



Public Service Commission

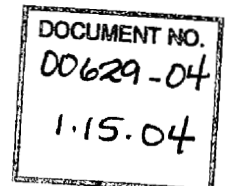
CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: January 15, 2004
TO: Division of the Commission Clerk and Administrative Services
FROM: Denise N. Vandiver, Chief of Auditing, Division of Auditing & Safety *w*
RE: Docket No. 020407-WS; Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

Please file the attached documents in the docket file for the above-referenced docket:

- Letter to Utilities, Inc. dated July 3, 2003 from Denise N. Vandiver and Patricia W. Merchant
- Letter to Utilities, Inc. dated August 28, 2003 from Denise N. Vandiver and Patricia W. Merchant
- Letter to Utilities, Inc. dated October 6, 2003 from Denise N. Vandiver
- Facsimile from Steven M. Lubertozi, dated December 15, 2003
- E-Mail from Steven M. Lubertozi, dated December 31, 2003



STATE OF FLORIDA

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(850) 413-6480

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TIM DEVLIN, DIRECTOR
(850) 413-6900

Public Service Commission

July 3, 2003

Mr. Lawrence N. Schumacher
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062-6108

7002 0860 0001155 3322

Re: Docket No. 020407-WS, Application for Increased Water and Wastewater Rates in Polk County for Cypress Lakes Utilities, Inc. - Recommendation For Apparent Violation of Commission Rules Regarding Books and Records for Florida Subsidiaries of Utilities, Inc.

Dear Mr. Schumacher:

By letter filed June 18, 2003, Utilities, Inc. addressed the accounting deficiencies discussed in Order No. PSC-03-0647-PAA-WS and our staff letter dated May 21, 2003. We have reviewed the company's response and we believe that it satisfactorily addresses some of the issues raised in our letter. Before staff writes a recommendation regarding the show cause issue in the Order, we would like the following staff concerns addressed. We believe that each issue must have a specific course of action and specific time frame before we consider that the issues have been addressed in a satisfactory manner.

No. 3: Account Cross-Reference & Allocation Methodology

Utilities, Inc.'s Response:

The requested information cannot be provided within the general ledger systems; however, UI will provide a schedule with the requested information for all subsequent MFR. Policy implemented and schedules will be provided concurrently with future MFR filings.

Staff Comments:

This may be a satisfactory solution. However, staff would like to see an example of this schedule and approve the format as part of our acceptance of your response to the show cause order. The example may be for a company that has already filed a rate case or for one of the upcoming rate cases.

No. 4: Pumping Equipment

Utilities, Inc.'s Response:

Mr. Lawrence N. Schumacher
Page 2
July 3, 2003

The Utility is currently reviewing this allegation against its annual reports and will provide the Commission and Staff with the any required adjusting journal entries.

Staff Comments:

Staff would like a final determination made on this issue before proceeding further.

No. 5: Retirements

Utilities, Inc.'s Response:

The Utility has recently moved to a fully automated work order system to facilitate our work order process. The Utility is going to add fields to the work order form and input screen, which will allow us to better track retirements when items are moved from the CP ledger to the General Ledger. These additional data entry fields will allow us to sort all projects and better evaluate which projects require retirements. In addition to the above mentioned fields, will also be requiring that our operations' employees provide us the original date the asset was placed in service or the original cost, if available. Additional fields in the work order system will be added prior to month end.

Staff Comments:

This procedure will address the problem only for those items that go through the CP ledger. We do not believe that this will solve the problem for small items, such as meter, pump, motor, and computer replacements. Please address how the utility will improve its accounting for retirements of these types of items.

No. 6: CIAC Amortization Rate

Utilities, Inc.'s Response:

On a going forward basis, when the plant account is known, the Utility will use the corresponding rate and will comply with the Commission's proposed rule if and when adopted.

Staff Comments:

Commission rule 25-30.140(8)(a), Florida Administrative Code, requires the utility to amortize CIAC on a plant specific basis, when applicable. The pending revision to this rule does not change this requirement, it only addresses how to account for the amortization when it is appropriate to use a composite rate. Therefore, when the utility acquires a new system and has specific plant-related CIAC, it should be amortized using the related depreciation rate. The utility should address what time frame is needed to meet the requirement that the utility has verified its Florida systems comply with the rule and that any adjusting entries have been made.

No. 7: Water Service Corp. Allocation

Utilities, Inc.'s Response:

Mr. Lawrence N. Schumacher
Page 3
July 3, 2003

Utilities, Inc. believes that its current methodology is equitable and will work with staff to facilitate audit process of WSC's allocations. Will arrange a meeting or conference call to discuss different methodologies.

Staff Comments:

This issue was not meant to request a different methodology. It was meant to request better documentation behind the methodology used. To explain the issue in more detail, there are two parts that should be explained.

First, the utility does not have an audit trail for its determination of Single Family Equivalents (SFE), which are used to calculate Customer Equivalents (CE). Currently, the utility field staff assigns a SFE to each customer. There is no formalized process or manual prescribing how this should be done. This is primarily a problem for non-single family homes and how they are converted to an SFE. It's possible that the same customer could be assigned two different SFE numbers, based on who is performing the calculation. The utility should formalize its process and maintain documentation regarding the calculations.

Second, because there was no audit trail for the SFE calculation, staff attempted to perform a reasonableness test by using an ERC calculation. This attempt demonstrated that the utility does not maintain certain critical information on a per-state and per-system basis. We believe that the number of meters, by meter size, by system, should be maintained in a readily available format. We also believe that the amounts of water purchased and pumped and gallons of wastewater treated should also be maintained in a readily available format.

No. 9: Document "other water uses"

Utilities, Inc.'s Response:

Utilities, Inc. is educating field personnel on the importance of logging this information and is currently communicating with field personnel.

Staff Comments:

Please provide additional information regarding the specific communication and whether all current employees have been contacted. As part of this description, please detail whether this information is in the form of a manual or some other method that may be referred to in the future. If all employees have not been contacted, please state when the communication will be complete. Also, please provide information regarding how future employees will be informed of these requirements.

No. 10: Adjusting Entry Log Book

Utilities, Inc.'s Response:

The Utility is currently reviewing the feasibility, costs and time required to implement this procedure.

Mr. Lawrence N. Schumacher
Page 4
July 3, 2003

Staff Comments:

This issue was not included in the letter. However, in staff's meeting with you in Chicago, staff indicated that this was very important. We would like to know the results of the utility's determination on this issue before proceeding further. Specifically, we believe that each journal entry should have attached to it, or in a central filing system for all journal entries, all support for that journal entry (i.e. purpose of the entry, person making the entry, worksheets showing any calculations, and any supporting documents, reconciliations, invoices, etc.)

No. 11: Additional Detail in Cash Book & General Ledger

Utilities, Inc.'s Response:

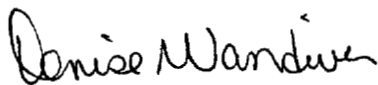
The Utility agrees that more detail can be provided in the cash book and general ledger. Currently providing more detail in the general ledger system, where applicable.

Staff Comments:

Please describe more specifically what detail the company is providing. Specifically, we believe that the same level of information we described for journal entries should be provided for the cash book.

Please respond to these issues no later than July 28 so we may work toward closing this docket. Once again, staff believes that each issue must have a specific course of action and specific time frame before we consider that the issues have been addressed in a satisfactory manner. If you should need additional time or have any questions regarding our concerns, please call and let us know.

Sincerely,



Denise N. Vandiver
Bureau Chief of Auditing
Division of Auditing & Safety



Patricia W. Merchant
Supervisor, File and Suspend Cases
Division of Economic Regulation

cc: Office of General Counsel (Harris)
Division of Economic Regulation (Devlin, Jenkins, Willis)
Division of Auditing and Safety (Hoppe, Winston, Small, Welch)
Office of Public Counsel

Steve Lubertozi
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062-6108

Mr. Martin S. Friedman
Rose, Sundstrom & Bentley, LLP
600 S. North Lake Blvd. Suite 160
Altamonte Springs, Florida 32701

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DIVISION OF ECONOMIC REGULATION
TIM DEVLIN, DIRECTOR
(850) 413-6900

Public Service Commission

August 28, 2003

Mr. Lawrence N. Schumacher
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062-6108

Re: Docket No. 020407-WS, Application for Increased Water and Wastewater Rates in Polk County for Cypress Lakes Utilities, Inc. - Recommendation For Apparent Violation of Commission Rules Regarding Books and Records for Florida Subsidiaries of Utilities, Inc.

Dear Mr. Schumacher:

By letters filed June 18, 2003 and August 13, 2003, Utilities, Inc. addressed the accounting deficiencies discussed in Order No. PSC-03-0647-PAA-WS and our staff letters dated May 21, 2003 and July 3, 2003. We have reviewed the company's responses; however, we would like some additional clarification and information on the following items before we agree that the company has fully addressed our concerns.

No. 3: Account Cross-Reference & Allocation Methodology

Utilities, Inc.'s Response:

Attached please find the schedule that was provided to Staff Auditor Jeff Small on or about June 9th. This schedule provides a detailed listing of all General Ledger account numbers, the corresponding USOA account number and method of allocation.

Staff Comments:

The attached schedule was provided to the auditor during the recent audit, but was returned to the company to be reissued as it was not correct. Please submit the reissued schedule and update it to include all A/R and G/L accounts, not just the O&M accounts. While our initial letter indicated our concern was primarily with the O&M accounts, we did not limit our request to those accounts.

Mr. Lawrence N. Schumacher

Page 2

August 28, 2003

No. 5: Retirements

Utilities, Inc.'s Response:

The Utility will be reiterating to its operations personnel and accounting staff the importance of retirements to ensure that all retirements or replacements are clearly marked on all invoices and properly recorded. A copy of the memo will be provided to the FPSC Staff.

Staff Comments:

Please provide an expected date that the memo will be provided to the Commission. Also, we believe that the memo should include a discussion of the company's retirement policy so that the employees are clear as to the decisions to be made regarding retirements.

No. 7: Water Service Corp. Allocation

Utilities, Inc.'s Response:

Utilities, Inc. will be circulating to all operations personnel and to all branch offices, where the Single Family Equivalent (SFE) information is entered a policy and procedure memo to ensure that the appropriate supporting documentation is being provided when an SFE is being added to the billing system. In addition, Utilities, Inc. does keep records of gallons pumped, purchased and treated for all operating subsidiaries and this information is available for Staff's review.

Staff Comments:

1. Please provide an expected date that the memo will be provided to the Commission.
2. In our last letter we requested that the number of meters, by meter size, by system, should be maintained in a readily available format and that the amounts of water purchased and pumped and gallons of wastewater treated should also be maintained in a readily available format. Your response indicates that you keep these records. We have asked for this information and it has never been available in total. The company has not been able to provide:
 - a. Meters, by meter size, by system for the Florida systems,
 - b. Total meters, by meter size, and total water purchased and pumped, by state, and
 - c. Total wastewater treated, by state.

Please indicate a plan to accumulate this information in a logical manner so it is available in future proceedings. Please also indicate a time frame that this plan will be accomplished.

Mr. Lawrence N. Schumacher
Page 3
August 28, 2003

No. 10: Adjusting Entry Log Book

Utilities, Inc.'s Response:

Utilities, Inc.'s Accounting Department's personnel have created a folder that will contain all manual and uploaded journal entries, this information will be sorted by month. In addition, the Utility's accounting department has been advised to retroactively create these folders as of January 2003.

Staff Comments:


Staff appreciates the effort to create a central file for journal entries. It is not clear from the company response what will be included in the folder. If it is merely a copy of the journal entry, it will not provide additional information as the auditors have requested. Each journal entry in the folder should also include the supporting documentation for the entry. Please indicate the company's intent regarding this issue.

Please respond to these issues no later than September 23, 2003, so we may work toward closing this docket. Once again, we believe that we are very close to a satisfactory resolution but we would like some additional clarification and information on these items before we agree that the company has fully addressed our concerns. If you should need additional time or have any questions regarding our concerns, please call and let us know.

Sincerely,



Denise N. Vandiver
Bureau Chief of Auditing
Division of Auditing & Safety



Patricia W. Merchant
Supervisor, File and Suspend Cases
Division of Economic Regulation

cc: Office of General Counsel (Fleming)
Division of Economic Regulation (Devlin, Jenkins, Willis)
Division of Auditing and Safety (Hoppe, Winston, Small, Welch)
Office of Public Counsel

Steve Lubertozzi
Utilities, Inc.
2335 Sanders Road
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Mr. Martin S. Friedman
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Altamonte Springs, Florida 32701

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Public Service Commission

October 6, 2003

Mr. Lawrence N. Schumacher
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062-6108

Re: Docket No. 020407-WS, Application for Increased Water and Wastewater Rates in Polk County for Cypress Lakes Utilities, Inc. - Recommendation For Apparent Violation of Commission Rules Regarding Books and Records for Florida Subsidiaries of Utilities, Inc.

Dear Mr. Schumacher:

We have reviewed your letters filed June 18, 2003, August 13, 2003, and October 1, 2003 Utilities, Inc. which address the accounting deficiencies discussed in Order No. PSC-03-0647-PAA-WS. These last responses do not fully address the requests in the letter dated August 28, 2003. Listed below are the final requests. We plan to prepare a recommendation for the December 16 Agenda Conference and these items must be resolved before we can determine whether we should continue or dismiss the show cause issue.

No. 3: Account Cross-Reference & Allocation Methodology

Our August 28 letter requested: *Please submit the reissued schedule and update it to include all A/R and G/L accounts, not just the O&M accounts.*

The utility response included the reissued schedule that was provided to the auditor. However, it was not updated to include all G/L accounts, such as CIAC, Debt, etc.

No. 5: Retirements

Our August 28 letter requested: *Please provide an expected date that the memo will be provided to the Commission.*

The utility response stated that an exact date of the memo cannot be discerned at this time. Please provide a date that we can use as a "deadline" that the memo will be issued.

Mr. Lawrence N. Schumacher
Page 2
October 6, 2003

No. 7: Water Service Corp. Allocation

Issue 1:

Our July 3 letter expressed concern regarding the audit trail for the utility determination of Single Family Equivalents (SFE), which are used to calculate Customer Equivalents (CE). We expressed specific concern that there is no formalized process or manual prescribing how this should be done, especially for non-single family homes and how they are converted to an SFE. We indicated that we believed that it's possible that the same customer could be assigned two different SFE numbers, based on who is performing the calculation, and indicated our desire that the utility formalize its process and maintain documentation regarding the calculations.

The company response filed August 13, 2003 indicated a memo would be circulated to all operations personnel and to all branch offices regarding the Single Family Equivalent (SFE).

Our August 28 letter requested a date for this memo.

The latest response, filed October 1, 2003, provided a copy of the memo. However, the memo submitted did not address our earlier concerns regarding a consistent methodology for determining an SFE. Please respond regarding your plans to develop a consistent methodology to be used to develop SFE and your plans to inform operations staff. Please provide a specific "deadline date" that you plan to complete the methodology and a specific "deadline date" that you plan to notify the operations staff.

Issue 2:

Our August 28 letter expressed concern that the number of meters, by meter size, by system, should be maintained in a readily available format and that the amounts of water purchased and pumped and gallons of wastewater treated should also be maintained in a readily available format.

Your response continues to assert that you keep these records. We have asked for this information and it has never been available in total. As an indication of your ability to provide such information, please provide the total meters, by meter size, for Miles Grant Water and Sewer Company as of June 30, 2003.

Mr. Lawrence N. Schumacher
Page 3
October 6, 2003

Please respond to these issues no later than October 24, 2003, so we may work toward closing this docket. If you should have any questions regarding our concerns, please call and let me know.

Sincerely,



Denise N. Vandiver
Bureau Chief of Auditing
Division of Auditing & Safety

cc: Office of General Counsel (Fleming)
Division of Economic Regulation (Devlin, Jenkins, Willis, Merchant, Joyce)
Division of Auditing and Safety (Hoppe, Winston, Small, Welch)
Office of Public Counsel

Steve Lubertozzi
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062-6108

Mr. Martin S. Friedman
Rose, Sundstrom & Bentley, LLP
600 S. North Lake Blvd. Suite 160
Altamonte Springs, Florida 32701

Utilities, Inc.

Fax

To: Denise N. Vandiver
Patricia W. Merchant

From: Steven M. Lubertozzi

Fax:

Pages: 4

Phone:

Date: 12/15/2003

Re: Docket No. 020407-WS

CC: Marty Friedman

Urgent For Review Please Comment Please Reply Please Recycle

Attached please find a memo that was distributed today to our operations, accounting and human resources personnel describing our retirement policy. If you have any questions or comments please let me know.

Thanks

Utilities, Inc.**Memo****To:**

Michelle Cohn	Darrin Yount	Delos Williams	Martin Lashua	Karen Sasic
Chris Kocan	Brad Jordan	Jeff Cocran	Mac Mitchell	Mary Peden
Nancy Luppino	Patrick Flynn	Tony Sharp	Sandy Berry	Beckey Daniels
Phyllis Luppino	David Orr	Alvin Kennedy	Sandy Brown	Mike Dunn
Avelina Friedman	Bruce Hass	Carl Daniel	Chris Hult	Rhonda Clark
Igor Turov	James Leonard	Jim Highley	Peggy LaRowe	Bryan Gongre
Rick Bryan	Jo Ratliff			

From: John Haynes**CC:** Larry Schumacher
Steven Lubertozzi
Lisa Crossett
Patty Owens**Date:** December 15, 2003**Re:** Retirements on Accounts Payable Invoices

Attached please find Utilities, Inc.'s five (5) step retirement policy. This five step policy informs accounting/accounts payable personnel how to calculate a retirement. Please be advised, that all accounts payable personnel are required to book retirements when an asset has been taken out of service. When an asset is no longer in service the corresponding entries (Debit - Accumulated Depreciation and Credit - Utility Plant in Service) need to be written on the front of the invoice.

It is imperative that the operations staff advise accounting/accounts payable personnel of a potential retirement. The decision to book a retirement will be handled by accounting; however, critical information is required from the operations staff. Please be advise, that all operations personnel, with invoice approval privileges need to provide as much detailed information as possible on the face of an invoice during the approval process. Additional information required to facilitate the retirement process, include but not limited to the following:

1. New,
2. Upgrade,
3. Repair, and
4. Replacc/Scrapped.

In addition, please be advised that all new operations personnel (those with invoice approval privileges) and all new accounts payable/accounting personnel need to be advised as to Utilities, Inc.'s retirement policy. With continued cooperation between the accounting department and operations we can ensure that all retirement entries are recorded. If you have any questions please do not hesitate to contact me.

RETIRING ON ACCOUNTS PAYABLE INVOICES

- (A) IF THE AMOUNT OF OLD EQUIPMENT IS PROVIDED, USE THIS AMOUNT IN YOUR RETIREMENT.
- (B) IF THE AMOUNT OF OLD EQUIPMENT IS GIVEN AND IS LESS THAN \$250 AND THE YEAR THE ORIGINAL EQUIPMENT WAS PURCHASED IS 2000 – 2003, DO NOT RETIRE. (ORIGINAL EQUIPMENT OF \$250 OR LESS WAS PROBABLY EXPENSED DUE TO OUR CODING POLICIES.)
- (C) IF THE AMOUNT OF OLD EQUIPMENT IS GIVEN AND IS GREATER THAN \$100 AND THE YEAR THE ORIGINAL EQUIPMENT WAS PURCHASED IS PRIOR TO 2000, RETIRE THE AMOUNT GIVEN OF THE OLD EQUIPMENT. (ORIGINAL EQUIPMENT OF \$100 OR LESS WAS PROBABLY EXPENSED DUE TO OUR CODING POLICIES.)
- (D) IF THE AMOUNT OF OLD EQUIPMENT IS NOT GIVEN, BUT THE YEAR THE EQUIPMENT WAS PURCHASED IS PROVIDED, USE THE HANDY WHITMAN INDEX. MULTIPLY THE PERCENTAGE FROM THE HANDY WHITMAN BY THE TOTAL AMOUNT OF THE INVOICE AND USE THIS AMOUNT FOR YOUR RETIREMENT PORTION OF THE CODING ON THE INVOICE.
- (E) IF NEITHER THE AMOUNT OF OLD EQUIPMENT OR THE YEAR OF PURCHASE IS GIVEN, RETIRE 75% OF THE TOTAL AMOUNT OF THE INVOICE.

Tricia Merchant

From: Lubertozi4@cs.com
Sent: Wednesday, December 31, 2003 12:54 PM
To: pmerchan@psc.state.fl.us
Cc: s.m.lubertozi@utilitiesinc-usa.com
Subject: Rule to Show Cause



FPSC.xls

Tricia –

Pursuant to the rule to show cause proceeding UI was going to provide the FPSC with a memo that would articulate our plan to implement additional policies and procedures to address concerns regarding our customer equivalents and the resulting calculation. Attached please find a sample of our proposal to calculate UI's customer equivalents using ERC.

Our computer department is currently developing a program that will count all customers by billcode. Presently, the program can only run one company's customer count information at a time. After the program is complete we will prepare a report for all companies similar to the sample above. Please advise if this format is what you were expecting.

Thanks
Steve

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<u>Company</u>				<u>Meter</u>	<u>No. of</u>			<u>UI's</u>
<u>No.</u>	<u>Sub No.</u>	<u>Billcode</u>	<u>Type</u>	<u>Size</u>	<u>Customers</u>	<u>ERC's</u>	<u>(6) * (7)</u>	<u>Customer</u>
60	280	28001	Water	5/8"	652	1	652	978
60	281	28101	Sewer	5/8"	652	1	652	
60	280	28002	Water	1"	12	2.5	30	45
60	281	28102	Sewer	1"	12	2.5	30	

Notes:

- (1) Company Number
- (2) Subsidiary Number
- (3) Billcode
- (4) Type of Service
- (5) Meter Size
- (6) Number of Customers
- (7) Equivalent Residential Customer
- (8) (6) * (7)
- (9) UI's Customer Equivalent [Water = 1, Sewer = 1, Water and Sewer :