occurs too rapidly. For example, if an outstanding

employee of an acquired company continuously fails to receive a merit raise, his morale and productivity will almost certainly be impacted. The establishment of guidelines to bring the salaries of personnel of acquired companies in line with other Company salaries should contribute both to the overall effectiveness of the Company's wage and salary administration program and to employee morale.

c. Lack Of Salary Ranges.

The Southern States Employee Handbook states that:

"...each job is ranked within a range of pay rates for that job category. Each job has a minimum and maximum wage assigned to it. Employees are paid within the range, based on actual merit, to assure a competitive rate within the industry and the area."

However, when questioned further about salary ranges, Company personnel admitted that, although addressed in the Handbook, such ranges have not yet been established as part of the wage and salary administration program.

Specific salary ranges, with minimum and maximum rates and an appropriate number of intermediate steps, are an essential component of an effective wage and salary administration program. Without salary ranges, one of the primary objectives of such a program--internal consistency--may not be met. Furthermore, there is a greater likelihood that excessive bias and subjectivity will be introduced into the system. The establishment of specific salary ranges should contribute substantially to the overall effectiveness of the Company's wage and salary program.

49.(H) The Company Needs To Obtain The Temporary Services Of A Specialist In Wage And Salary Administration.

Utilizing the services of a wage and salary specialist will provide Southern States with a more effective wage and salary administration program. The Company has the option of retaining the services of a specialist from Minnesota Power Corporation, as it has done under similar circumstances in the past, or using an external consultant. At a minimum, the specialist should be responsible for:

- a. Conducting a formal, in-depth analysis of Southern States' salaries to ensure that the objectives of external competitiveness and internal consistency are met

- b. Establishing guidelines which address whether the salaries of personnel in companies acquired by Southern States should be brought into line with Company salaries and, if so, how this will be accomplished
- c. Developing salary ranges, with minimum and maximum rates and an appropriate number of intermediate steps, as a component of the salary structure.

Employee Performance Is Not Formally Evaluated At The Completion Of The 90 Day Probationary Period.

Newly hired Southern States' employees are required to serve a 90 day probationary period; existing employees of companies acquired by Southern States provide the only exception to this policy. At the completion of the 90 day period, an informal decision is made by the appropriate manager as to whether or not the individual will remain employed with Southern States. However, a formal evaluation of the strengths and weaknesses exhibited during this initial period of employment is not conducted. Since annual evaluations are conducted of all employees each December, an employee who begins working for Southern States early in the year will not receive a formal performance evaluation for almost one year.

It is an acceptable practice to require formal evaluations to be written at the end of a probationary period, with some employers adding the proviso that if an evaluation is not written, the employee is considered to be fully satisfactory. However, we believe that an evaluation should be written without exception to gain the following threefold benefits: (1) to identify, on a timely basis, the employee's limitations, and to address the means of increasing the individual's overall competence; (2) to provide a partial basis for determining the best possible future utilization of the individual; and (3) to establish a record which can be used to support the decision to terminate an employee.

Without this evaluation, the company is at increased risk of an equal employment opportunity (EEO) discrimination suit for wrongful dismissal (especially during the period between 90 days and the next December evaluation). They also risk the proper and best utilization of the employee's talents, and finally, if the employee's deficiencies are not documented and training requirements determined, assets may be damaged through employee negligence.

50.(M) A Formal Performance Evaluation Of Each New Employee Should Be Conducted At The Completion Of The 90 Day Probationary Period.

While we can accept the Company's decision to use a 90 day probationary period, we do believe that a written evaluation should be made at the end of the first 90 days of employment.

The Appropriate Managerial Skills Are Not Being Evaluated By The Company's Current Evaluation Instrument.

A formal appraisal instrument is used to assess each employee's performance on an annual basis. Using a five point scale with categories which range from "unsatisfactory" to "clearly outstanding", the instrument rates the employee in fifteen general skill areas. The instrument does not assess any managerial skills, however, and is therefore of limited use in evaluating supervisory personnel.

To provide maximum value to all employees, a performance evaluation system must evaluate appropriate skills for each level of organizational responsibility. If it does not, the evaluation system cannot fully achieve its objective of identifying an employee's limitations and addressing the means of increasing his overall competence.

51.(M) The Current Evaluation Instrument Should Either Be Improved Or A New One Devised To Ensure Proper Assessment Of Managerial Skills.

Either of these options will increase the usefulness of the performance evaluation instrument to management, and will be more fair to the employees being evaluated.

VIII. ELECTRONIC DATA PROCESSING

BACKGROUND AND PERSPECTIVE

The Electronic Data Processing (EDP) function is headed by the Data Processing Manager who reports to the President of Southern States. The staff consists of three Work Station Operators who in turn report to the Data Processing Manager. The organizational chart for the EDP unit is presented in Exhibit XII.

The Data Processing Manager has overall responsibility for controlling and managing all data processing functions at Southern States. Some of these responsibilities include supervision and evaluation of personnel, training employees at remote locations on the usage of personal computers, and keeping all hardware and software functioning properly. Additional responsibilities include analyzing resource needs, the timely processing of billing, payroll and meter reading documents. The Work Station Operators are responsible for the data input of all completed service orders, all customer payments via use of an optical character reader, and any meter readings not input by use of the electronic meter readers.

For several years, Southern States had been using the IBM System 34 to meet their data processing needs. However, as a result of growth, the Company decided to upgrade the system software and hardware. Their new IBM System 36 has the capacity to handle 100,000 customers. The customer count as of July 1987 was 39,000.

Orcom Systems, Inc., Southern States' software vendor, began installation of the new utility software in January of 1987. The software system includes applications for billings, accounts receivable, payroll, accounts payable, general ledger, service orders, fixed assets, inventory, work orders, and a plant allocation program. Some of these applications will be phased in over the next year.

Southern States' hardware equipment consists of three remote personal computers (with printers) located at Jacksonville, Amelia Island, and Venice Gardens. Since the remote personal computers can communicate to the Apopka mainframe, work efficiency is expected to increase. As an example, meter readings will be input at the remote locations instead of being mailed to Apopka for input. At the Apopka headquarters, there are four personal computers with printers in addition to twelve CRTs; three large printers used for printing payroll, customer bills and management reports; various modems; the IBM mainframe; six electronic meter reading devices; an OCR scanner; two disk drives, and one tape drive. As of June 30, 1987, Southern States total cost associated with the new system was \$162,000. Even though the majority of expenses have been incurred, some additional costs related to user training are expected.

EDP CONTROLS SURVEY

An EDP controls survey was used by Management Studies to aid in the review of EDP controls. Company interviews and documents were also used to supplement the information gathered by this survey. The survey addresses areas concerning general information, organizational controls, operational controls, documentation controls, and processing controls.

When Southern States completed the survey in June of 1987, the new software applications and hardware devices were not totally installed or functioning properly. The survey, however, addresses the controls that Southern States will have in place once the system is operating appropriately.

The findings and recommendations are based upon the deficiencies identified in the EDP controls survey, and are grouped by control area.

FINDINGS AND RECOMMENDATIONS

GENERAL INFORMATION

The general information section of the survey reviews the organization of the EDP unit, long and short range plans, and descriptions of hardware and software used by the Company.

The EDP Function Has No Written Plans For Future Growth--Neither For The Short Range (1 Year) Nor The Long Range (2-5 Years).

As mentioned earlier, Southern States is in the process of implementing several new software applications. Peripheral equipment and hardware devices have also been purchased. While we are not inferring that these have been unwise choices, there are no written plans to guide and direct the future needs and goals of Southern States' EDP development.

Planning is one of the basic functions of management. It is the process of setting objectives and developing alternative strategies for achieving them. Planning is required at all levels and is used as a tool to communicate the direction of the organization. Each department's plan must be compatible with the organization's broad overall plans.

The short-range plan, which normally covers a period of one year, defines goals in writing and indicates how these goals should be carried out. Typically the EDP short-range plan should discuss the following areas:

1. Goals and objectives
2. EDP relationship with Southern States' goals and objectives
3. Major strategies to achieve these goals and objectives
4. Positions responsible for major aspects of implementation via top-down delegation from the President
5. Resources needed to achieve the objectives, including human resources
6. Milestones for major projects such as implementation of new applications
7. Effects of outside influences on the department, such as changes in other departments, the economy and technology; for example, as the customer base increases, EDP needs for the Customer Service section will also increase

8. Alternative actions based on these changes
9. Measures to indicate success.

Long-range plans usually cover a time period of five years at a minimum. A long-range plan should focus on the achievement of goals, but not at the expense of losing flexibility and sensitivity to opportunities in a changing market place.

Typically, long-range departmental plans include at a minimum the following items:

1. The relationship to the Company's long-range plans
2. Department mission, goals and objectives
3. Strategies to achieve goals and objectives
4. Appropriate benchmarks to measure whether or not the goals and objectives have been achieved.

52.(M) Develop Written Plans, Both Short- And Long-Range, For The EDP Function.

We were informed that the Company's EDP short-range plan consisted of status reports prepared by the software vendor. Even though these reports are useful to Southern States, we do not consider them to be short-range plans. They do not project where Southern States would like to be in one to two years and secondly, the Company should be preparing their own short-range plans, not an outside party.

Since Southern States is actively seeking to acquire new companies, they must be prepared to effectively meet the additional EDP demands accompanying that growth.

ORGANIZATIONAL CONTROLS

Organizational controls assist the EDP function in meeting the objectives of the Company. These controls address issues such as adequate division of duties and appropriate methods for reporting to senior management.

Southern States Does Not Have An EDP Steering Committee.

Without an EDP Steering Committee, Southern States may be unable to accurately assess whether the computer system is meeting the objectives of the organization. Secondly, such a committee should be responsible for assessing future EDP needs of the Company, as well as planning for resources to accommodate those needs.

53.(L) Create An Active Electronic Data Processing Steering Committee.

The membership of the committee should consist of representatives from senior management, finance-accounting, data processing, and any other departments expected to be extensively affected by computer processing. They should meet on a regular basis and take an active role in providing guidance to company management.

OPERATIONAL CONTROLS

Operational controls apply to methods and procedures established to ensure effective production by the operations section. Specific areas of review include prevention and/or detection of errors and fraud, the physical security of facilities, supplies, files, equipment and documentation, and disaster recovery.

Personnel Participating In The Cash Process Are Not Bonded.

Normally, employees participating in any part of the cash processes should be bonded. This would include those employees who have access to software applications that relate to cash or the management of funds, such as payroll. Although bonding insurance will not prevent any improper diversion of funds, it will protect the organization from a loss that results from such activity. Furthermore, bonding is more likely to motivate such employees to perform at a higher standard of care and integrity, especially if the bonding action is properly publicized.

54.(M) The Company Should Consider Bonding Those Employees Participating In Any Part Of The Cash Process.

The Physical Security Of Facilities And Assets Is Inadequate.

The EDP survey revealed that controls related to the physical security of facilities need to be improved. As a result, inherent risks are associated with Southern States' physical security of facilities. For instance, without a pre-set schedule for changing key locks and combination locks there is an increase of the risks typically associated with facility access, such as loss from theft, damage, or destruction of supplies, files, and equipment.

Improvement is also needed in fire protection of facilities. As an example, emergency instructions concerning main line power shutdowns and air conditioning shutdowns have not been addressed with employees. No emergency procedure or fire plan has been prominently posted nor do fire procedures assign specific employee responsibilities. Furthermore, there has been no recent testing of these procedures and emergency number stickers have not been placed on all telephones.

Currently, smoking is allowed in the Data Processing Manager's Office, which is adjacent to the computer room, and in the supply warehouse. Consequently, the risk of loss by fire is increased for those supplies and old records, such as computer printouts that are stored within the supply warehouse. Furthermore, if supplies such as pre-printed billing notices are destroyed, no written agreement exists with supply vendors concerning emergency replacement service--a practice which compounds the out-of-stock risk.

Any increased risk to the physical security of Company facilities may present potential loss to any part of the EDP system. Therefore, protecting the complete system should be an important organizational concern of Southern States.

55.(H) Improve Administrative Controls To Provide Better Physical Security Of Facilities And Assets.

At a minimum the following controls should be employed:

- o Key locks and combination locks should be changed according to a pre-set criteria
- o Fire emergency instructions concerning main powerline shutdown and air conditioning shutdown should be provided to employees
- o An emergency procedure or fire plan should be posted

- o Employee responsibilities should be outlined in the emergency procedure
- o Emergency fire procedures should be tested periodically
- o Emergency numbers stickers should be placed on all telephones
- o A no smoking rule should be enforced in any area where computer hardware and supplies are located
- o A written, formal agreement concerning emergency service should be obtained from supply vendors
- o A supply of critical forms should be stored off-site.

The Controls Protecting Computer Equipment From Damage Are Minimal.

Southern States protection of computer equipment against fire, flood, and power variances or outages is limited. The protection consists of (1) a no smoking policy, which is not enforced in the Data Processing Manager's office, but is enforced in the actual room housing the computer, two portable Halon fire extinguishers, smoke and fire detection devices, and (2) some employee training on what to do if a fire occurs.

The survey disclosed several non-existent equipment controls which are normally expected in a computer room. As a result, risk of damage to the computer equipment increases. These deficiencies include:

- o There are no documented fire procedures for the computer room
- o The power source to the computer room is not independent of that used in the remainder of the building
- o No uninterruptible power system has been installed to compensate for the effect of power variances
- o No definite schedule for the inspection of cabling, junctions, and power control panels exists
- o No Halon 1301 (permanently installed) system exists
- o Current floor drainage is unable to handle unexpected flooding
- o No pumps are available to remove water accumulation
- o No auxiliary power system exists.

Although it may not be feasible to correct all of the deficiencies indicated, we believe that at least the fire procedures can be addressed now. The risk associated with non-compliance with the others remains apparent and will escalate as the EDP function continues to grow. Therefore, we believe that steps should also be taken to address the other, more complex issues cited.

56.(H) Develop Written Fire Procedures For The Computer Room.

Southern States should develop formal, written fire procedures for the computer room. These procedures are needed to limit the time spent on decision making. They should include management and employee responsibilities, evacuation routes, extinguisher locations and operating procedures, notification procedures, and fire prevention techniques such as the no smoking policy in the computer room. In addition, procedures should vary according to fire severity.

57.(M) Obtain The Services Of A Qualified Computer Consultant To Evaluate Equipment Protection Controls.

Southern States should, at an early date, obtain the services of a qualified, computer consultant to assist them in effectively determining which of the remaining deficiencies specified in the finding, are cost beneficial to correct. In addition, the consultant should be able to advise them of good quality equipment that may be required to alleviate the deficiencies. Lastly, the consultant should give consideration to Southern States' future growth and advise them of the appropriate steps required for determining when to correct the deficiencies that originally prove to be non-cost beneficial.

Authorized Access To The Computer Room Could Be Easily Compromised.

Currently, Southern States uses a key lock system to prohibit unauthorized access to the equipment in the computer room.

During the course of the audit, no unauthorized entry into the room was observed. However, hiding the key in the Data Processing Manager's office next door does not constitute adequate key security.

It appears that the Company understands the significance of preventing unauthorized access to the computer room. However, Southern States' process for accomplishing this deterrence necessitates stricter controls.

58.(M) Strengthen Controls To Prevent The Potential Risks Associated With Unauthorized Entry To The Computer Room.

As a suggestion, the Company may want to consider the installation of a pushbutton security lock. One advantage is that they offer an exhaustive list of possible combinations.

Southern States Disaster Recovery Plan Is Not A Detailed, Comprehensive Plan.

At the onset of the audit, Southern States had not developed a written disaster recovery plan. However, since that time, they have taken steps toward developing one. The resulting two page plan expresses some basic, minimal preparations and procedures for responding to a disaster of any kind. It contains priority listings of critical and non-critical applications and assigns specific responsibilities to the Data Processing Manager and Comptroller. Furthermore, the D.P. Manager intends to document this plan beyond its original content as the time demands of implementing the new computer system lessens.

Additional development and organization will be required to accommodate the various, objectives of any such plan. These objectives should include the reduction of time spent on decision making during a crisis, limiting financial loss, and identifying alternatives for accomplishing data processing service.

To accommodate these various objectives, Southern State's disaster recovery plan should provide at a minimum the following specific information:

1. Resource Requirements: An overview of the resources required to facilitate a prompt recovery from any disaster which typically includes vital records, such as backup, documentation and data files, remote sites, vendors, and contract personnel
2. Critical Applications: A list of critical recovery applications, by priority and instructions for restoration of those applications
3. Non-Critical Applications: A list of non-critical applications, by priority
4. System Software Recovery: A plan for restoring system software at the back-up facility site

5. Hardware And Software Documentation: An inventory of all computer hardware and software at the various company locations as well as hardware and software requirements at each backup site
6. Communications Documentation: A list of Southern States network configuration
7. Personnel: Instructions to ensure personnel are prepared in case an emergency occurs, e.g., requirements at backup sites
8. Backup Site Planning: Identification of Southern States short-term and long-term backup sites, what will be provided at both locations, and how and whom to contact to activate each site
9. Vendor Contracts: A list of vendors who currently support and supply Southern States with communications equipment, hardware, and backup sites and an overview of each of their policy statements concerning disaster recovery. Vendor contracts are required to expedite the process of hardware recovery, communication recovery, and backup sites
10. Initial Response: Instructions concerning what needs to be done and who will do it as soon as a disaster is recognized
11. Remote Backup Site Preparation: Instructions for preparing to move Southern States' data processing functions to a remote site
12. Recovery At Backup Site: Instructions for the activities at the backup processing sites
13. Return To Original Or New Facility: Instructions for transition from backup site to Southern States computer facility.

To aid in the development, maintenance, and enhancement of this plan, Southern States should assign an employee, preferably the Data Processing Manager, to be the Disaster Recovery Plan Administrator. Additional administrator duties would typically include making periodic checks with vendors to reaffirm disaster recovery arrangements previously made and seeing that personnel involved in the plan are properly trained. This information, as well as objectives of the plan, should also be included in the plan.

59.(H) Southern States Should Expand Their Disaster Recovery Plan Into A Functional, Comprehensive Plan.

No matter how large and complex or how small and simple the computer system, formal planning is required to manage and recover from disaster events. The plan must be comprehensive and address a wide range of potential disasters. Its goal should be to preserve the integrity of processes, not particular items. The plan should also be as detailed as possible. For instance, it should specify key personnel and their exact duties and responsibilities. Furthermore, the plan must deal with how to carry on at the time of the disaster as well as how to bring activities back to normal. Priorities must be spelled out and each department must have input into the plan. Once the plan is developed, the procedures specified by it should be periodically tested, reviewed, and updated to ensure its effectiveness in an emergency situation.

Readability Of Off-Site Computer Files Is Not Tested.

Off-site files, which are used as back-up to those maintained at Southern States, are not periodically tested for readability. Therefore, if the files on-site at Southern States are destroyed and if off-site files are not readable, then significant time and money are lost as a result of having no usable files.

60.(M) Off-Site Computer Files Should Be Annually Tested For Readability.

DOCUMENTATION CONTROLS

Adequate documentation of computer systems, programs, and operating procedures must exist to ensure a complete and accurate understanding of computer processing activities. The survey covered establishment, control and security of documentation.

Our review of this area resulted in no significant findings.

PROCESSING CONTROLS

Processing controls guard the actual processing and dissemination of data. The EDP. survey reviewed areas where controls should exist in the processing function: input and output, review and supervision, negotiable documents, hardware and software, and terminal and communication controls. Of these processing areas, two were found to have deficiencies--review and supervision, and negotiable documents.

Review And Supervision

There Are No Operating Statistics Available For Management Review.

No operating statistics are generated to show the time spent on normal production, reruns, test and programmer support, equipment and software maintenance, scheduled down time, or idle time. Without these operating statistics management is unable to evaluate computer time utilization and monitor repetitive down time occurrences.

61.(L) Develop And Produce Operating Statistics For Management Review.

Operating statistics can be enhanced by automatically tracking the volume and reasons for errors resulting in reruns and halts in production time.

Negotiable Documents

Blank Checks Are Not Adequately Secured.

The Company's blank checks are stored in a locked file cabinet that is much more conducive to the storage of office supplies than the storage of blank checks. It is located in a corner hallway and cannot be directly seen from anyone's office. Because of its location, the blank checks cannot be easily monitored for unauthorized use.

In view of Southern States size, the possibility of employees knowing the location of the checks is greater than at a larger company. A greater risk of theft also exists because the storage cabinet is easily entered. Even though Southern States has not experienced any problems concerning the location and reliability of blank check storage, precautionary measures are needed.

62.(M) Blank Checks Should Be Stored More Securely.

Southern States should consider changing both the location and the type of storage facility for blank checks.

SUPPLEMENTAL

This section addresses two additional findings and recommendations not referenced by the EDP controls survey.

Southern States Is Not Using The Computer System To Automatically Generate Information Notices Or Flyers To Customers.

From time to time, Southern States is required to notify customers of business concerns such as rate increases or changes in ownership due to acquisitions. Typically, address labels are generated by the computer system and manually placed on a billing insert or flyer before mailing. This particular procedure, however, could become quite tedious and time consuming depending upon the number of customers that must be contacted.

Southern States should use the new computer system to generate any notices, flyers, or billing inserts to customers with pre-printed addresses and names. Using paper that is the same size as that used for billing would make it easy to send both the bill and notice in the same envelope.

Currently, the system is capable of printing customer messages on the back of billing notices. Southern States should continue to use this method of disseminating information whenever appropriate.

63.(M) Use The Computer System To Generate Customer Flyers Or Notices When Feasible.

Data Entry Of Payroll Records Is Not An Efficient Use Of The Office/Personnel Manager's Time.

The responsibilities of the Office/Personnel Manager are many and varied. Processing weekly employee payroll is currently a major responsibility of this position, and requires the data input of all

employee time cards, as well as the edit of payroll information processed. This entire process is performed by the Office/Personnel Manager and normally requires two days per week to complete.

Using a manager to perform data entry would seem to be an inefficient use of resources. This task should be delegated to data entry personnel, whose salary and responsibilities are better matched to data input.

Delegating that data input will allow the Office/Personnel Manager to devote time to more appropriate priorities. These activities include performance evaluation, development of policies and procedures, long range planning and development of personnel.

64.(M) Data Input Of Payroll Records Should Be Performed By Data Entry Personnel.

During the course of the audit, the need for confidentiality of salary information was discussed. We agree this is a legitimate area of concern, but also believe it could be easily handled.

IX. PURCHASING AND INVENTORY CONTROL

BACKGROUND AND PERSPECTIVE

The responsibilities typically ascribed to a purchasing function are assumed by a number of different SSU employees and are not centralized. No purchasing department or coordinator exists to assimilate all of the various purchasing and inventory control functions into one.

The Company's General Manager serves as the primary purchase authorization point, approving most purchase requests over \$100. Purchases of less than \$100 or emergency items can be approved by the Accounts Payable Clerk. She also maintains payable files, processes vendor invoices, and issues purchase orders. All processed invoices are routed to the Office Manager for payment authorization. After checks are cut and reviewed, they are sent to accounting for final edit and signatures.

Inventory items are stored in Apopka's central warehouse, field office storerooms, and service trucks. There is no inventory control system, although the new computer provides the capability for one to be developed.

No Policies And Procedures Govern The Purchasing Function, And As A Result Several Deficiencies And Internal Control Weaknesses Exist.

Like most other areas of the Company, purchasing has no formal policies and procedures to guide and direct the employees. As a result, numerous inconsistencies and process inadequacies were noted during the audit. These are listed and discussed in subsequent pages.

Policies and procedures are the foundation for an organized, efficient, well-controlled purchasing function. The process of developing them is important in and of itself because it forces management to build or create the function from the ground up. Inconsistencies, inefficiencies, and control weaknesses often become apparent during the process, and can be corrected at that point.

65.(H) Develop Complete Policies And Procedures For The Purchasing Function.

These should include all aspects of purchasing, receiving, inventory control, and warehousing as well as addressing those specific items discussed in subsequent findings.

All Aspects Of Bulk Purchases Have Not Been Evaluated.

SSU has begun to purchase selected items in bulk quantities at lower per-unit prices. On the surface, this would seem to be a wise philosophy. Yet, there is no evidence that management performed the kind of thorough cost-benefit analysis a decision like this warrants.

While the initial per-unit cost may be less, bulk purchases have a number of associated costs which must be considered. These include the cost of money, storage, and field distribution expenses, and other carrying costs such as interest expense. Without an evaluation of all aspects of bulk purchases, the true benefits will not be known.

66.(M) Develop Policies And Procedures Requiring Cost-Benefit Analyses To Be Performed For All Bulk Purchase Decisions.

Competitive Bidding Is Not Utilized For The Selection Of Insurance Coverage.

The Company uses one insurance agent for all of the various policies and coverages. The selection of that agent was not based on a formal evaluation or competitive bidding process. As a result, SSU cannot be reasonably certain that it is receiving the best coverage for the lowest cost.

Insurance premiums should be treated like any other major purchase decision. The desired package of insurance coverage should be presented to interested agents for proposals, and the results empirically evaluated. Only then can SSU be assured of the best protection for its money.

67.(M) Develop Procedures To Competitively Bid All Insurance Policy Purchases.

The Purchase Order Generation And Approval Processes Are Too Informal And Inconsistent.

As a result of the Company's lack of procedures, the creation and approval of a purchase order (P.O.) is handled in several different ways depending on who you ask and the particular situation. Generally, it appears that the Accounts Payable Clerk can and does approve many purchase orders under \$100 and even some over that amount. The General Manager and/or the President typically approves P.O.s above the \$100 limit, however there are exceptions.

The process is sometimes circumvented or manipulated by the field staffs. If the General Manager is reluctant to approve a given purchase, the field often gets what they want by either declaring it an emergency item and buying it anyway, or going above the G.M. to the President. This serves only to usurp the General Manager's authority and compromise the integrity and what little structure the P.O. process currently has. Because it is so informal, SSU employees are able to game the system; they learn who to ask for what, and when to just go buy it.

Appropriate policies and procedures will go a long way in correcting this situation, and establish better fiscal controls as well.

68.(M) Develop A Formal Purchase Order Approval Process And Incorporate It Into The Overall Purchasing Procedures.

At a minimum these procedures must:

- o Establish a chain of command for P.O. approval. The General Manager should be the focal point for approvals. SSU's President would be consulted only in the most unique cases, and by the General Manager directly
- o Set specific guidelines and parameters for P.O. generation and approval: who, what, when, where, and how much to create an audit trail and control points.
- o Specify very exacting criteria which emergency purchases must meet
- o Create a review and audit process to ensure that those criteria are being followed
- o Re-evaluate the field offices' petty cash funds and their impact on the P.O. generation and approval process
- o Establish a paper audit trail of required approval signatures and sign-offs.

The Inventory Control System Is Inadequate.

Probably a more accurate assessment is that there is no inventory control system at Southern States. All ordering, stocking, warehousing, and issuance tasks are handled very informally and inconsistently from location to location.

"While there is a central warehouse located in Apopka, it does not actually function in that capacity. Parts and equipment are kept in an unsecured area of the warehouse. They are neither numbered or identified. Most of the field locations maintain storerooms, and several have developed their own basic inventory control systems. The Company's trucks are also stocked with a variety of parts and supplies, although there are no standard issuance procedures here, either.

Regular inventory counts and reconciliations are not done and SSU cannot definitively say what they have or how much. There is a computer-generated parts inventory, but Company personnel acknowledged its inaccuracy. So in addition to the lack of useful management information, there is a tremendous opportunity for shrinkage.

Parts issuance varies by location, but in general, there are virtually no controls or procedures addressing this aspect of inventory control. When possible, SSU attempts to charge parts to a particular job, but even then the actual issuance of those parts is poorly controlled.

The Company, for its part, realizes that there is a timely need for an inventory control system. And the new computer provides them with the capability to develop an excellent system. There are numerous other tasks that must be accomplished in conjunction with any system capability enhancement.

1. Manpower - The development of the process is going to require a sizeable, up-front manpower commitment to accomplish the identification, cataloging, numbering, referencing, and computer input of the thousands of different parts.
2. Development - Concurrent with those tasks will be the development of policies, procedures, controls, and forms to support the system. This will of course require extensive evaluation and input from the field offices, especially those with storerooms.
3. Position Assignment - SSU will need a full-time purchasing and inventory control coordinator to maintain the system once it is operational. His duties will require close coordination with the field, as well as with the accounting, EDP, and current "purchasing" staffs.

69.(H) Plan, Develop, And Implement An Inventory Control System.

Project Files Are Inadequate.

Two sets of project files are maintained at SSU--one by the General Manager and one by the President. We reviewed a number of project folders from both sets and found the majority to be incomplete and inadequate.

The project files are intended to include all documentation of the bid process, approvals, contracts, and other supporting data so that the process could theoretically be reconstructed if necessary, as well as provide an audit trail. Currently, they do not meet this criteria. Noted deficiencies included:

- a. In several cases, the required number of bids were absent with no explanation why
- b. No justifications were offered for not choosing the lowest bid
- c. Missing or incomplete Investment Project Authorization forms
- d. Missing or unsigned contracts
- e. Documents not in chronological order.

The resulting file condition makes it difficult to use them for their intended purpose. As the Company grows, and the number of capital projects grows, the project files will only get more unmanageable.

70.(L) Establish Procedures For Organizing And Maintaining Project Files.

X. TRANSPORTATION MANAGEMENT

BACKGROUND AND PERSPECTIVE

Southern States does not have a formal transportation management program or an organized preventive maintenance program for their sixty-three vehicle fleet. Fifty-nine vehicles are owned and dispersed throughout the various Company locations. The four remaining vehicles are leased and operated out of the Venice Gardens office.

Generally, Company vehicles are purchased as opposed to being leased. However, upon acquiring new systems with leased vehicles, such as the recent acquisition of Venice Gardens, Southern States normally retains them. The vehicle lease contracts at Venice Gardens will expire in 1989 for three vehicles and in 1990 for one vehicle.

All vehicle purchases must be approved by the President. Normally, disposal occurs when the Company believes a vehicle becomes too costly to maintain, as in excessive repairs, and has been fully depreciated. At that time, employees are given the opportunity to submit bids, which must be no less than \$50.00, and the employee with the highest bid is awarded the vehicle.

FINDINGS AND RECOMMENDATIONS

The Company Does Not Have An Adequate Preventive Maintenance Program For Its Vehicles.

No written plan is available to assist the employee in scheduling maintenance at proper intervals and no individual is directly responsible for the preventive maintenance of all Company vehicles at Southern States. Consequently, maintenance is performed when each driver believes it is needed. Unwritten Company policy, however, informs drivers that they should check vehicle oil routinely and change it every 3000 miles. The dispatcher may also remind drivers when an oil change is due. However, the lack of a formal vehicle maintenance program increases the chances that maintenance will not be performed uniformly so that the maximum vehicle reliability and longevity can be realized.

Other risks and costs associated with driving, increase without a scheduled preventive maintenance program. The possibility of employee injury increases when vehicles have not been well maintained. Inexpensive, minor repairs may evolve into major ones. And Southern States may be forced into repairing the vehicle under emergency conditions and prices rather than negotiated ones.

71.(H) Develop A Scheduled Preventive Maintenance Program For All Vehicles.

A preventive maintenance program pays off chiefly in maintaining availability of vehicles which leads to consistent production and better utilization of the work force. Secondly, it allows a company to get the most miles out of their vehicles.

Vehicles should be placed on the preventive maintenance program at the time of acquisition. The scheduled maintenance plan should be in writing and based on vehicle mileage between maintenance intervals. Vehicle maintenance records of all Southern States vehicles should be kept at the Apopka headquarters, and include:

- o Dates the vehicle was serviced and what services were performed
- o When the next maintenance service is scheduled. Mileage should be recorded to ensure preventive maintenance when required

- o Names and identification of each major part repaired or replaced, including manufacturer's identification, warranties, and other information.

With Southern States new computer system, opportunity exists to automate the record-keeping element of this function.

The Company Has No Facility Or Expertise To Handle Vehicle Maintenance In-House.

While company drivers do occasionally change oil and light bulbs, they do not (and should not be expected to) get involved in general vehicle maintenance. Although there may be isolated instances of drivers becoming more involved in vehicle repair, it is not standard company-wide policy and should not be encouraged by management.

At present the Company policy is to have significant repairs and maintenance done at various local garages; and recognizing this as maybe being too costly, the Company is investigating the feasibility of an in-house repair and maintenance facility.

72.(L) Southern States Should Complete Their Cost-Benefit Study Of The Feasibility Of Performing Preventive Maintenance And Repairs For Company Vehicles In-House.

After completion of the study, an appropriate strategy should be developed, documented, and followed.

Contrary To Company Policy, Company Vehicles Are Used For Personal Reasons By Field Personnel.

The majority of Southern States' vehicles, all of which bear the Company identification, are assigned to specific field personnel who are on-call 24 hours a day, seven days a week. Consequently, they are allowed to drive Company vehicles home from work. Management is aware that drivers occasionally use these vehicles for personal business. As an example, an employee may stop at a convenience store during lunch or while driving home from work. Such practices occur even though a written Company policy exists forbidding the personal use of Company vehicles. There should be no inconsistency between policy and practice.

X. TRANSPORTATION MANAGEMENT

Company image is very important to Southern States and is reflected by management's commitment to vehicle appearance. This policy states that "It is important that the Company vehicles project a good appearance because it is a direct reflection to the Company as a whole." In keeping with this philosophy, Southern States is planning to build a vacuum and car wash center at the Apopka office.

But Company image can also be enhanced by restricting the personal use of Company vehicles. For instance, even though stopping at a convenience store may seem quite harmless to an employee, ratepayers may develop negative perceptions about the management of Southern States when seeing a Company vehicle parked at a local store especially after hours. This is why the majority of Florida's utilities have discontinued the personal use of company vehicles.

Employee morale is of course important to the management at Southern States. As a result, the Company is sensitive to the effect this kind of policy may have on employees. Often times, a policy which restricts behavior that was allowed in the past, may have a negative impact on employee morale. Management should explain the importance of Company image and how the employees can play a vital role in enhancing it by not using Company vehicles for personal business. Furthermore, because of the Tax Reform Act of 1986, the Internal Revenue Service is actively investigating the use of company vehicles for personal reasons; and if employees are found to be benefiting from personal use of Company vehicles, they will be liable for additional income tax.

73.(M) The Policy Concerning Personal Use Of Company Vehicles Should Be Expanded And Enforced.

The employee handbook for Southern States clearly states that "Company vehicles are not to be used for personal use." This policy should further specify the importance of Company image, personal use of Company vehicles during breaks and lunch as well as personal use after working hours. Furthermore, the policy should explain the consequences of not abiding by Company policy. Management should also ensure enforcement of this policy throughout the Company.

Written Policies And Procedures For Transportation Management Are Inadequate.

The fleet management function is not governed by a set of written, comprehensive policies and procedures. The employee handbook does reference accident procedures, the personal use of Company vehicles, and the consequences of drug and alcohol use while operating a Company vehicle. But these references are not nearly comprehensive enough.

Policies and procedures for transportation management should be put in writing to eliminate any operational inconsistencies among employees, such as when and what kind of basic maintenance is performed on Company vehicles. Written policies and procedures also shorten the training process for new employees. Another benefit is that they specify management's expectations of employees as well as what processes must be followed to achieve a certain result. Furthermore, policies and procedures assist in maintaining good organization by defining clear cut lines of authority and responsibility. For example, Southern States is in the process of creating a maintenance coordinator function. The responsibilities of this function should be specified in the transportation manual.

Once the policies and procedures are developed, it is management's responsibility to see that employees authorized to operate a Company vehicle possess a copy. Management must also determine that the employee clearly understands what is contained in those procedures.

Policies and procedures should be periodically reviewed to ensure they are up to date. Since conditions in an organization or department are subject to change, policies and procedures are also subject to change. As a suggestion, the General Manager could be responsible for updating the transportation manual.

74.(H) Develop Written Policies And Procedures For Transportation Management.

The policies and procedures should clearly define (at a minimum) the following:

MANAGEMENT RESPONSIBILITIES

1. Who is eligible to drive a Company vehicle and why
2. What kinds of vehicles are to be used within the fleet (size, engine, equipment)
3. What criteria will be used to determine when a vehicle will be retired
4. Purchasing procedures
5. Responsibilities of the Maintenance Coordinator
6. What kind of basic maintenance is to be performed and at what intervals.

OPERATOR RESPONSIBILITIES

1. Accident procedures
2. Payment of fines or penalties for any traffic violations while operating a Company vehicle
3. Safety precautions
4. Repairs, tires, and other maintenance
5. Gas purchase procedures
6. Company image.

No Written Policy Exists Concerning Reimbursement To Employees For Use Of Their Personal Vehicles.

Although infrequent, there are occasions that require an employee to use their own vehicle for Company business. In most instances, the employee is allowed to purchase gas at the Company's expense. Sometimes the employee must obtain prior approval for the purchase, and at other times the approval is not required. In either case, employee discretion is the only mechanism used to determine how much gas is purchased.

Employees are currently reimbursed on a per-mile basis in at least one location. This kind of reimbursement is a standard business practice and fair to both the Company and the employee. It is also easier to track personal mileage and monitor the reimbursement process. Southern States would be well served by developing this policy.

75.(L) Develop A Written Policy Concerning The Use Of Personal Vehicles For Company Business.

The policy should clearly define at a minimum the following:

1. Who is eligible to use their personal car for Company business and why
2. How and when such use will be approved
3. The basis and conditions on which reimbursement will be made, to include per-mile cost.

Southern States Is Not Utilizing The Truck Safety And Maintenance Checklist.

Several years ago, Southern States developed a safety and maintenance checklist for Company vehicles. The inspection sheet consists of items that should be examined daily as well as items that require less frequent inspection. Unfortunately, it is not being used.

There are benefits to be derived from employing this form and because safety is directly related to preventive maintenance, the benefits applicable to one are also applicable to the other. These benefits include reducing the risk of accidents and injuries to employees and the public. Secondly, the inspection sheet can be used as a tool to alert drivers of safety requirements by giving them the responsibility of regularly completing the form. Furthermore, the checklist may also be used to enhance the preventive maintenance records.

76.(M) Revise And Reinstate The Use Of The Truck Safety/Maintenance Checklist.

Southern States should consider making two distinct checklists. One checklist should address safety related items, such as the working condition of lights, the unit radio, horn and any other related items. This sheet should be completed daily by the driver and may be submitted with the employee timesheet.

The second checklist should address areas more related to preventive maintenance. These items will typically require less frequent examination and may include the review of brake and transmission fluid levels, cleanliness of air filters, tire wear and any other related items. It should be updated and maintained by the employee responsible for preventive maintenance of Company vehicles.

Southern States Lacks Adequate Controls To Prevent The Potential Misappropriation Of Gasoline Purchases.

Any employee assigned a Company vehicle is responsible for purchasing gasoline when needed. The purchase is made at a local station on a Company account and usually occurs each morning. The dispatcher is then contacted and the vehicle mileage, number of gallons purchased, and the cost are reported and entered into the vehicle log as well as the employee daily time sheet. The vehicle log is also used to monitor vehicle mileage and allows dispatch to notify drivers when an oil change should be made.

Even though data concerning the purchase of gasoline is reported several ways, no reconciliation is made between the vehicle log and the monthly gas bill. Southern States relies on the integrity of the employee and the local station to prevent any irregularities.

During the course of the audit, we were informed that Southern States was in the process of developing a feasibility study of installing Company gas pumps at the Apopka office. While this could be a potential solution to increasing control over purchases, it probably is not yet justifiable, given the number of vehicles in the fleet and in particular, the number in the Apopka area.

However, in regards to the feasibility study being developed, we believe that the approach being used was not comprehensive enough, e.g., it did not consider the total dollars expended for gasoline for even the previous year, let alone a 3-5 year period.

If in the future the Company wants to take another look at owning their own pumps, they need to start keeping proper cost statistics to support a proper cost-benefit study.

77.(M) Establish Controls For Employee Purchase Of Gasoline.

A range of gas mileage per vehicle should be established and computed with each gas purchase. This information should be recorded on the vehicle log and regularly reviewed by management. Any variations from the established gas mileage range should be examined. However, employees should not be considered the sole source of theft. Controls requiring the driver to report the purchase price per gallons to dispatch will assist in reducing the risk of theft by any local station. Furthermore, reconciliation should be made between the gas charge slips and the vehicle log.

78.(L) Use The Computer System To Track Gasoline Expenditures.

Southern States Is Not Getting An Adequate Return On Investment From Vehicles Sold To Employees.

Southern States' employees are given the opportunity to submit bids, which must be no less than \$50.00, for the purchase of Company vehicles which are ready for disposal. This practice, however is not allowing the Company to gain the greatest possible return on their vehicles.

As shown in Exhibit XIII, six vehicles were sold to Company employees at a total disposition price of \$1,190. As a result, the average selling price of each vehicle was \$198. Actual selling prices, however, ranged from \$400 to \$100, and vehicle models varied from a 1978 Ford pickup to a 1982 Chevrolet Chevette.

Based upon market analysis and according to the NADA blue book value, after adjustment for high mileage, the average retail value of each of these six vehicles should have been \$1,520. The difference between the average price per vehicle (\$198) and the average retail value per vehicle (\$1,520) discloses an amount of \$1,322 which could have been received for each vehicle.

According to our estimates, though roughly computed, the total value which should have been recovered is \$9,125. Therefore, it is estimated that Southern States lost approximately \$7,935 in vehicle disposals for 1987 alone.

SOUTHERN STATES UTILITIES, INC.
VEHICLES PURCHASED BY EMPLOYEES IN 1987

<u>VEHICLE DESCRIPTION</u>	<u>SALES PRICE</u>	<u>RETAIL VALUE ^a</u>	<u>1987 DOLLARS NOT RECOVERED</u>
1981 Chevrolet Pickup	\$ 150	\$2,700	\$(2,550)
1980 Datsun Pickup	250	1,500	(1,250)
1980 Dodge Pickup	130	1,900	(1,770)
1978 Ford Pickup	160	1,200 ^{aa}	(1,040)
1978 Ford Pickup	100	1,200 ^{aa}	(1,100)
1982 Chevrolet Chevette	400	625	(225)
	<u>\$1,190</u>	<u>\$9,125</u>	<u>\$(7,935)</u>

NOTE: AVERAGE RETAIL VALUE PER VEHICLE WAS \$1,520
 AVERAGE SALES PRICE PER VEHICLE WAS \$ 190
 AVERAGE NON-RECOVERED DOLLARS/VEHICLE \$1,322

^a BASED ON LOWEST BLUE BOOK VALUE (ADJUSTED FOR HIGH MILEAGE).

^{aa} BASED ON MARKET ANALYSIS (BUY TO AGE).

Source: Company Records And FPSC Analysis

79.(H) Develop A Written Procedure Concerning The Sale Of Company Vehicles To Employees.

The procedure should include steps that interested employees should take in submitting bids. It should also explain how the average retail value is determined, which may be through the use of the NADA blue book, through market analysis, or through obtaining a qualified appraisal. Above all, the policy should emphasize that only after the average retail value has been determined should a decision be made upon an acceptable minimum bid. This procedure should ensure Southern States an increased return on Company vehicles.

ACKNOWLEDGMENT OF FPSC PARTICIPANTS

The preceding management audit report of Southern States Utilities, Inc. was produced by the Bureau of Management Studies within the Division of Auditing and Financial Analysis. Any questions regarding this report should be directed to the Project Manager, Terry Kramer at (904) 488-8147 or write to:

Florida Public Service Commission
Bureau of Management Studies
101 East Gaines Street
Tallahassee, Florida 32399-0865

As Project Manager, I would like to acknowledge and commend the following individuals for their contributions to this report:

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PRODUCTION ASSISTANCE

Carol Womble, Administrative Secretary

Our acknowledgments would not be complete without recognizing the technical expertise contributed by the Director and staff of the Division of Water and Sewer which enabled us to proceed with more assuredness.

Terrence L. Kramer

Terrence L. Kramer, Project Manager

Exhibit ___ (FLL-4)
Cover Page

PSC AUDIT CORRESPONDENCE

M E M O R A N D U M

June 13, 1986

TO : TIM DEVLIN, DIRECTOR, DIVISION OF AUDITING AND FINANCIAL
ANALYSIS

FROM: DALE A. KNAPP, DIRECTOR, DIVISION OF WATER AND SEWER

RE : PROPOSED MANAGEMENT AUDIT OF SOUTHERN STATES UTILITIES, INC.

We are, through this memorandum, requesting a management audit of Southern States Utilities, Inc. (SSUI). We are requesting the audit because of our concern over the efficient management of the utility company. We are concerned that SSUI is being managed using a crisis management approach which ultimately ends up costing the customers. The goal that we hope the audit will achieve will be to improve upon the efficiency of SSUI management which will end up benefiting the customers as well.

Company Background

SSUI was organized on November 15, 1961. The company's main goal has been plant expansion through acquisition. Staff believes that one of the reasons that the company was organized was to buy utilities to sell to governmental agencies at a substantial profit. The goal of expansion by acquisition has been followed dutifully over the years. The company now owns well over 56 individual water and sewer systems in 10 counties regulated by the FPSC. SSUI also owns other systems in nonregulated counties.

SSUI, from its date of organization to the present, has argued the idea that continued utility acquisition is beneficial to present customers because of economies of scale. The per customer

cost would be cheaper as the company grew larger. This idea sounds good but has never materialized. Instead the opposite has occurred, costs have gone up. This we feel is partially due to SSUI's haphazard acquisition program which has resulted in the acquisition of small "mom and pop" type systems. These types of systems are expensive to operate. We also feel that costs have risen due to the inefficient management of SSUI.

Listed below is some general information that you will need to accomplish the management audit:

Utility address:

Southern States Utilities, Inc.
750 West Colonial Drive
Orlando, Florida 32804

Telephone: (305) 425-1695 .

Names and Titles of Utility Contacts:

Jack F. Rowe	Chief Executive Officer
Charles L. Sweat	President
Terry Russ	Controller
Judith Kimball	Rate Director

We have listed below the areas that we would like to see covered by the management audit. It would probably be most helpful for your management audit team to go over each of these areas with our staff before designing an audit game plan.

Areas of concern:

- Expense of maintaining a Miami office when no operations exist in that area.
- Competitive Bidding Practices.
- The need for a new office building.
- Management of cash flow.
- Borrowing procedures.

- The appropriateness of leasing equipment vs. purchasing.
- Company's utility acquisition program.
- Time management (ie; proper time records).
- Manpower utilization (especially field personnel)
- Planned plant expansion vs. crisis management (projects followed through to completion)
- Nepotism.
- Time and expense of managing other utility companies. (Spreading of employees to thin?)
- Financial management through a budgeting process.
- Efficient use of computer system:
 - Access to computer system
 - Adequate use of computer system operations
 - Timely access to detail information
 - computerized information vs. manually kept information
- Field Operations:
 - Preventative maintenance program
 - If one exists, is it being used?
 - Communications with Orlando office
 - High turn over of field staff
- Internal Communication both internally and with parent corporation.
- Proper training of field office personnel on proper customer service.
- Internal chain of command (poorly planned?)
 - delegation of authority
- Planning and goal obtainment:
 - Establishment of goals and objectives
 - Appropriateness of goals and objectives
 - Measuring performance of established goals and objectives (Performance evaluations)
- Rate case filings:
 - Cost benefit of having separate department for filing rate cases.
 - Effectiveness of structure.

We have also attached to this memorandum several documents that we thought would be beneficial to you in the preparation of

his management audit.

Please let us know when you would like to meet on this matter and I will make all of the appropriate staff available.

DAK/MW/mww

Attachments

cc: Bill Talbott, Deputy Executive Director/Technical
Water and Sewer Management
Mark Laux, Bureau Chief, Management Studies

DAVID L. SWAFFORD
Executive Director



FLETCHER BUILDING
101 EAST GAINES STREET
TALLAHASSEE 32301

Public Service Commission

December 18, 1986

Mr. Charles L. Sweat, President
Southern States Utilities, Inc.
1000 Color Place
Apopka, Fl. 32703

Dear Mr. Sweat:

Southern States Utilities, Inc. (SSUI) has been selected by the Florida Public Service Commission to receive a Comprehensive Management Audit. Your selection was based upon the Commission's desire to extend its management audit coverage to the water and sewer industry and upon the recommendation of our Division of Water and Sewer.

It is the purpose of such audits to review the economy and efficiency of the operations of the auditee and to make recommendations for improvements where they are found to be appropriate. Such audits also provide the opportunity for the auditee to impress the auditors with those aspects of their operations where they are doing an outstanding job. The audit will be conducted by the staff of our Management Studies Bureau, and a final report will be presented to the Commission.

The audit will cover, at a minimum, the following areas of your operation:

1. Organization and Management
2. Financial Management
3. Personnel Management
4. Electronic Data Processing
5. Asset Management
6. Customer Services

We are reserving the right to add additional areas of concern during the course of this review, if deemed appropriate.

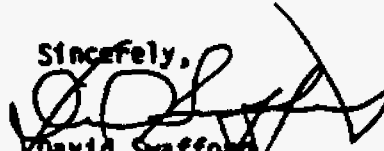
As a preliminary preparation, we request that the following actions be taken by your company:

- 1) Hold an initial audit conference. Mr. Terrence L. Kramer of our Management Studies Staff has been appointed as the Project Manager for this project. He will be contacting you in the near future to confirm the time and place for an initial conference in late January or early February 1987.
- 2) Designate a Company official to be responsible for audit interface with our staff. We suggest that this be an officer, of the company since it is important that they be capable of rendering an opinion as to the proprietary and/or confidential nature of the information requested by our auditors. Please advise Mr. Kramer of the person so designated.
- 3) Issue a written announcement to all of your employees, informing them of this review and soliciting their fullest cooperation. We have found that such a letter serves to greatly reduce anxiety or reluctance to participate that can arise when employees are not fully informed of both the purpose of our presence in their work environment, and the attitude of Company Management toward such a study.
- 4) Furnish us with the attached list of documents by January 12, 1987 so as to allow us to familiarize ourselves, more fully, with the company structure and operations. The information available through these sources should provide us with sufficient detail to prepare our preliminary work plans with a minimum of personal contact with your employees, prior to the actual field interviews. The details of providing such documentation can be worked out by your appointed coordinator with Mr. Kramer.

I would like to thank you in advance for your cooperation and for the efforts of all Southern States personnel toward the satisfactory and expeditious completion of this audit. In turn, we pledge to you that we will make every effort possible to minimize interruptions to your work schedules, and provide you with a fair and impartial management review of your operations.

Please contact me if I can be of any assistance or answer any questions regarding this audit.

Sincerely,


David Swafford
Executive Director

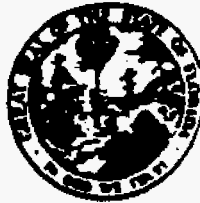
DLS:DK:cv

CC: Mark Laux, Chief, Bureau of Management Studies, DAFA
Terry Kramer, DAFA/MS
Chuck Hill, Director, DNS

DOCUMENT REQUEST
SOUTHERN STATES UTILITIES, INC. (S.S.U.I)

1. Organization Charts
- Complete Fla. Operations
2. Systems Location Map
- Fla. map locating all systems regulated and non-regulated
3. Policy & Procedures Manuals.
4. Flow charts and/or descriptions of Major Operations.
5. Statements of Goals & Objectives
6. Copies of SSUI Audit Reports (and Annual Reports) for past five years. (Not your PSC Annual Reports)
7. Copies of parent company (Universal Telephone, Inc. and Minnesota Power) Annual Reports for past five years, as available.
8. Sale of Unsecured Notes current literature provided to purchasers.
9. A copy of the Management Operation Contracts providing for operation of non-owned utilities.
10. A copy of agreements and explanation of working relationships with other affiliates such as Deltona.
11. Operating and Construction budgets for past three years.
12. Projected Business Plan or similar document.
(Note: We have a copy of your Projected 1985 Business Plan. Please provide any such documents issued more recently.)
13. Employees Handbook or similar document.
(Note: we have a copy of your July 1985 Employees Handbook. Please provide any such documents issued more recently.)
14. Latest SEC form 10K for SSUI, if prepared.
15. Latest SEC form 10K for Minnesota Power.

Commissioners:
 KATIE NICHOLS, Chairman
 GERALD L. (JERRY) GUNTER
 JOHN T. MERMON
 JOHN R. MARKS, III
 MICHAEL McK. WILSON



TIMOTHY J. DEVLIN, Director
 Auditing & Financial Analysis Division
 (904) 488-8147

Public Service Commission

February 11, 1987

Ms. Judith J. Kimball, CPA
 Rate Director
 Southern States Utilities, Inc.
 1000 Color Place
 Apopka, Fl. 32703

Dear Ms. Kimball:

RE: S.S.U.I. Management Audit

Thank you for your letter of January 29th and for the documents which accompanied it. We were impressed with, and greatly appreciated, the professionalism with which the documentation was assembled.

As briefly mentioned in our letter of February 3rd, we look forward to receiving the remainder of our original document request (Ref: letter December 18, 1986). In conjunction with that additional data, we would appreciate your added response to the following:

Item:

1. Organization Charts - The Business Plan 1985-87 (pg. 12) contains a brief chart; however, we could use one with more details.
3. Policy and Procedures Manual - Please advise if such a document is available and being sent.
4. Flow Charts and/or Descriptions of Major Operations - Please advise if such documents are available and being sent.
11. Operating and Construction Budgets - In addition to the past 3 years, we would like to receive a copy of your 1987 Operating Budget.

Thanks again for your cooperation and time in helping us to better understand your work environment. Please give me a call if there is any question.

Sincerely,

Terrence L. Kramer

Terrence L. Kramer
 Project Manager, DAFA/MS

TLK:cw
 CC: Deborah Achilles
 Mark Laux

**GENERAL MANAGEMENT REVIEW
OF
SOUTHERN STATES UTILITIES, INC.
(A Water and Sewer Service Company)**

**PROJECT
ORIENTATION
BRIEFING**

**BUREAU OF MANAGEMENT STUDIES
(Mark L. Laux, Chief)**

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
(Timothy J. Devlin, Director)**

**FLORIDA PUBLIC SERVICE COMMISSION
(Katie Nichols, Chairman)**

April 6, 1987

AGENDA

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4. COMPANY INVOLVEMENT IN THE MANAGEMENT REVIEW PROCESS.....	4
5. TIME FRAME OF THE MANAGEMENT REVIEW.....	5
6. TYPICAL INTERVIEW TOPICS.....	6

INITIAL MEETING - PURPOSE

- o TO ACQUAINT SENIOR EXECUTIVES WITH OUR STAFF
- o TO ANSWER QUESTIONS ABOUT THE AUDIT
- o TO OBTAIN AWARENESS AND PERSPECTIVE RELATIVE TO THE COMPANY'S OPERATING ENVIRONMENT
- o TO ENSURE COMMUNICATION CHANNELS ARE CLEARLY ESTABLISHED

GENERAL OBJECTIVES

- o TO PROVIDE AN INDEPENDENT AND COMPREHENSIVE REVIEW OF THE EFFECTIVENESS AND EFFICIENCY OF SOUTHERN STATE'S MANAGEMENT AND OF SELECTED COMPANY OPERATIONS
- o TO IDENTIFY FUNCTIONS BEING PERFORMED WELL
- o TO DEVELOP MEANINGFUL, COST-EFFECTIVE RECOMMENDATIONS FOR IMPROVEMENT
- o TO PRODUCE AN ACCURATE AND COMPREHENSIVE REPORT OF OUR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS
- o TO ENSURE THE SATISFACTORY IMPLEMENTATION OF THE RECOMMENDATIONS

State of Florida



Commissioners:
 MICHAEL McK. WILSON, CHAIRMAN
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. (JERRY) GUNTER
 JOHN T. HERNDON

TIMOTHY J. DEVLIN, Director
 Auditing & Financial Analysis Division
 (904) 488-8147

Public Service Commission

September 11, 1989

Mr. Charles E. Wood
 Vice President Administration
 Southern States Utilities, Inc.
 1000 Color Place
 Apopka, Fl. 32703

Dear Mr. Wood:

RE: 4th Quarterly Report, Dated August 20, 1989

We have now completed our review of the documentation which you submitted in support of your requests for closure of Recommendations Nos. 6, 8, 9, 13, 33, 38, 39, 47, 54, 58, 60, 61, 63, 64 and 79. We are pleased to inform you that we have agreed to close (See Attachment A) all of the requests except No. 6 (See Attachment B).

Our records now show the current status of your 79 recommendations to be: 40 closed, 35 open, and 4 in our Agree-to-Disagree category (See Attachment C).

We are extremely pleased with the results of your re-evaluation of the 17 items in the Agree-to-Disagree category which allowed you to change the status on 13 of those items to "agree to implement." Of those 13 items, we were able to close 8 with the remaining 5 being in the "open" category. Your willingness to keep an open mind and your cooperation have benefited us both. Thanks.

Your next report will be due on November 20th, 1989.

Sincerely,

Terrence L. Kramer
 Terrence L. Kramer (BQR)
 Sr. Management Analyst II

TLK:cw

CC: David Swafford, FPSC
 Tim Devlin, FPSC
 Deborah Flannagan, FPSC
 Lisa Harvey, FPSC

State of Florida

Commissioners:
Michael McK. Wilson, *Chairman*
Thomas M. Beard
Betty Easley
Gerald L. (Jerry) Gantier
Frank S. Messersmith



Auditing & Financial Analysis Division
Timothy J. Devlin, *Director*
(904) 488-8147

V.P.

Public Service Commission

October 10, 1990

Mr. Charles E. Wood
Vice President, Administration
Southern States Utilities Services
1000 Color Place
Apopka, Florida 32703

Dear Mr. Wood:

Re: 8th Quarterly Report, Dated September 7, 1990

We have completed our review of your report, and we have agreed to close 11 of the 15 Open recommendations you requested closure for (see Attachment A). We also have agreed to close recommendations 2 and 4 due to the substantial change in operational management and based upon the documented plans and discussions presented.

As is our usual practice, you will find explanations for the four recommendations which we did not close (Nos. 6, 66, 75 & 78) in Attachment B.

Our records now show the following status of your 79 recommendations: Open-19; Closed 58; and 2 in our Agree-to-Disagree category (see Attachment C).

Thank you for your timely response and the quality of the documentation you are presenting. Your next report will be due on November 20, 1990.

Sincerely,

A handwritten signature in cursive script that reads "Terrence L. Kramer".

Terrence L. Kramer
Senior Management Analyst II
Bureau of Management Studies

TLK:tk

cc: David Swafford, FPSC
Deborah Flannagan, FPSC
Tim Devlin, FPSC
Lisa Harvey, FPSC

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An Affirmative Action/Equal Opportunity Employer



Post-It™ brand fax transmittal memo 7671		# of pages
To: Forest Ludsen	From: Charles Wood	
Co.	Co.	
Dept.	Phone #	
Fax #	Fax #	

General Offices
 1000 Color Place
 Apopka, FL 32703
 (407) 880-0058

February 20, 1992

Mr. Terrence L. Kramer
 Senior Management Analyst II
 Bureau of Regulatory Review
 Florida Public Service Commission
 101 E. Gains Street
 Tallahassee, Fl. 32399-0865

Dear Mr. Kramer:

This is in response to your memorandum of January 7th and represents our 14th Quarterly Report. Our records indicate Issues 34 and 35 in the open category, and Issues 11 and 18 in the Agree to Disagree category.

Attached, you will find the additional information for issues 34 and 35. I trust you find the attached satisfactory and can agree to close both of these items. In regards to No's 11 and 18 which remain in the Agree to Disagree category, we respectfully suggest that these issues have been resolved for some time and should be closed. For your convenience - I've also included our reasons to support this recommendation.

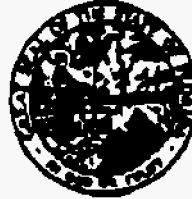
Mr. Kramer, I believe you will find this response adequate to close out all remaining issues with this audit. Your department has been very cooperative in assisting us through this process, which we very much appreciate.

If we have missed anything along the way, please let me know.

Cordially,

Charles E. Wood
 Vice President
 Planning and Engineering

Commissioners:
THOMAS M. BEARD, CHAIRMAN
SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO



Division of Research and Regulatory Review
MARY ANDREWS BANE, DIRECTOR
(904) 487-1325

Public Service Commission

March 12, 1992

Mr. Charles E. Wood
Vice President, Planning and Engineering
Southern States Utilities Services
1000 Color Place
Apopka, Florida 32703

Dear Mr. Wood:

Re: 14th Quarterly Report, Dated February 20, 1992

We have completed our review of your report, and once again we have to deny closure for recommendations Nos. 34 and 35 which are closely tied to each other. The problem is in the area of "job checklists" and our desire to see their use more widespread than now appears to be the case (see attached explanation for more detail).

Our records now show the following status of your 79 recommendations: Open-2; Closed 75; and 2 in our Agree-to-Disagree category.

Again, thank you for your response and the quality of the documentation you have been presenting.

Your next report will be due on May 20, 1992.

Sincerely,

A handwritten signature in black ink that reads "Terrence L. Kramer".

Terrence L. Kramer
Senior Management Analyst II
Bureau of Regulatory Review

cc: David Swafford, FPSC
Mary Bane, FPSC
Deborah Flannagan, FPSC
Lisa Harvey, FPSC

Commissioners:

THOMAS M. BEARD, CHAIRMAN
SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO



Division of Research and Regulatory Review
MARY ANDREWS BANE, DIRECTOR
(904) 487-1325

Public Service Commission

June 2, 1992

Mr. Charles E. Wood
Vice President, Planning and Engineering
Southern States Utilities Services
1000 Color Place
Apopka, Florida 32703

Dear Mr. Wood:

Re: 15th Quarterly Report, Dated April 20, 1992

We have completed our review of your report, and we are pleased to be able to close recommendations Nos. 34 and 35 which are closely tied to each other.

Congratulations! The closing of these two recommendations brings us to the completion of the Implementation Program. Our records now show the following status of your 79 recommendations: Open - 0 ; Closed - 77 ; and 2 in our Agree-to-Disagree category.

Thank you for your cooperation and dedication to the requirements of the implementation program. The timeliness and quality of the documentation you have provided has been appreciated. We wish to commend you and all other participants involved in implementing these recommendations, for the professional manner in which you have responded and completed this program.

However, there is one final piece of information that we still need from you-- a synopsis¹ of the costs and benefits derived as a result of this audit/implementation process. Would you please compile a report, listing all identifiable and significant (\$5,000 or more) costs and savings associated with each recommendation. Your narrative comments concerning any non-quantifiable recommendations of particular benefit to your operations would also be welcome. Thank you! If you have any further questions, please call (904) 487-1325.

STUDY APPROACH

- o INITIAL DOCUMENT REQUEST
- o ORIENTATION MEETING WITH SENIOR MANAGEMENT OF THE COMPANY
- o INTERVIEW SELECTED COMPANY PERSONNEL
- o REVIEW AND ANALYZE ALL DATA COLLECTED
- o DEVELOP FINDINGS AND RECOMMENDATIONS
- o REVIEW THE FACTS AND PRACTICALITY OF OUR FINDINGS AND RECOMMENDATIONS WITH OPERATING MANAGEMENT OF THE COMPANY
- o PREPARE INITIAL DRAFT OF REPORT
- o SUBMIT DRAFT TO COMPANY FOR REVIEW AND FORMAL COMMENTS
- o DISCUSS THE MEANING OF OUR FINDINGS AND RECOMMENDATIONS WITH SENIOR MANAGEMENT OF THE COMPANY
- o INITIATE IMPLEMENTATION AND FINAL REPORT PHASE
 1. Solicit Company's Formal Comments
 2. Solicit Company's Completion of Cost/Benefit Analysis Forms
 3. Solicit Company's Action Plans for Each Recommendation.
- o MANAGEMENT STUDIES WILL COMPLETE THEIR PORTION OF COST/BENEFIT FORMS AND ATTEMPT TO RECONCILE DIFFERENCES WHERE POSSIBLE.
- o PUBLISH FINAL REPORT WITH COMPANY'S COMMENTS
- o PRESENT FINAL REPORT TO THE COMMISSIONERS
- o MONITOR IMPLEMENTATION ACTIVITY TO COMPLETION

COMPANY INVOLVEMENT IN THE MANAGEMENT REVIEW PROCESS

- o PROVIDE WORKING SPACE AND A COORDINATOR
- o PARTICIPATE IN INTERVIEWS WITH MANAGEMENT STUDIES STAFF
- o PROVIDE DOCUMENTS AS REQUESTED
- o REVIEW FINDINGS AND RECOMMENDATIONS FOR FACTUAL ACCURACY WITH MANAGEMENT STUDIES STAFF
- o REVIEW DRAFT OF REPORT AND PREPARE STATEMENT OF AGREEMENT OR DISAGREEMENT WITH EACH RECOMMENDATION
- o COMPLETE COST/BENEFIT ANALYSIS FORMS FOR EACH RECOMMENDATION
- o PREPARE DETAILED ACTION PLANS FOR IMPLEMENTING EACH RECOMMENDATION; OR A DETAILED EXPLANATION OF DISAGREEMENT
- o PREPARE QUARTERLY STATUS REPORTS OF ALL RECOMMENDATIONS NOT YET "CLOSED"
- o PROVIDE SPECIFIC, VERIFIABLE DOCUMENTATION AND COST AND/OR SAVINGS FIGURES TO SUPPORT YOUR REQUEST FOR CLOSURE OF EACH RECOMMENDATION IMPLEMENTED
- o RESPOND TO ALL REQUESTS FOR ADDITIONAL EXPLANATION AND/OR DOCUMENTATION
- o PARTICIPATE IN ONGOING DIALOG TO TRY TO RESOLVE ALL RECOMMENDATIONS IN DISAGREEMENT

State of Florida
Public Service Commission

Final Report
Issued Sept 1988



Auditing
and
Financial Analysis
Division

FINAL REPORT
OF THE
MANAGEMENT REVIEW OF SOUTHERN STATES UTILITIES, INC.
ISSUED SEPTEMBER 1948

BY AUTHORITY OF
THE STATE OF FLORIDA
FOR
THE FLORIDA PUBLIC SERVICE COMMISSION

BUREAU OF MANAGEMENT STUDIES
DIVISION OF AUDITING AND FINANCIAL ANALYSIS
(REPORT NO. SSUI-C-1-6352/FINAL)

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VI. CUSTOMER SERVICES

I. INTRODUCTION

AUTHORITY AND RESPONSIBILITY

The Florida Public Service Commission (Commission) by state law, is charged with the responsibility for regulating not only the rates used, but also the quality of the service provided by the private, investor-owned utilities which serve the public throughout the State of Florida. As directed by Florida Statutes, the Commission sets and monitors all rates for utilities under their jurisdiction. Such rates are set at a level which allows a reasonable rate of return on a Commission approved investment base, and which recognizes an acceptable level of service quality being received by the utilities' customers.

In order to meet their mandated responsibilities, the Commission employs a staff of analysts and auditors to calculate and monitor the rate structure and to verify the existence of the investment base. In addition, the auditors may review all or selected portions of the day-to-day operations and management of the company as a means of verifying the extent to which that utility provides an effective, efficient and economic product while still giving customer satisfaction.

More specifically, the Commission has established the Bureau of Management Studies within the Division of Auditing and Financial Analysis to perform Management Audits on a selected basis. While the results of these audits are not intended to reflect directly on the ratemaking process, they are intended to provide important supplemental information as to the overall prudence of the way the utility conducts its business.

BACKGROUND

This report represents the first comprehensive management review of a water and sewer utility conducted by Management Studies. It was undertaken in response to a request of the Division of Water and Sewer which has primary responsibility for the regulatory oversight of the industry. Their primary concern at the time of request was with the efficiency of Southern State's management, more specifically, that the Company was engaged in "crisis" management at an ultimate increased cost to its customers.

Although this review centers on Southern States Utilities, Inc. (SSU), other companies of a similar size and nature may enhance their effectiveness and efficiency by reviewing their own operational and management practices in light of our findings and recommendations at Southern States.

SCOPE AND OBJECTIVES

While the scope and objectives of this audit were defined by Management Studies, they were done with due consideration of the specific concerns expressed by staff of the Division of Water and Sewer.

The scope of our review was designed to be comprehensive in nature, comprising all major aspects of the management and operations of Southern States Utilities. Specifically, the following areas were covered:

- o Organization and Management
- o Financial Management
- o Field Operations
- o Customer Services
- o Personnel Management
- o EDP Controls
- o Purchasing and Inventory Control
- o Transportation Management

The primary objectives of this review were as follows:

- o To provide an independent and comprehensive review of the effectiveness and efficiency of Southern States' management and of selected company operations
- o To identify functions being performed well
- o To develop meaningful, cost-effective recommendations for improvement
- o To produce an accurate and comprehensive report of our findings, conclusions, and recommendations
- o To ensure the satisfactory implementation of our recommendations.

It is our sincere intention that this report describes the Company's strengths, as well as its potential areas for improved managerial and operational practice.

METHODOLOGY

The review of each individual area was conducted in three primary phases:

- o Orientation/Preliminary Survey
- o Review and Analysis
- o Report Writing

During the Orientation/Preliminary Survey phase of each area, the Commission staff visited Company facilities and met with key management personnel in order to develop an understanding of the Company and its environment, and to introduce management to the audit process. Appropriate documents were gathered and reviewed, providing technical definition and direction, as well as a better understanding of the Company's key areas. Upon completion of this phase, the staff developed comprehensive work plans detailing the timing and topics in each area of review.

The Review and Analysis phase consisted of two major steps: 1) data collection and 2) review and analysis. Data was collected through interviews with Company personnel, review of documents and reports, observation of field operations and facilities, and written surveys. All key personnel from senior management to line personnel were interviewed, representing the most time-consuming aspect of the review. Data analysis was then performed in each area under review. The analysis consisted of summarization, development of performance measures, and evaluation. Utilizing both qualitative and quantitative measures, the Company's overall performance was evaluated, identifying strengths as well as areas of potential improvement.

The culmination of the process was the Report Writing phase. Upon completion, report drafts were provided to the Company for review purposes. The findings and recommendation were discussed with Company representatives to verify supporting data, and to ensure the Company's understanding of those findings.

An Executive Summary (under separate cover) provides an overall assessment for each area reviewed at SSU. Following the assessments are the recommendations for that particular area. For the Company's benefit, each recommendation has been prioritized by assigning a value of high (H), medium (M), or low (L). The value signifies the relative importance of each recommendation as perceived by our staff. The Company's verbatim responses appear directly underneath each recommendation, and where appropriate, additional staff comments follow the Company's response. A true understanding of the issues, however, can only be accomplished by reading this final report.

ACKNOWLEDGMENTS

The successful performance of a management audit such as this is highly dependent upon the degree of cooperation and assistance given by the Company in general, and the individual participants in particular.

For this reason, the staff of the Management Studies Bureau wishes to express its sincerest appreciation to all the management and operations' employees of Southern States Utilities, Inc.

We would especially like to thank Ms. Judith J. Kimball who coordinated our data requests and our interview scheduling throughout the audit.

Finally, we must acknowledge the exceptional attitude of cooperation and encouragement which was exhibited by the Company's President, Mr. Charles L. Sweat. As a result of his efforts, we experienced a positive, congenial, and professional atmosphere throughout the organization.

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SOUTHERN STATES UTILITIES MANAGL .UDIT

FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN
1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4	1 2 3 4

DOC. REVIEW & WORK PLANS

*** ***** ***

ORIENTATION

**
4/06

PRELIMINARY SURVEY

*** ***** **
100 HRS/AUDITOR

FIELD WORK & ANALYSIS

== _____ ==
300 HRS/AUDITOR

FINALIZED FINDINGS & RECOMMENDATIONS

*** **
40 HRS/AUDITOR

REVIEW WITH COMPANY

REPORT WRITING

*** ***** **
200 HRS/AUDITOR

1ST DRAFT DUE

== _____ ==
SUPERVISORY REVIEW
9/10

DRAFT TO COMPANY FOR COMMENTS, ACTION PLAN, COST BENEFIT

**
10/04

MEET, STUDIED COST BENEFIT PREPARATION

20 HRS/AUDITOR

DRAFT DUE BACK

**
11/01

REPORT PREPARATION

60 HRS/AUDITOR
REVIEW TYPING, PRINTING, CORRECTING

FINAL REPORT DUE

1/07

INTERVIEWS - TYPICAL TOPICS

- o GOALS AND OBJECTIVES OF FUNCTIONAL GROUPS
- o RECENT ORGANIZATIONAL OR OPERATIONAL DEVELOPMENTS
- o RESULTS OF RECENT IMPROVEMENT PROGRAMS
- o SPECIFIC PROBLEMS BEING ADDRESSED
- o MISSION AND FUNCTIONS OF ORGNIZATIONAL GROUPS
- o PROCESS FOR TRANSLATING PERCEIVED ORGANIZATIONAL NEEDS INTO PLANS OF ACTION
- o IDENTIFICATION OF PERSONNEL FOR INTERVIEWS

MANAGEMENT AUDIT
SOUTHERN STATES UTILITIES, INC.

MARK LAUX
BUREAU CHIEF

TERRY KRAMER
PROJECT MANAGER

DAVE KESLER
* Customer Service
• EDP

DALE DeHART
• Financial Mgt
• Personnel

ANNETTE PEARCE
• Executive Mgt & Org.

DALE KNAPP
• Cons't Mgt & System Ops.

SHEILA MILLER
• Exec. Mgt & Org
• Personnel

-7-

MARK B. LAUX is a Bureau Chief in the Division of Auditing and Financial Analysis, where he supervises the operations of the Management Studies Section. Since joining the Commission in its Research Department in 1979, he has participated in all areas of utility regulation from rate hearings to public awareness programs.

Along with his work at the state level, Mr. Laux has been appointed to a number of national task forces for MARAC and MRAI mainly in the areas of computer modeling and incentive regulation.

Mr. Laux holds an MBA in Finance from Florida State University and a B.S. in Operations Research.

TERRENCE L. KRAMER is a Senior Management Analyst Supervisor for the Management Studies Section of the Division of Auditing and Financial Analysis. He joined the Commission in October 1977 as field auditor and participated in rate case audits and standard compliance audits of all regulated industries. In October 1978, he joined the initial staff of the Management Studies Section and was instrumental in its growth and development.

Prior to coming to the Commission, he held positions with the West Virginia Racing Commission as an Auditor-Internal Supervisor; as an Internal Auditor and as an Engineering Research Analyst for an electronics manufacturer; and as a Program Manager for Instructional Systems Development with the United States Air Force.

He earned his BS in Business Administration (Personnel Management) from the Ohio State University in 1960, and he earned a BA in Accounting from the University of West Florida in 1977.

DAVID M. KESLER is a Senior Management Analyst Supervisor for the Management Studies Section of the Division of Auditing and Financial Analysis. He joined the Commission in April of 1982 as a Utilities Management Analyst, and has participated in reviews of both electric and telephone companies.

Prior to his arrival at the FPSC, Mr. Kesler had just returned from extensive traveling, during which he held various positions in Western parks and ski resorts. He also spent three years in the management review section of Florida State University. Upon graduation from college, Mr. Kesler worked as a special projects accountant with the Broward County Finance Department, specializing in indirect cost allocation for federal grant administration.

Mr. Kesler earned his B.S. in accounting from Florida State University in 1975, and is currently pursuing his C.P.A.

DALE ANN DEHART is a Management Review Specialist for the Management Studies Section of the Division of Auditing and Financial Analysis. She joined the Commission in February 1985 and has participated in a comprehensive management audit of a telephone company. She has also participated in the review of a major electric utility company.

Prior to her arrival at the Commission, Ms. DeHart was a Program Auditor II with the Office of the Auditor General and a Management Analyst with MET of America, a management consulting and research firm. While with MET, she was responsible for implementing a comprehensive management system in a federal agency. She also has worked as a Research Assistant with the Executive Office of the Governor.

Ms. DeHart is currently pursuing a Ph.D. in the Public Administration from Florida State University. She received a Master of science degree in Public Administration from F.S.U. in May 1982, specializing in Policy Development and Personnel Management. She earned a Bachelor of Arts degree in Psychology from the University of Florida in 1978.

ANNETTE L. PEARCE is a Senior Management Analyst for the Management Studies Section of the Division of Auditing and Financial Analysis. She joined the Commission in January 1985. She has participated in a cross-sectional management study of three telephone companies. She has also participated in the review of a major electric utility company.

Prior to joining the Public Service Commission, Ms. Pearce was a Program Auditor with the Office of the Auditor General, auditing state programs for efficiency and effectiveness.

Her undergraduate degree is in English. She earned a Ph.D. in psychology at the University of Florida in 1983.

DALE A. KNAPP is a Senior Management Analyst for the Management Studies Section of the Division of Auditing and Financial Analysis of the Florida Public Service Commission. He joined the Commission in December 1980 as Director of the Division of Water and Sewer.

Prior to coming to the Commission, he held the position of Administrator with the Metropolitan Dade County Water and Sewer board for 12 years. His previous work experience includes four years as a Junior Accountant with the Regional Public Accounting Firm of Potter, Bower and Company, CPA's (Orlando), primarily performing audits of Public Utilities in Central Florida. Mr. Knapp was twice nominated to the Governor of Florida by the PSC Nominating Council on a slate of several names from which the Governor is required to make appointments to the PSC. He has served on the Staff Subcommittee of the BANC Water Committee for six years and frequent speaker at their annual rate seminars.

Mr. Knapp is a CPA and holds a BS BA with a major in Accounting, graduating from the University of Florida in 1960.

SHEILA B. MILLER is a Senior Management Analyst for the Management Studies Section of the Division of Auditing and Financial Analysis. She joined the Commission in February of 1987.

Prior to her arrival at the Commission, Ms. Miller spent six years with the Florida Department of Revenue. During the last several years of employment with the Department, she held a supervisory position in the review and examination of tax documents. Her responsibilities included the evaluation of audit programs, planning and making resource assignments, monitoring staff time utilization and assuring standards of production were met.

Ms. Miller received a B.S. in Marketing from the College of Business at Florida State University in 1984. She is currently enrolled in the Certified Public Manager's Program offered by the Center for Professional Development and Public Service of Florida State University.

Commissioners

KATIE NICHOLS, CHAIRMAN
 THOMAS W. BEARD
 GERALD L. (JERRY) GUNTER
 JOHN T. HERNDON
 MICHAEL MCK. WILSON



TIMOTHY J. DEVLIN, Director
 Auditing & Financial Analysis Division
 (904) 488-8147

Public Service Commission

April 7, 1988

Mr. Charles L. Sweat, President
 Southern States Utilities, Inc.
 1000 Color Place
 Apopka, Florida 32703

Dear Mr. Sweat:

- Re: (1) Transmittal of Management Audit Report drafts
 (2) Requirements for completion of your management audit

This letter consists of three sections. Part I will address the procedures for you to respond to each of the recommendations resulting from our review; Part II will address the procedures for you to complete a cost/benefit analysis for each recommendation; and Part III will address the requirements of our implementation program which ensures that each recommendation is followed up to an acceptable conclusion.

You are asked to work on all three parts simultaneously, resulting in a response to us by May 30, 1988. Your response will include for each recommendation:

- (1) Your comments of agreement or disagreement.
- (2) Your estimates of the costs, savings, and benefits.
- (3) Your planned steps of action to implement.

We have enclosed five copies each of our final report draft containing the results of our management review of your company. Your audit resulted in 79 recommendations for improvement. We hope that you feel, as we do, that these recommendations will prove to be mutually beneficial to Southern States Utilities and its ratepayers.

Mr. Charles L. Sweat
April 7, 1988
Page two

PART I

Would you please review the enclosed report draft and provide us with your responses. Your responses should be in conformance with the attached instructions in Exhibit I.

If you have any questions concerning the audit report itself, please address them to Terry Kramer at (904) 488-8147. Also, if you believe there is a need to meet with us to discuss the report or your response, we will, of course, be receptive to such a request. Such a meeting would take place during your response time period.

PART II

It is of particular interest to the Commissioners that we address the costs, savings, and benefits resulting from our overall audit. Therefore we are requesting each auditee to express their viewpoint concerning this matter, and as can be noted from the form's format, the Management Studies staff's viewpoint will likewise be presented.

While the instructions in attached Exhibit II should answer your questions, if they do not, please contact Terry Kramer at (904) 488-8147 for further clarification.

PART III

This part contains the detailed instructions and examples needed to carry out the implementation phase of our audit program.

In order to get the implementation program off to a sound start, you are required to submit your plans of action for compliance with each recommendation that you have agreed to implement. For those recommendations with which you disagree (if any), you are required to furnish us with a detailed written explanation of your justification for not implementing them. Your explanation here should be more comprehensive than the response you may have furnished for your final report (Part I) comments. You will also be required to use a reporting format supplied by us (See Attachment A for more detailed instructions).

Mr. Charles L. Sweat
April 7, 1988
Page three

We are also enclosing (Attachment B) a sample format which you might choose to follow in gathering the supporting and reporting data within your organization. This format is optional; however, the questions it asks reflect the type of information which we must have to successfully monitor the implementation program.

After submission of your Action Plans, they will be reviewed by the implementation monitor for this program; by the auditor who made the recommendation; and by myself. Approval will be based upon our understanding of the Plans, and our agreement that the "Steps/Tasks" provide an adequate response to the recommendation.

We realize that you have, most likely, already started complying with some of the recommendations, however, this will not eliminate the need for documenting the supporting data which will allow us to review your actions and results; we still need to approve your response to our recommendation before we can consider it satisfactorily closed.

In regards to the above supporting data (evidence), I would like to advise you that this is the area where we have the most trouble communicating. We expect copies of internal memorandums, procedures, studies, etc. that are generated to either execute the Action Plan or that result from such execution. We must build a file of supporting documents that will convince a prudent reader that the recommendation has indeed been complied with. Your understanding is essential.

2. Time Frame - The implementation phase of the audit officially commences upon receipt of this letter. After receiving your Action Plans, we will review them thoroughly and contact you within 30 days to acknowledge our approval or request additional information. If we are in disagreement with any of your Action Plans, a meeting may need to be arranged to reach an acceptable solution.

Once we have an acceptable Action Plan for each recommendation, we can start evaluating the actual responses which you submit to us as evidence of compliance. If we agree that your responses have been in accordance with your Action Plan, and that all steps were satisfactorily taken, we will "close" that recommendation.

For all "open" recommendations we will expect a report of progress each calendar quarter (See Attachment C for more details). Again, for this progress report, you are expected to utilize our format (Attachment C).

PLEASE NOTE THAT OUR FORMAT REQUIRES COST AND/OR SAVINGS DATA, WHICH YOU WILL BE REQUIRED TO TRACK FOR ALL RECOMMENDATIONS INVOLVING \$5,000 OR MORE.

Mr. Charles L. Sweat
April 7, 1988
Page four

3. Monitoring Procedures - All evidence of compliance will be sent to Terry Kramer along with your request to close each recommendation. This evidence should also include all cost and/or savings data applicable to that recommendation.

After our review, and agreement that satisfactory compliance has occurred, the recommendation will be "closed". If we can not agree as to whether or not your evidence satisfactorily supports your compliance, either you or I may request that an on-site review be made of the results of the recommendations in question.

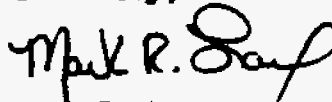
Under normal circumstances, you will be subject to on-site verification of compliance for selected recommendations on a quarterly basis.

We will be reporting your quarterly progress to the Commissioners until the last recommendation is closed out. Those recommendations with which you are not in agreement and which you do not intend to implement, will be carried in our quarterly reports in an "Agree-to-Disagree" category until such time as all other recommendations have been satisfactorily "closed" out. At the closing of the last recommendation, the audit will be considered officially closed. You will be notified as to your quarterly reporting dates.

If you have any further questions concerning implementation, please contact Terry Kramer at (904) 488-8147.

We want to thank you in advance for your cooperation and for the efforts of all Company personnel involved in generating and complying with the immediate requests of this letter as well as the long-run work involved in actually carrying out the implementation program. It is through their dedicated and responsible actions that we will be able to close out this audit in a smooth and timely manner.

Sincerely,

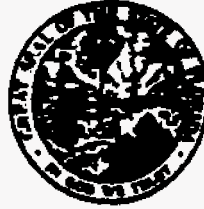


Mark R. Laux
Chief, Bureau of Management Studies

ML/cw
Attachments
CC: Terry Kramer, Implementation Coordinator
Project Manager

State of Florida

Commissioners
KATIE NICHOLS, CHAIRMAN
THOMAS M. BEARD
GERALD L. (JERRY) GUNTER
JOHN T. HERNDON
MICHAEL MCK. WILSON



TIMOTHY J. DEVLIN, Director
Auditing & Financial Analysis Division
(904) 488-8147

Public Service Commission

September 28, 1988

Mr. Charles L. Sweat, President
Southern States Utilities, Inc.
1000 Color Place
Apopka, Florida 32703

Dear Mr. Sweat:

RE: Action Plan Approvals

We have reviewed your proposed Action Plans for each of the 79 recommendations. We are pleased to report that we believe 47 of the plans (See Attachment A) reasonably address the actions necessary to implement the recommendations in question; however, in our judgment there are still some questions or revisions to be addressed on 15 of the plans (See Attachment B). The remaining 17 recommendations are the ones you disagreed with and for which you did not submit any plans of action (See Attachment C).

In general, our concern with the 15 plans centers more around lack of information than disagreement with the plans themselves—Attachment B contains the details of our analysis.

The process of convincing us that you have completed the implementation of these 15 recommendations will be enhanced if you will satisfactorily address the issues put forth in Attachment B, i.e., the issues reflect information which we need to know when asked to "close" a recommendation, we would like for you to submit revised Action Plans, for the 15 in question, by October 18, so that we can proceed with our implementation program on schedule.

As always, if there are still questions remaining, please contact us at (904) 488-8147. Please convey our thanks to all concerned for their patience and understanding in carrying out this process in a professional manner.

Sincerely,

Handwritten signature of Terrence L. Kramer in cursive script.

Terrance L. Kramer
Sr. Management Analyst Supervisor

TLK:cv

SSUI-C-1-6352

ATTACHMENT A

ACTION PLANS APPROVED

<u>Number Of Recommendations</u>	<u>Area/Department</u>	<u>Who Is Responsible</u>
1	Ex. M&O	Donnie Crandell
3	Ex. M&O	Donnie Crandell
5	Ex. M&O	Donnie Crandell
6	Ex. M&O	Charles Sweat
7	Ex. M&O	Charles Sweat
9	Ex. M&O	Charles Sweat
10	Ex. M&O	Judith Kimball
12	Ex. M&O	Donnie Crandell
13	Budgeting	Judith Kimball
17	Budgeting	Judith Kimball
19	Accounting	Judith Kimball
21	Accounting	Judith Kimball
22	Accounting	Judith Kimball
24	Accounting	Judith Kimball
25	Cash Management	Judith Kimball
26	Cash Management	Judith Kimball
27	Cash Management	Judith Kimball
28	Cash Management	Judith Kimball
29	Cash Management	Judith Kimball
30	Field Operations	Charles Sweat
31	Field Operations	Aaron Perlowich
32	Field Operations	Judy Sweat
33	Field Operations	Judy Sweat
34	Field Operations	Aaron Perlowich
35	Field Operations	Aaron Perlowich
36	Field Operations	Aaron Perlowich
37	Field Operations	Aaron Perlowich
38	Field Operations	Aaron Perlowich
39	Field Operations	Charles Sweat
43	Customer Service	Judy Sweat
45	Customer Service	Charles Sweat
46	Customer Service	Mary Ann Szukala
48	Personnel	Aaron Perlowich
51	Personnel	Judy Sweat
52	Data Processing	Priscilla Nampler
55	Data Processing	Priscilla Nampler
56	Data Processing	Priscilla Nampler
57	Data Processing	Priscilla Nampler
65	Purchasing/Inventory Control	Aaron Perlowich
66	Purchasing/Inventory Control	Charles Sweat
68	Purchasing/Inventory Control	Charles Sweat
69	Purchasing/Inventory Control	Aaron Perlowich
70	Purchasing/Inventory Control	Aaron Perlowich
71	Operations	Aaron Perlowich
72	Transportation	Aaron Perlowich
75	Transportation	Aaron Perlowich
76	Transportation	Aaron Perlowich
47	Items	

State of Florida

Commissioners:
 KATIE NICHOLS, CHAIRMAN
 THOMAS M. BEARD
 GERALD L. (JERRY) GUNTER
 JOHN T. HEARDON
 MICHAEL MCK WILSON



TIMOTHY J. DEVLIN, Director
 Auditing & Financial Analysis Division
 (904) 489-8147

Public Service Commission

October 25, 1988

Judith J. Kimball, Comptroller
 Southern States Utilities, Inc.
 1000 Color Place
 Apopka, Florida 32703

Dear Ms. Kimball:

Thank you for your timely response to our request for additional information regarding your Action Plans. As a result of this new input, we have now approved all action plans submitted and are ready to proceed with the actual implementation process.

As you know, we did not formally present this report to the Commissioners, which (in the past) has signaled the start of the implementation phase. Since no presentation is anticipated, we have decided to proceed with the implementation program. You are hereby assigned to cycle B which will require you to submit your first Quarterly Report on November 20th, 1988, and your second report on February 20th, 1989 with subsequent reports being due at 3 month intervals until the last recommendation is closed out.

We look forward to receiving your first report and the implementation of the recommendations. We will keep you informed if any formal presentation to the Commissioners is scheduled at a future date.

Thanks again for your cooperation in this process.

Sincerely,

A handwritten signature in cursive script that reads "Terrence L. Kramer".

Terrence Kramer
 Sr. Management Analyst Supervisor

TK:cw

CC: David Swafford, FPSC
 Tim Devlin, FPSC
 Deborah Flannagan, FPSC
 Mark Laux, FPSC

State of Florida

Commissioners:
KATIE NICHOLS, CHAIRMAN
THOMAS M. BEARD
GERALD L. (JERRY) GUNTER
JOHN T. HERNDON
MICHAEL McK. WILSON



REC-111-117-103

TIMOTHY J. DEVLIN, Director
Auditing & Financial Analysis Division
(904) 488-8147

Public Service Commission

January 12, 1989

Ms. Judith J. Kimball, Comptroller
Southern States Utilities, Inc.
1000 Color Place
Apopka, Florida 32703

Dear Ms. Kimball:

RE: 1st Quarterly Report

We have now completed our review of the documents which you submitted to support your requests for closure of recommendations Nos. 14, 15, 20, 22, 25, 26, 29, 41, 44, 45, 50, 53, 62 and 73. We are pleased to say that we have been able to close eight of those items (See Attachment A), however, that leaves eight more that we have had to deny for various reasons (See Attachment B).

As is usual in the beginning of an implementation program, we have difficulty convincing auditees that we must have enough documentation of evidential quality to support our record of closure. We can not simply accept that a recommendation has been adequately implemented because the auditee tells us it has. This is not a case of not trusting the auditee, it is a case of building a sound record which will stand on its own merits in the face of third party inquiry.

There is a need for us to keep the program on a professional level and avoid the appearance of merely whitewashing the implementation process. While we understand that the process cannot attain absolute assurance of compliance due to time and money constraints, we must attain a level of assurance that allows us to comfortably defend our judgment that substantial compliance has occurred.

Thus, you will find that the usual nature of our request denials centers around the lack of evidence being tendered by the auditee. Sometimes this occurs due to misunderstanding or simple miscommunication on either or both of our parts. In any case, it is the objective of the implementation program to stimulate a productive dialog centered on obtaining the highest degree of compliance/implementation that is possible given the circumstances which impact the recommendation.

Ms. Judith J. Kimball
January 12, 1989
Page Two

In keeping with the spirit of our objective, we hereby solicit your continued cooperation and understanding throughout the implementation program.

Our records now show the current status of your 79 recommendations is 8 closed, 54 open, and 17 in our Agree-to-Disagree category (See Attachment C).

Thank you for your timely responses and your cooperation. Your response to the 8 items not closed this time will be expected with your second quarterly report on February 20, 1989.

Sincerely,

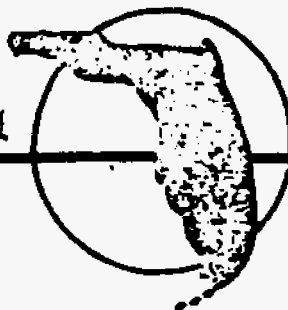


Terrence L. Kramer
Sr. Management Analyst Supervisor

TLK:cw

CC: David Swafford, FPSC
Tim Devlin, FPSC
Deborah Flannagan, FPSC

Southern States



Utilities, Inc.

1800 COLOR PLACE
APOPKA, FLORIDA 32703TELEPHONE 407 880-0100
TOLL FREE 1-800-432-4501

March 20, 1989

Mr. Terrence L. Kramer
Senior Management Analysis Supervisor
Florida Public Service Commission
Auditing & Financial Analysis Division
101 East Gaines Street
Tallahassee, Florida 32399-0865

Dear Mr. Kramer:

Please find attached our second Quarterly Report to the
SSUI-C-1-6352 Audit.

You will note that we are requesting closure on item nos. 7, 14,
15, 16, 26, 28, 29, 32, 33, 43, 44, 45, 49, 51, 52, 55, and 76.

In addition to this progress, the Company has proposed a Compre-
hensive Long Range Capital Implement Plan. On March 3, 1989,
this Plan was presented to Mr. William Lowe and other Commission
Staff for their input and comment. As a result of this meeting,
Southern States will make a similar presentation through Internal
Affairs to the Commissioners on May 1, 1989. A copy of the Long
Range Plan is attached for your reference.

Finally, a copy of the Price Waterhouse Audit Conducted For Year
Ended 12/31/88 is included for your review.

Judy Kimball has been the Coordinator for this project to date.
Since my coming on board effective February 1, 1989 as Adminis-
trative Vice President, I have assumed responsibility as our
Coordinator through the duration of this project. As a final
housekeeping issue, in your response to this Quarterly Report,
will you please advise if the due date is anything different than
~~June 20, 1989~~. As we discussed one month ago, there seems to be
some confusion on the actual due date. We sincerely want to be
cooperative and comply and appreciate the cooperation of you and
your staff.

Please don't hesitate to call if you have any further questions.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Charles E. Wood". The signature is fluid and cursive, written over a horizontal line.

Charles E. Wood
Vice President
Administration

CEW/dsm

cc: Charlie E. Woods
Charles L. Sweat
Judith J. Kimball

BUREAU OF MANAGEMENT STUDIES

Quarterly Report Form

Proposed Action Plan: Yes () Date Submitted: 3/20/89
 Quarterly Status Report: Yes (X) For Quarter Ended: 3/20/89
 Audit I.D. Number: SSUI-C-1-6352 Area/Department: Executive Management & Organization
 Who is Responsible for Compliance? Targeted Date of Completion: _____
 Director: Charlie E. Woods Recommendation As Stated in Report: Re-Evaluate Current Allocation Of Resources
 Signature: _____

ACTION STEPS (TASK) PLANNED BY CO. (To Implement This Recommendation)	TARGET DATES (1)	QUARTERLY STATUS (2)	COST TO DATE	SAVINGS TO DATE ()
--	---------------------	-------------------------	--------------	------------------------

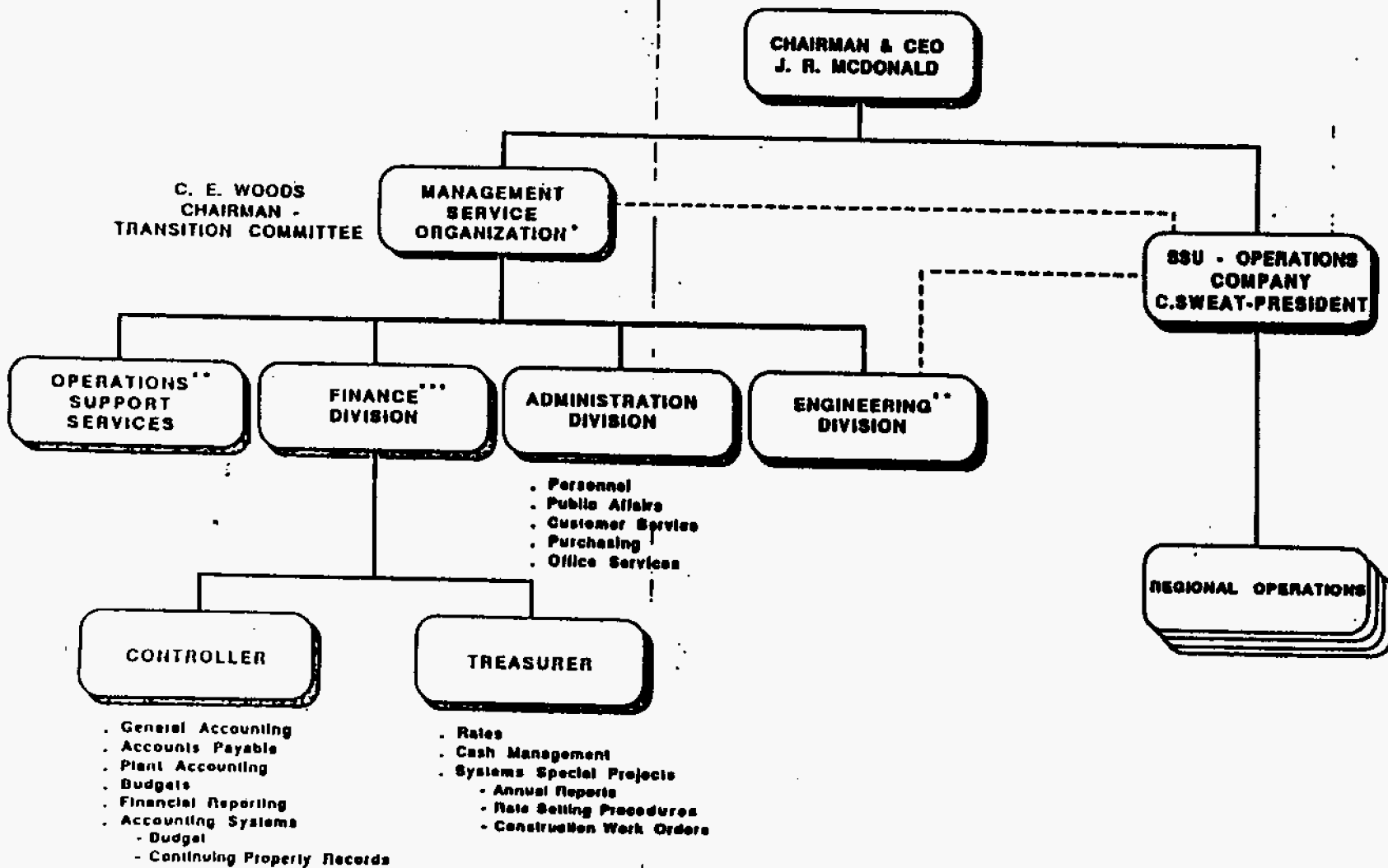
The attached information fully addresses the concerns expressed in this recommendation, and we request this be closed.

- () Annotate as to original (O) or revised (R).
- (2) State as percentage complete to the nearest 25%.
- (3) Annotate for Projected(P)/Actual(A) savings or cost that's been avoided (CA)

ATTACHMENT - RECOMMENDATION 7

- 7.1 Management has evaluated its resource needs to avoid future possible conflicts between acquisition and its responsibilities to current operations. It will still acquire new facilities, if they fit into its broad long-range plans, including acquiring some properties in need of professional management as brought to its attention by the staff of FPSC.
- 7.2 Since the audit report, SSU has reorganized and added to its staff. Charles E. Woods is now in charge of the Management Services Organization of SSU, with Charles Sweat reporting to him. (See attached organization chart.) A new Human Resources Manager is now being interviewed, a Public Affairs Coordinator hired, and an offer has been made to personnel of Deltona to manage the Administration Service and Purchasing functions. Customer Service personnel and system are being upgraded to meet our present needs.
- 7.3 The Finance Division has been divided into 3 departments, viz., Accounting, Treasurers with Ginger Clark (CPA, former staff member of FPSC) being hired, and our Rate Department is being expanded.
- 7.4 A professional Engineering Division is being formed, with Frank Novak of Deltona having accepted the job of Vice President to head the Division. One department head is hired plus a new engineering technician to assist in the development of the physical inventory as part of the Continuing Property Record program.
- 7.5 The Operations Department, which will be headed by Charles Sweat, has been organized on a regional basis with necessary supervisory personnel now being recruited.
- 7.6 As SSU's policy statement says, we will continue to acquire companies, but only to the extent that these acquisitions do not interfere with our primary responsibility to serve existing customers and only when they meet our criteria, that such acquisition provides the acquired utility's customer with the potential for improved service.

SSU ORGANIZATIONAL REPORTING STRUCTURE EFFECTIVE 12/1/88



* To become Management Service Company, C. E. Woods will become President and COO of the MSC.

** To be activated when MSC is formed. For present, limited engineering support services (in-house) report to C. L. Sweet, with outside consultants reporting to MSC unless C. E. Woods assigns specific projects to C. L. Sweet.

*** Present, no Division Vice President will be assigned.

PLANNING AND ENGINEERING DIVISION

**VICE PRESIDENT
PLANNING & ENGINEERING**

**PLANNING AND DESIGN
DEPARTMENT**

- . System Analysis
- . Data Gathering
- . Conceptualize, Report on Needs
- . Evaluate Alternatives
- . Estimating
- . Planning
- . Design/Specifications
- . Prepare Documents
- . Zoning
- . Hydraulic Analysis
- . Growth
- . SQW/CW Requirements
- . Capital Budget
- . Acquisition Evaluation
- . Renewals & Replacements
- . Used and Useful
- . Rate Testimony and Exhibits
- . Permitting

QUALITY CONTROL

- . Laboratory
- . Field Samples
- . Research
- . Hydrology

TECHNICAL SERVICES

OFFICE SERVICES

- . Extension of Service Applications
- . Records:
 - . System Maps
 - . Facility Plans
 - . Manuals
 - . Specifications
 - . AWWA
 - . Supplier
 - . Corporation
 - . Contract Documents
 - . Plans/Specifications
 - . Bid Documents
 - . Contracts
 - . Change Orders
 - . Reports
 - . As-Built Drawings
 - . Technical Library
 - . Outside or Corporation Reports

FIELD SERVICES

- . Line and Grade
- . Surveys
- . Inspections
- . Location of Facilities

**PROJECT/CONSTRUCTION
MANAGEMENT**

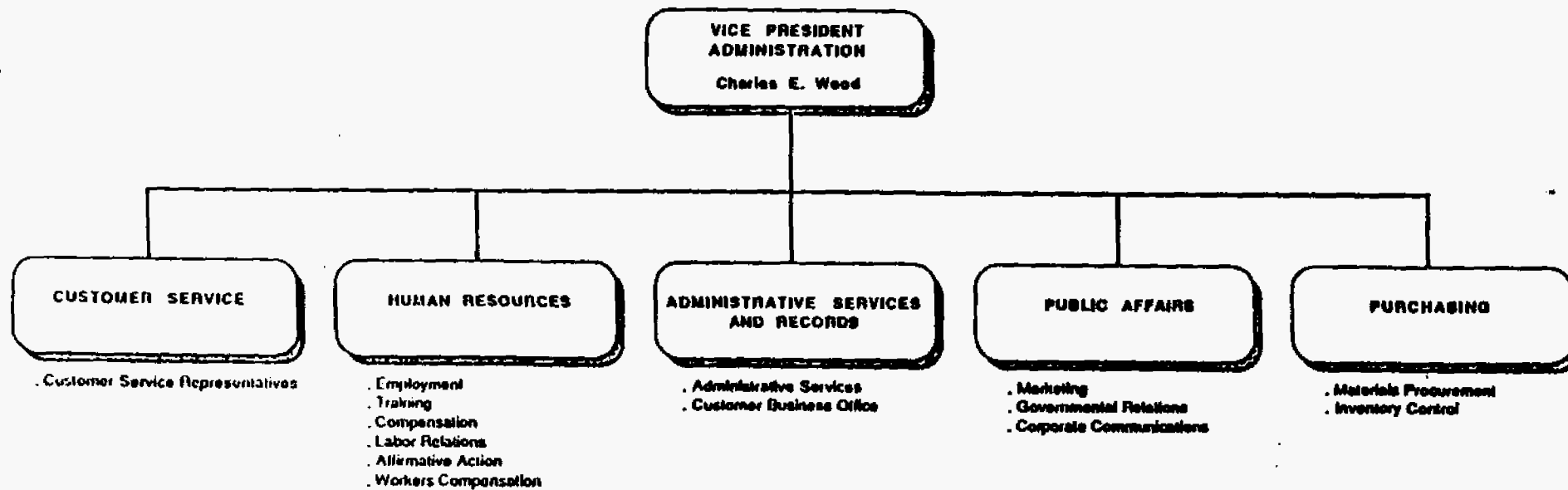
- . Bid Documents
- . Contractor Selection
- . Contract Award
- . Inspection/Supervision
- . Staffing Requirements
- . Progress Reporting
- . Change Orders
- . Completion Inspection
- . Payment Authorization

DRAFTING ROOM

- . Map Updates
- . Plans
- . Layouts
- . As-Built Drawings

* This department will be activated when it is determined that SSU's level of need justifies in-house capability.

ADMINISTRATIVE SERVICES DEPARTMENT



ACCOUNTING DEPARTMENT

Exhibit (FLL-4)
Page 35 of 45

CHIEF ACCOUNTING OFFICER
JUDITH J. KIMBALL
CONTROLLER

- Planning
- Supervisor/Accounting Operations
- Evaluate new accounting systems
- Review:
 - Financial/Tax Returns
 - Journal Voucher adjustments
 - Budgets
 - Acquisition accounting

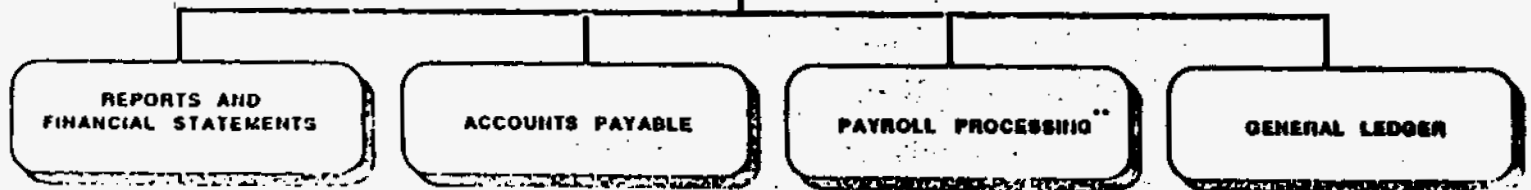


- BUDGET & FORECASTS**
- Planning/Developing Systems
 - Preparing
 - Monitor/Analysis
 - Training
 - Capital Construction
 - Revenue
 - Operating Revenue Deductions
 - O&M
 - Depreciation
 - Taxes
 - Financial Plan

- TERRY RUSS (Asst. Controller)***
- Operations
 - Training
 - Scheduling

- MELINDA QUEEN (Title)**
- Design new systems, working with MIS
 - Continuing Property Records/Depreciation
 - Construction Work Order System
 - Annual FPSC Reporting
 - Other Systems
 - Develop documentation, manuals, procedures, training associated with implementing new or revised system
 - Revise systems as needed
 - Develop allocation procedures
 - Audit system operations

- TAX SECTION (future)**
- Gross receipts tax reports
 - State and Federal
 - FICA
 - Unemployment
 - Tax planning
 - Review tax regulations/changes



- REPORTS AND FINANCIAL STATEMENTS**
- Balance Sheet
 - Income Statement
 - Cash
 - Construction Reports
 - Parent Reporting

- BARBARA REEDER (Title)***
ZENALDA MERRIOFFE (Title)
- Process P.O. against invoice
 - Code invoices
 - Enter data
 - Process checks
 - Have reviewed and signed
 - File documentation

- PAYROLL PROCESSING****
- Review time cards
 - Process and enter pay and district data
 - Review and distribute

- GENERAL LEDGER**
- Data entry review
 - Review output
 - Journal voucher adjustments
 - Acquisition Accounts
 - Analysis as needed

*Working Supervisor
**Confidential Position

1
VICE PRESIDENT
OF OPERATIONS

DIRECTOR OF UTILITIES

NORTH REGION
Manager

Counties

- . Nassau
- . Duval
- . Putnam
- . Clay
- . Bradford
- . St. John's
- . Washington

Customer (on) Cty.		
M	S	G
917	810	-0-
3,110	3,028	-0-
1,415	171	-0-
977	-0-	-0-
332	-0-	-0-
2,070	2,029	-0-
322	120	183
9,149	6,218	183

EAST REGION
Manager

Counties

- . Volusia
- . Orange
- . Seminole
- . Lake
- . Osceola
- . Brevard
- . Marion

Customers (on) Cty.		
M	S	G
17,319	4,898	3,017
3,373	3,047	-0-
3,128	224	-0-
2,195	214	-0-
1,078	-0-	-0-
313	21	-0-
877	851	-0-
27,443	8,343	3,017

WEST CENTRAL
REGION
Manager

Counties

- . Marion
- . Citrus
- . Hillsborough
- . Pasco
- . Polk
- . Hernando

Customers (on) Cty.		
M	S	G
2,402	1,637	921
3,317	3,906	1,511
2,155	2,799	-0-
1,421	1,263	-0-
1,317	249	-0-
17,400	4,150	3,220
29,422	14,024	5,652

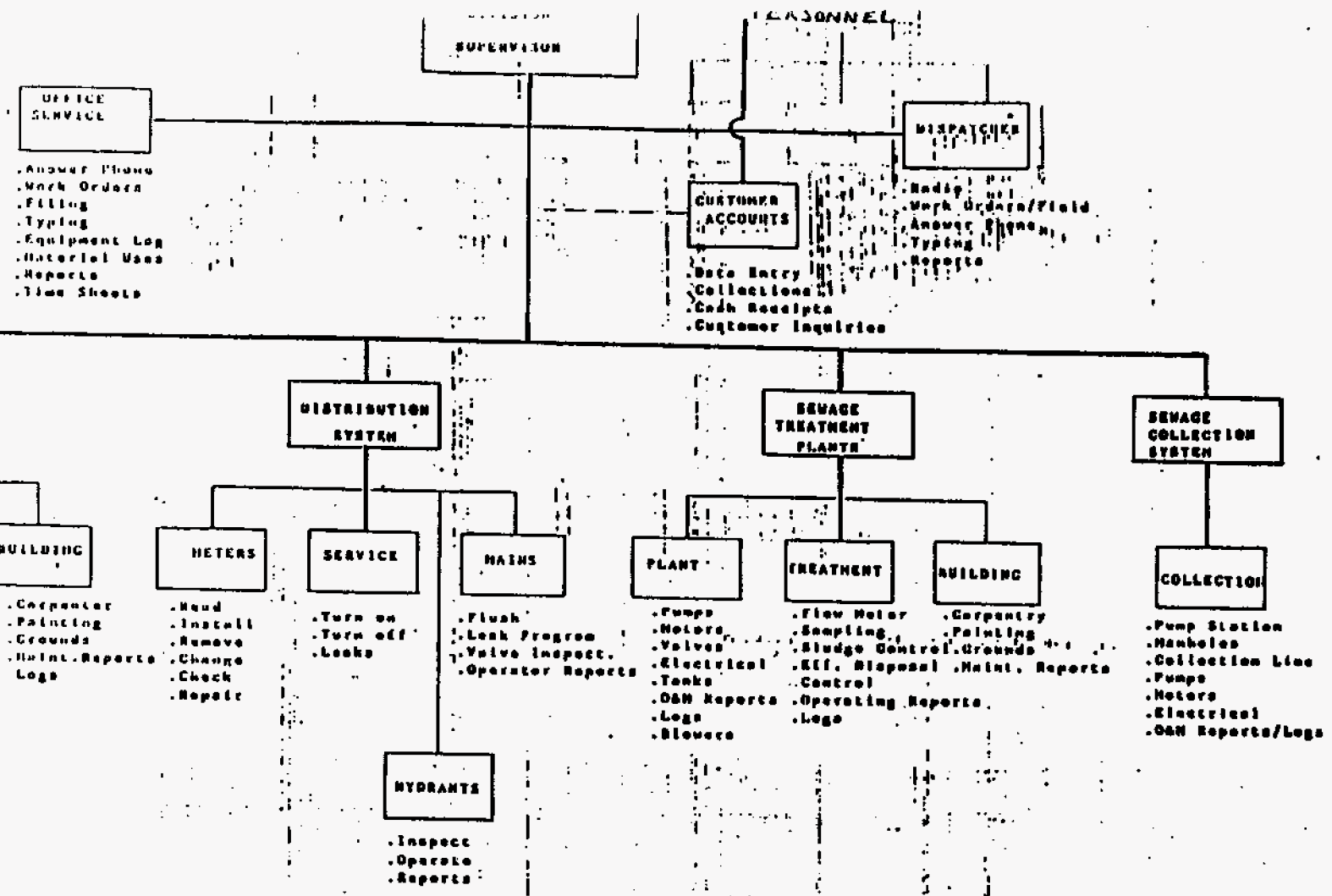
SOUTH WEST
REGION
Manager

Counties

- . Hernando
- . Lee
- . Charlotte
- . Collier

Customers (on) Cty.		
M	S	G
6,307	6,227	-0-
660	460	-0-
1,432	1,357	-0-
12,900	10,600	3000
20,919	18,439	3,000

Total: Water = 86,933 Sewer = 47,426 Gas = 11,852
Grand Total: Water & Sewer = 134,359 Gas = 11,852



Water Supervisor

- Full management responsibility for the day to day operation to insure that all facilities are properly operated and well maintained.
- Full responsibility for all operations and maintenance work logs, time, material or equipment use reporting; check lists associated with water treatment, distribution and collection system.

• Overall responsibility for all personnel within the division, including supervision, work scheduling, training and performance evaluation.

*Dispatcher would not always be required, size of system will determine this need.

State of Florida



Commissioners:
MICHAEL MCK. WILSON, CHAIRMAN
THOMAS M. BEARD
BETTY EASLEY
GERALD L. (JERRY) GUNTER
JOHN T. HERNDON

TIMOTHY J. DEVLIN, Director
Auditing & Financial Analysis Division
(904) 488-8147

Public Service Commission

June 26, 1989

Mr. Charles E. Wood
Vice President Administration
Southern States Utilities, Inc.
1000 Color Place
Apopka, Florida 32703

Dear Mr. Wood:

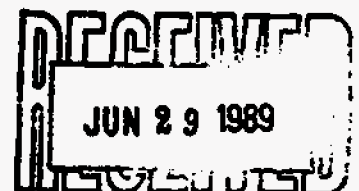
3rd Quarterly Report, Dated May 20, 1989

We have now completed our review of the documentation which you submitted to support your requests for closure of Recommendations Nos. 7, 17, 28, 30, 45, 55, and 57. We are pleased to inform you that we have agreed to close all seven recommendations (See Attachment A).

Our records now show the current status of your 79 recommendations to be: 26 closed, 36 open, and 17 in our Agree-to-Disagree category (See Attachment C).

Of the 36 open recommendations, 5 of those have been submitted for closure one or more times previously, and are awaiting your additional input (See Attachment B).

In light of the good progress we have made so far, we would like to have your newly reorganized staff take a few moments to review those 17 recommendations with which the company originally disagreed. We would like to determine if any of the 17 could be turned around and implemented, either fully or partially, based upon the changes in personnel, equipment, and philosophy that have taken place since the audit and action plan approval process.



Mr. Charles E. Hood
June 26, 1989
Page 2

Once again, we appreciate your cooperation and the quality of the documentation which you have submitted. Your next report will be due on August 21, 1989.

Sincerely,



Terry Kramer
Sr. Management Analyst II

TK/ep

Attachments 3

cc: David Swafford, FPSC
Tim Devlin FPSC
Deborah Flannagan, FPSC

(8640F)

We would like to have your cost/benefit report by July 20, 1992.

Again, thank you for your responses and the quality of the documentation you have been presenting.

Sincerely,



Terrence L. Kramer
Senior Management Analyst II
Bureau of Regulatory Review

1 Please use the following table format if reporting on more than 3 recommendations:

COST/BENEFIT ANALYSIS - FINAL REPORT SUMMARY

[Company Name]

[Audit I.D.Number]

[Area Reviewed]

RECOMMENDATION		COSTS	SAVINGS	NET	ADDITIONAL BENEFITS And/Or COMMENTS
No.	DESCRIPTION				

cc: David Swafford, FPSC
Mary Bane, FPSC
Deborah Flannagan, FPSC
Lisa Harvey, FPSC

We would like to have your cost/benefit report by July 20, 1992.

Again, thank you for your responses and the quality of the documentation you have been presenting.

Sincerely,



Terrence L. Kramer
Senior Management Analyst II
Bureau of Regulatory Review

¹ Please use the following table format if reporting on more than 3 recommendations:

COST/BENEFIT ANALYSIS - FINAL REPORT SUMMARY

[Company Name]

[Audit I.D.Number]

[Area Reviewed]

RECOMMENDATION		COSTS	SAVINGS	NET	ADDITIONAL BENEFITS And/Or COMMENTS
No.	DESCRIPTION				

cc: David Swafford, FPSC
Mary Bane, FPSC
Deborah Flannagan, FPSC
Lisa Harvey, FPSC

EXECUTIVE DIVISION**Responsible for:**

- Overall operations and financial performance of company

Staff:**Phillips, Bert****President**

Ausman, Richard

Vice President-Finance and Administration

Ludsen, Forrest

Vice President-Rates and Customer Service

Sweat, Charles L.

Vice President-Business Development

Teasley, Karla Olson

Vice President-Corporate Services and General Counsel

Wood, Charles E.

Vice President-Planning and Engineering

Gettelman, Arlene

Senior Executive Assistant

BUSINESS DEVELOPMENT DIVISION

Responsible for:

- Investigating possibilities for company acquisitions and sales of current company assets. Responsible for seeking out utilities for acquisition and determining feasibility of purchasing companies.
- Negotiating development, effluent re-use and interlocal agreements for company.
- Representing company at various customer, governmental and regulatory presentations regarding acquisitions or sales.

Staff:

Sweat, Charles L.	Vice President-Business Development
Mangold, Edward	Business Development Administrator
Steffey, Vicki	Development Assistant
Baron, Roberta	Secretary II

FINANCE DIVISION

Responsible for:

- All financial reporting of the company.
- Ensuring proper tracking of all corporate expenses for governmental and regulatory purposes.

Staff:

Ausman, Richard P.	Vice President-Finance and Administration
Textor, Alice	Executive Secretary

Accounting Department

Responsible for:

- Preparation of all financial, regulatory and property accounting functions of company.

Staff:

Kimball, Judith	Controller
-----------------	------------

Financial Accounting

Responsible for:

- Timely and accurate issuance of all financial statements to executive management team.
- Analysis of monthly financial statement variances and preparation of summary analysis to management regarding discrepancies.
- Analysis of balance sheet and income statements. Items in accounts should be cleared at the appropriate time so that revenues and expenses are recorded in the proper accounting period.

Staff:

Harter, Kathy	Assistant Controller, Financial Accounting
Geiger, Joseph	Accountant I
MacLane, Julie	Accountant I
Norris, Nancy	Accountant I
Paladino, Constance	Accountant I
Rasmussen, Donna	Accountant I
Campanale, Jeanine	Sr. Accounting Clerk
Longenecker, Diane	Accounting Clerk I

Payroll

Responsible for:

- Timely and accurate issuance of paychecks to employees with minimal errors.
- Ensuring all payroll related files are maintained with accuracy, timeliness and confidentiality.
- Issuance of all payroll related checks for required governmental and court-order payments.
- File all payroll related tax returns to appropriate governmental agency in timely manner.
- Ensure that employee's labor is being distributed to appropriate general ledger account.

Staff:

Small, Robin	Supervisor, Payroll
Douglas, Brenda	Accounting Clerk I
Sassano, Lisa	Accounting Clerk I

Property Accounting

Responsible for:

- Monitoring of all property and fixed assets of the company.
- Ensuring that expenses charged to company fixed assets are credited to appropriate general ledger account.

Staff:

Paris, Susan	Lead Property Accountant
Frederick, Ronald	Accountant I
Wong, Christopher	Accountant I

Accounts Payable

Responsible for:

- Coding of all invoices submitted to company for payment ensuring that correct general ledger account number is being used.
- Ensure that appropriate documentation of invoicing materials has been received and approved by appropriate level of management for expense level.

Staff:

Reeder, Barbara	Supervisor, Accounts Payable
Gast, Drupatie	Accounting Clerk II
Giles, Edith	Accounting Clerk I
Javorowsky, Jody	Accounting Clerk I
Kahanek, Kristy	Accounting Clerk I
Wilkins, Shirley	Accounting Clerk I

Regulatory Accounting

Responsible for:

- Coordinating and preparation of rate case schedules.
- Providing reports as requested by auditors.
- Prepare responses to interrogatories.
- Prepare regulatory annual reports.
- Analyze and prepare entries recording ordered changes as a result of a rate case.
- Prepare and file property tax returns, gross receipts taxes and other taxes as required.

Staff:

Russ, Terry	Asst. Controller, Regulatory Accounting
Colbert, Diane	Accounting Clerk I
Queen, Melinda	Sr. Accounting Clerk

Administrative Services Department

Responsible for:

- Overall management of workers compensation program ensuring that worker's compensation claims are minimized.
- Management of company's risk management program.
- Management of company's purchasing program.

Staff:

DeMarie, Gene Manager, Administrative Services

Purchasing

Responsible for:

- Management of purchasing requirements for company.
- Researching pricing, new technologies and new supply sources for company purchasing needs ensuring company receives competitive prices from vendors.

Staff:

Hilton, John Purchasing Agent
 McQuinley, Reta Assistant Buyer
 VanMeter, Deborah Assistant Buyer

Mail Room Operations

Responsible for:

- All operations related to mailing 90,000 bills per month.
- Operation and maintenance of postal and copying equipment.
- Ordering and maintaining all office supplies.

Staff:

Gallis, Steven Mail Room Coordinator
 Roethle, Colleen Mail Room Clerk
 Wishart, Gloria Mail Room Clerk

Records Retention

Responsible for:

- Maintaining company records management function ensuring all company records are available for management retrieval and compliance with records retrieval and return procedures is followed.

Staff:

Zsigmond, Susan Records Technician

Treasury Department

Responsible for:

- Processing of all company cash receipts.
- Operations of remittance processing system.

Staff:

Clark, Virginia	Treasurer
Killer, Lisa	Supervisor, Cash Management
Evans, Katherine	Accounting Clerk II
Hart, Charlotte	Accounting Clerk I
Ritten, Kathleen	Sr. Accounting Clerk

Systems and Procedures Department

Responsible for:

- Working with departments on defining and creating new systems. Assist departments on defining project requirements.
- Establishing system project schedules and creating and maintaining complete and accurate project documentation.

Staff:

Jung, Kristi	Systems and Procedures Analyst
--------------	--------------------------------

ENGINEERING DIVISION

Responsible for:

- All planning and engineering functions of company.

Staff:

Wood, Charles E.	Vice President-Planning and Engineering
Helcher, Joyce	Executive Secretary

Planning and Engineering Department

Responsible for:

- Developing studies and preparing recommendations regarding engineering changes to company's current assets. Studies include alternatives and costs for each project and justification for recommended solution. Cost estimates used in studies will approximate budgeted expenditures and/or regulatory requirements.
- Prepare plans, specifications and contract documents for all company construction projects. Prepare capital documentation for executive management review and approval.
- Establish and follow design standards which most economically meet all federal, state and county code requirements.
- Control, monitor and review work of outside consultants to ensure work being performed is within approved budget and scope of work outlined in work specifications.
- Respond to developers inquiries regarding interconnection to company's existing systems. Ensure that developer and service connections are in conformance with company and regulatory requirements and specifications.

Staff:

Terrero, Rafael	Chief Engineer
Periera, Deborah	Secretary I
Mack, Joseph	Project Engineer II
Murray, James	Sr. Project Engineer
Losch, John	Sr. Project Engineer
Regalado, Robert	Project Engineer I
Arcand, Christine	Asst. Engineer II
Foster, Richard	Asst. Engineer II
Glennon, Mary	Asst. Engineer II
Salmon, Marilu	Asst. Engineer II
Story, Philip	Asst. Engineer II

Kaminsky, Robert	Chief Drafter
Litsey, Diane	Design Drafter I
Cooper, Sean	Design Drafter II
Viera, Omar	Design Drafter II

Project/Construction Department

Responsible for:

- Management of approximately 40 construction projects totalling \$ 30 million.
- Ensuring accurate payment of outside engineers, consultants and contractors.

Staff:

Hendricks, Lowell	Manager, Project/Construction
Spry, Janice	Secretary II
Warga, Karen	Accounting Clerk II

Construction Budgeting

Responsible for:

- Maintaining project management database including a construction scheduling system.
- Providing support of cost estimates for construction projects.
- Coordinate processing of all construction capital authorization requests.

Staff:

Carr, Christopher	Budget Analyst I
-------------------	------------------

Construction Inspection

Responsible for:

- Conducting on-site inspections for additional construction at company facilities.
- Inspect contractors work for compliance with plans and specifications including preparation of daily inspection reports. Communicate serious deficiencies to Engineers immediately.
- Inspect contractors materials for compliance with plans and specifications.
- Maintain all plans, specifications and submittal for all current construction work.

Staff:

Sturdevant, Gerald	Construction Inspector
Turner, Patrick	Construction Inspector
Stephan, Paul	Project Construction Administrator

CORPORATE SERVICES DIVISION

Responsible for:

- Providing services in communications, public relations, employee relations, information systems and legal for all departments and employees in the company.

Staff:

Teasley, Karla Olson Vice President-Corporate Services and General Counsel
McCorkle, Billye Executive Secretary

Communications Department

Responsible for:

- Developing and implementing employee activities, community involvement activities and corporate activities.
- Provide a weekly news bulletin to employees communicating areas of importance.
- Provide a bi-monthly newsletter to employees and outside contacts communicating news of importance.
- Provide a quarterly newsletter to customers explaining services and communicating news of interest to customers.
- Provide inserts to customers bills on as needed basis making customers aware of importance issues relating to their service.
- Providing a company handbook to be given to outside sources explaining the company and the services we provide.
- Presenting customer presentations (homeowners' associations, garden clubs and various other organizations/schools) relating to conservation, rates or general corporate topics.
- Provide information to the media on utility issues as they arise.

Staff:

Crooks, Kerry Communications Administrator

Spinazzola, Lisa Communications Specialist

Environmental Compliance Department

Responsible for:

- Conducting annual environmental compliance audits of all company owned or operated facilities identifying areas of non-compliance in current company operations.
- Preparing recommendations for changes to company facilities operating procedures to ensure continued compliance with all governmental and regulatory requirements.
- Developing and conducting employee safety programs.
- Preparing and maintaining hazardous chemical reports. Ensuring all material safety data sheets on chemicals used by company facilities are available to all operations personnel. Performing an inventory of hazardous chemicals at each facility to comply with federal regulations.

Staff:

Fisher, Mel Environmental Compliance Administrator

De Pedro, Jose Environmental Compliance Specialist

Human Resources Department

Responsible for:

- Development and administration of compensation programs for all employees ensuring employees are paid according to fair and equitable principles.
- Development and administration of company's benefit programs including all welfare benefits, group medical, dental and life insurance programs and company's retirement programs. Development of programs that are competitive with industry practices and cost effective. Ensure that all governmental requirements being followed in administering programs.
- Administration of company's recruitment program ensuring that candidates with the best credentials are chosen.
- Development of company's annual staffing budget.
- Ensuring effective employee and labor relationships with employees and labor union.

Staff:

Schweizer, Michael Manager, Human Resources

Haggerty, Roxan Human Resources Administrator

Dorsey, Marilyn Human Resources Assistant

Clausen, Donna Secretary I

Legal Department

Responsible for:

- Providing legal services to company including preparation of contracts, preparing legal research and standard legal documents.
- Compiling required legal information for regulatory filings including the VX and jurisdictional counties.
- Coordinate all corporate record-keeping matters.
- Administering closing procedures for all company acquisitions and sales.
- Handling all corporate litigation including customer bankruptcy matters, discovery requests and hearings.

Staff:

Teasley, Karla Olson	Vice President
Armstrong, Brian	Staff Attorney
Schutz, Lisa Freeman	Paralegal
Henry, Donna	Secretary I

Training and Development Department

Responsible for:

- Develop and conduct training programs for all employees consistent with governmental mandates and company needs.
- Develop and maintain company training and development library to be used as a resource for company personnel.

Staff:

Blondin, James	Training and Development Administrator
----------------	--

RATES AND CUSTOMER SERVICE DIVISION

Responsible for:

- Preparation of all company rate filings and maintenance of customer relations.

Ludsen, Forrest **Vice President, Rates and Customer Service**

Budget Department

Responsible for:

- Preparation of company budgets and forecasts. Budget information is reviewed for reasonableness, accuracy and documentation of need.
- Preparation of monthly variance reports on company expenses and capital expenditures.

Staff:

Kaplan, Randi **Manager, Budgets**

Grimsley, Michael **Budget Analyst I**
Tsoukalas, Roula **Budget Analyst I**

Lamb, Tina **Accounting Clerk I**

Customer Service Department

Responsible for:

- Providing assistance to customers regarding their account with the company.
- Ensuring that appropriate billing rates are applied to each customer's account.

Staff:

Sweat, Judy **Manager, Customer Service**

Copeland, Carolyn **Customer Service Training Specialist**

Bourikas, Dee **Receptionist**

Greene, Anita **Customer Service Representative I**
Zeppieri, Patricia **Sr. Customer Service Representative**

Smith, Amber **Secretary I**

Szukala, Mary Ann	Supervisor, Customer Service
Easton, Pamela	Customer Service Representative II
McCall, Keenya	Customer Service Representative I
Megahee, Perry	Customer Service Representative II
Patti, Pamela	Customer Service Representative II
Sanderson, Sylvia	Customer Service Representative III
Velez, Milta	Customer Service Representative II

Rates and Regulatory Affairs Department

Responsible for:

- Prepare all rate applications and ensure applications meet all PSC requirements.
- Develop and maintain rate application information for PSC and customer needs.
- Provide testimony to regulatory agencies regarding the company's rate base, income statements, previous and proposed rate design and other matters.

Staff:

Lewis, Charles	Director, Rates and Regulatory Affairs
Morse, Gary	Sr. Rate Engineer
Gannon, Edward	Rate Analyst I
Lui, Edmond	Rate Analyst I
Wilson, Jeffrey	Rate Analyst I
Phillips, Janet	Secretary II

Rates Administration Department

Responsible for:

- Design rates and develop rate design testimony for all company filed rate cases.
- Testify to the PSC regarding rate design issues for the company.
- Ensure that all bills to customers are sent out in a timely manner with rates applied to customers correctly.
- Develop and maintain company's rate schedules and tariff books.

Staff:

Loucks, Helena	Manager, Rates Administration
Lim, Sow-Choo	Rate Engineer II
Moothart, Mervin	Rate Analyst I
Periera, Leonard	Rate Analyst I

Patch, Carolyn Asst. Rate Analyst
Russell, Maralin Asst. Rate Analyst

Sweat, Allison Supervisor, Billing

Jarvis, Kenneth Accounting Clerk I
Jones, Candance Sr. Accounting Clerk
Waite, Vickie Accounting Clerk I

**DESCRIPTIONS OF THE DUTIES AND RESPONSIBILITIES
OF THE ADMINISTRATIVE AND GENERAL
DEPARTMENTS OF SOUTHERN STATES**

Exhibit ____ (FLL-5)
Cover Page

**PRE AND POST-AUDIT REPORT STAFFING
MODIFICATIONS OF SOUTHERN STATES**

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
SOUTHERN STATES UTILITIES								
Administration (1)	0	0	32	129			\$556,706.16	\$3,567,944.86
Operations	0	0	61	288			\$2,349,557.73	\$6,632,444.43
TOTAL SSU	0	0	93	417			\$2,906,263.89	\$10,200,389.29
LEHIGH TOTAL	30	33	0	33			\$0.00	\$630,444.57
TOTAL SSU/LEHIGH	30	33	93	450		\$630,444.57	\$2,906,263.89	\$10,830,833.86

(1) Reflects total non-operations staff located at Apopka corporate headquarters.

NOTES:

LEHIGH '88: Reflects Lehigh employees at 12/31/88 prior to SSU acquisition.

LEHIGH '91: Reflects Lehigh employees at 12/31/91 after SSU acquisition.

SSU '88: Reflects SSU employees at 12/31/88 prior to management audit.

SSU '91: Reflects SSU employees at 12/31/91 after Lehigh acquisition and management audit.

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
EXECUTIVE DIVISION								
President (1)			1	0				
Consultant			1	0				
Secretary			2	0				
Vice President-Administration			0	0				
OD Leader			0	1				
Sr. Exec. Asst.			0	1				
TOTAL EXECUTIVE DIVISION			4	2			\$170,571.69	\$75,652.45
(1): President is not under SSU payroll but under contract from parent company, Minnesota Power.								

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
RATES AND REGULATORY AFFAIRS DIV.								
Vice President, Rates & Cust. Affairs			0	1				
RATES AND REGULATORY AFFAIRS DEPT.								
Director, Rates & Bus. Dev.			1	1				
Secretary II			1	1				
Rates Analyst I			0	3				
Sr. Rates Engineer			0	1				
BUSINESS DEVELOPMENT								
Development Administrator			0	1				
Development Assistant			1	1				
Secretary II			0	1				
Sub-Total			3	9			\$69,683.51	\$266,664.35
RATES ADMINISTRATION DEPT.								
Manager, Rates Administration			0	1				
Asst. Rates Analyst			0	2				
Rate Engineer I			0	1				
Rate Analyst I			0	2				
BILLING								
Supervisor, Billing			1	1				
Accounting Clerk I			0	2				
Accounting Clerk, Sr.			1	1				
Sub-Total			2	10			\$27,438.51	\$261,626.48
CUSTOMER SERVICE DEPT.								
Manager, Customer Service			1	1				
Cust. Service Supervisor			1	1				
Cust. Ser. Rep I			4	5				
Cust. Ser. Rep. II			0	1				
Cust. Ser. Rep. III			2	2				
Cust. Ser. Training Specialist			0	1				
OFFICE SERVICES/MAIL ROOM								
Office Svcs. Coordinator			0	1				
Office Svcs Clerk			1	2				
Receptionist			0	1				
Secretary I			0	1				
Sub-Total			9	16			\$104,955.83	\$287,063.01
TOTAL RATES & REGULATORY AFFAIRS			14	36			\$202,075.85	\$907,201.16

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL				
	LEHIGH		SSU		LEHIGH		SSU		
	88	91	88	91	88	91	88	91	
LEGAL & ORGANIZATIONAL AFFAIRS DIV.									
Vice President & General Counsel			0	1					
ENVIRONMENTAL COMPLIANCE DEPT.									
Environmental Comp. Admin.			0	1					
Env & Safety Specialist			0	1					
Sub-Total			0	2			\$0.00		\$44,081.88
LEGAL DEPT.									
Legal Department			0	0					
Exec. Secretary			0	1					
Paralegal			0	1					
Staff Attorney			0	1					
Secretary I			0	1					
Sub-Total			0	4			\$0.00		\$100,852.04
TRAINING & DEVELOPMENT DEPT.									
Training and Dev. Admin.			0	1					
HUMAN RESOURCES DEPT.									
Manager, Human Resources			0	1					
Human Resources Administrator			0	1					
Secretary I			0	1					
Human Resources Assistant			0	1					
Sub-Total			0	4			\$0.00		\$118,928.55
COMMUNICATIONS DEPT.									
Communications Administrator			1	1					
Communications Specialist			0	1					
Communications Intern			0	0					
Sub-Total			1	2			\$0.00		\$58,433.71
TOTAL LEGAL & ORGANIZATIONAL AFF.			1	14			\$0.00		\$454,562.18

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
PLANNING AND ENGINEERING DIVISION								
Vice President-Engineering			0	1				
Executive Secretary			0	1				
ENGINEERING DEPT.								
Chief Engineer			1	1				
Secretary I			0	1				
Asst. Engineer VII			1	5				
Proj. Engineer II			0	2				
Sr. Proj. Engineer			0	2				
DRAFTING								
Chief Drafter			0	1				
Design Drafter I/II			0	3				
Sub-Total			2	15			\$6,562.38	\$452,557.03
PROJECT/CONSTRUCTION DEPT.								
Manager, Project/Construction			0	1				
Secretary II			0	1				
CONSTRUCTION INSPECTION								
Construction Inspector			0	2				
Mgr, Const (Marco)			0	1				
PROJECT BUDGETING & ACCOUNTING								
Accounting Clerk I			0	1				
Budget Analyst I			0	1				
Sub-Total			0	7			\$0.00	\$189,078.09
TOTAL PLANNING AND ENGINEERING			2	24			\$6,562.38	\$725,294.00

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
FINANCE & ADMINISTRATION DIVISION								
Vice President-Finance			0	1				
TREASURY DEPT.								
Treasurer			0	1				
CASH MANAGEMENT								
Supervisor, Cash Mgt.			0	1				
Accounting Clerk I			0	1				
Accounting Clerk II			1	1				
Accounting Clerk, Sr.			1	1				
Sub-Total			2	5			\$16,860.84	\$126,449.47
ACCOUNTING DEPT.								
Controller			1	1				
REGULATORY ACCOUNTING								
Assistant Controller			1	1				
Accounting Clerk I/Sr.			2	2				
FINANCIAL ACCOUNTING								
Assistant Controller			0	1				
Accountant I			0	5				
Accting Clerk I/Sr.			0	2				
PAYROLL								
Payroll Supervisor			0	1				
Accounting Clerk I			0	2				
PROPERTY ACCOUNTING								
Lead Property Accountant			0	1				
Accountant I			0	2				
ACCOUNTS PAYABLE								
A/P Supervisor			1	1				
Accounting Clerk VII			0	5				
Sub-Total			5	24			\$108,839.66	\$512,353.50
SYSTEMS & PROC./BUDGET DEPT.								
Manager, Systems and Proc.			1	1				
BUDGETING								
Budget Analyst I			0	2				
SYSTEMS AND PROCEDURES								
Sys. & Proc. Analyst			0	1				
Accounting Clerk I			0	1				
Sub-Total			1	5			\$0.00	\$106,924.74

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
INFORMATION SYSTEMS DEPT.								
Manager, Info. Systems			1	1				
PROGRAMMING								
Sr. Prog. Analyst			0	5				
COMPUTER OPERATIONS								
Supv, Computer Operations			1	1				
Asst. Comp. Operator			0	1				
Computer Operator I			0	1				
Computer Operator, Sr.			0	1				
Data Entry Operator I			0	0				
PC/LAN/SOFTWARE SUPPORT								
Systems Engineer			0	1				
Computer Technician			0	1				
Sub-Total			2	12			\$47,419.76	\$399,410.31
ADMINISTRATIVE SERVICES DEPARTMENT								
Manager, Admin. Services			0	1				
PURCHASING								
Purchasing Agent			0	1				
Assistant Buyer			0	2				
RECORDS RETENTION								
Records Tech			0	1				
Sub-Total			0	5			\$0.00	\$117,553.70
Executive Secretary			1	1				
TOTAL FINANCE AND ADMINISTRATION			11	53			\$177,496.26	\$1,368,768.12

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
OPERATIONS DIVISION								
Vice President-Operations			0	1				
CENTRAL REGION								
Manager, Central Region			1	1				
OSCEOLA/LAKE COUNTIES								
Lake, Osceola Co. Area Supv.			1	1				
LAKE COUNTY								
Lead Operator (Lake County)			1	1				
Maintenance Helper, Tech.			0	1				
Operator I, II, III, IV			0	2				
FL. CENTRAL COMM. PARK								
Lead Operator (FL Cent. Comm. Pk)			1	1				
Operator I, II, III, IV			1	1				
OSCEOLA COUNTY								
Lead Operator (Osceola Co.)			1	1				
Operator I, II, III, IV			0	1				
ORANGE/SEMINOLE COUNTIES								
Orange, Seminole Area Supv.			1	1				
COLLECTIONS/DISTRIBUTION								
Lead Main. Tech. (Coll.)			1	1				
Maintenance Helper, Tech.			1	6				
LAKE CONWAY								
Lead Operator (Lake Conway)			1	1				
Operator I, II, III, IV			0	1				

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
UNIVERSITY SHORES								
Chief Operator (Univ. Shores)			1	1				
Maintenance Helper, Tech.			0	1				
Operator Trainee			1	2				
Operator I, II, III, IV			1	4				
BUILDINGS & GROUNDS MAINTENANCE								
Lead Main. Tech (Grounds)			1	1				
Maintenance Helper, Tech.			1	5				
LEILANI HEIGHTS								
Lead Operator (Leilani Hghts.)			1	1				
Main. Helper, Tech.			1	2				
Operator I, II, III, IV			0	1				
Operator I			0	1				
Electrician			1	1				
Sub-Total Central Region			18	40			\$0.00	\$0.00

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
NORTH REGION								
Manager, North Region			0	1				
Secretary I, II			0	1				
VOLUSIA COUNTY								
Volusia Co. Area Supv.			0	1				
Secretary I, II			0	1				
DELTONA LAKES								
Supv, Gas Operations			0	1				
Lead Meter Reader			0	1				
Meter Reader			0	3				
Distribution Mechanic			0	1				
Service Technician			0	2				
Chief Operator (Deltona Lakes)			0	1				
Field Maint. Worker			0	2				
Plt. Main. Mechanic			0	2				
Motorpool Mechanic			0	1				
Plt. Operator Trainee			0	2				
Plt. Operator I, II, III, IV			0	6				
Storekeeper			0	1				

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
Supv, Cust. Bus. Office			0	1				
Cust. Ser. Rep. I, II, III			0	4				
Sr. Data Entry Operator			0	1				
Data Entry Oper. I, II			0	2				
Supv, Field Maintenance			0	1				
Field Main. Worker			0	5				
Distribution Mechanic			0	3				
Distribution Foreman			0	3				
Line Locator			0	1				
SUGARMILL								
Lead Oper. (Sugarmill)			1	1				
Operator Trainee			0	1				
DUVAL COUNTY								
Duval County Area Supervisor			2	1				
Maint. Helper, Tech.			2	4				
Operator I, II, III, IV			5	8				
Cust. Ser. Rep. I, II, III			1	1				
AMELIA ISLAND								
Amelia Island Area Supv.			1	1				
Operator I, II, III, IV			2	5				
Cust. Ser. Rep. I, II, III			1	1				
KEYSTONE HEIGHTS/POMONA PARK								
Keystone Hgts. Area Supv.			1	1				
PUTNAM COUNTY								
Lead Operator (Putnam)			1	1				
Maint. Helper, Tech.			1	2				
Operator Trainee			1	1				
Operator I, II, III, IV			2	2				
BRADFORD/CLAY COUNTIES								
Lead Operator (Bradford & Clay)			0	1				
Operator Trainee			0	1				
Operator I, II, III, IV			1	1				
Cust. Ser. Rep. I, II, III, IV			1	1				
Sub-Total North Region			23	82			\$0.00	\$0.00

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
SOUTH REGION								
Manager, South Region			0	1				
Secretary I, II			0	1				
MARCO ISLAND/MARCO SHORES								
Marco Island Area Supv.			0	1				
Chief Operator			0	1				
Main. Helper, Tech.			0	2				
Operator Trainee			0	2				
Operator I, II, III, IV			0	6				
Chief Operator			0	1				
Maint. Helper, Tech.			0	1				
Operator I, II, III, IV			0	6				
Supv, Cust. Bus. Office			0	1				
Cust. Ser. Rep. I, II, III			0	1				
Data Entry Oper I, II			0	3				
Meter Reader			0	3				
Service Technician			0	1				
Lead Main. Tech.			0	1				
Main. Helper, Tech.			0	4				
VENICE GARDENS								
Venice Gardens Area Supv.			1	1				
Lead Operator			1	1				
Operator Trainee			0	1				
Operator I, II, III, IV			3	6				
Supv, Field Maintenance			1	1				
Main. Helper, Tech.			2	6				
DEEP CREEK/BURNT STORE								
Sr. Main. Tech.			1	1				
Maint. Helper, Tech.			1	2				
Lead Operator			1	1				
Operator I, II, III, IV			1	2				
Cust. Ser. Rep. I, II, III			3	3				
Sub-Total Southern Region			15	61			\$0.00	\$0.00

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
WEST REGION								
Manager, West Region			0	1				
Secretary I, II			0	1				
SEABOARD/LAKE GIBSON								
Seaboard Area Supv.			0	1				
Lead Main. Tech.			0	1				
Main. Helper, Tech.			0	3				
Operator Trainee			0	1				
Operator I, II, III, IV			0	4				
Sr. Cust. Ser. Rep.			0	1				
Cust. Ser. Rep. I, II, III			0	1				
SUGARMILL WOODS								
Sugarmill Woods Area Supv.			1	1				
Secretary I, II			1	1				
Maintenance Helper, Tech.			0	3				
Operator Trainee			0	1				
Operator I, II, III, IV			1	3				
SUNNY HILLS								
Sunny Hills Area Supv.			0	1				
Maintenance Helper, Tech.			0	0				
Operator Trainee			0	1				
Cust. Ser. Rep. I, II, III			0	0				
CITRUS COUNTY								
Citrus Springs Area Supv.			0	1				
Secretary I, II			0	1				
Lead Maintenance Tech.			0	1				
Maintenance Helper, Tech.			0	4				
Operator I, II, III, IV			0	3				
Operator Trainee			0	1				
Service Technician			0	1				
Sr. Cust. Ser. Rep.			0	1				
Cust. Ser. Rep. I, II, III			0	1				

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
MARION COUNTY								
Marion Oaks Area Supervisor			0	1				
Secretary I, II			0	1				
Operator IV			0	1				
Operator Trainee			0	1				
Operator I, II, III			0	2				
Service Technician			0	1				
Lead Maintenance Tech.			0	1				
Maint. Helper, Tech.			0	5				
Sr. Cust. Ser. Rep.			0	1				
Cust. Ser. Rep. I, II, III			0	1				
SPRING HILL								
Lead Operator Spring Hill			0	1				
Operator I, II, III, IV			0	4				
Maintenance Helper, Tech.			0	1				
Supervisor, Field Maintenance			0	1				
Office Clerk			0	1				
Lead Maintenance Tech.			0	3				
Maintenance Helper, Tech.			0	8				
Service Technician			0	2				
Welder			0	1				
Supervisor, Cust. Bus. Office			0	1				
Sr. Cust. Ser. Rep.			0	1				
Cust. Ser. Rep. I, II, III			0	4				
Office Clerk			0	1				
Data Entry Operator I, II			0	3				
Lead Meter Reader			0	1				
Meter Reader			0	4				
Service Technician			0	3				
Sub-Total West Region			3	94			\$0.00	\$0.00

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
OPERATIONS ADMINISTRATION DEPT.								
Operations Administrator			0	1				
Operations Specialist			0	1				
Lead Meter Reader			1	1				
Meter Reader			0	2				
Dispatcher			0	1				
TECHNICAL SERVICES DEPT.								
Technical Services Administrator			0	1				
Technical Services Specialist			0	1				
Secretary II			1	0				
GAS MARKETING/OPERATIONS DEPT.								
LP Gas Administrator			0	2				
Sub-Total Operations Support			2	10			\$47,573.43	\$125,883.36
TOTAL OPERATIONS DIVISION			61	288			\$2,349,557.73	\$6,632,444.43
TOTAL SSU			93	417			\$2,906,263.89	\$10,200,389.29

SSU/LEHIGH STAFFING SUMMARY

POSITION TITLE	STAFFING				PAYROLL			
	LEHIGH		SSU		LEHIGH		SSU	
	88	91	88	91	88	91	88	91
LEHIGH								
Vice President & General Manager	1	1		1				
Administrative Assistant	1	1		1				
Area Supervisor	1	1		1				
Secretary I, II	1	1		1				
Sr. Cust. Ser. Rep.	1	1		1				
Cust. Ser. Rep. I, II, III	3	3		3				
Data Entry Operator I, II, Sr.	1	1		1				
Meter Reader	0	1		1				
Service Technician	1	1		1				
Service Tech. Trainee	1	1		1				
Lead Maintenance Technician	1	1		1				
Maint. Helper	8	8		8				
Chief Operator (Water)	1	1		1				
Operator I, II, III, IV	4	5		5				
Chief Operator (Wastewater)	1	1		1				
Operator I, II, III, IV	4	5		5				
TOTAL LEHIGH	30	33	0	33	0	630444.57	\$0.00	\$630,444.57
GRAND TOTAL	30	33	93	450		630444.57	\$2,906,263.89	\$10,830,833.86