

State of Florida



## 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-**

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**DATE:** May 17, 2004

**TO:** Rick Moses, Division of Competitive Markets and Enforcement

**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing *DNV*  
Division of Regulatory Compliance and Consumer Assistance

**RE:** **Docket No.** 991222-TP ; **Company Name:** Florida Telecommunications Relay Inc. ; **Audit Purpose:** Review of Projected Budget Operations ; **Audit Control No.** 04-106-3-1

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey, Casey)  
General Counsel  
Office of Public Counsel

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DOCUMENT NUMBER-DATE

05705 MAY 19 2004

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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
BUREAU OF AUDITING*

*Orlando District Office*

**FLORIDA TELECOMMUNICATIONS RELAY, INC.**

**REVIEW OF PROJECTED BUDGET OPERATIONS**

**FISCAL YEAR END JUNE 30, 2005**

**DOCKET NO. 991222-TP  
AUDIT CONTROL NO. 04-1063-1**

A handwritten signature in black ink, appearing to read "Jeffery A. Small".

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*Jeffery A. Small, Audit Manager*

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*Denise Vandiver, Bureau Chief*

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**MAY 10, 2004**

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

We have applied the procedures described later in this report to audit the accompanying schedule for Budget Operations for the projected 12-month period ended June 30, 2005, for Florida Telecommunications Relay, Inc. located throughout Florida. This schedule was prepared by the audit staff as part of our work in Docket No. 991222-TP.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The company has exceeded the allowable category variances established in the Commission Orders Nos. PSC-02-0786-FOF-TP, issued June 10, 2002, and PSC-03-0678-FOF-TP, issued June 5, 2003.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

**Scanned** - The documents or accounts were read quickly looking for obvious errors.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Reviewed** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

**Verified** - The item was tested for accuracy and compared to substantiating documentation.

**Assembled** - Presented in Commission-required format financial information that was provided to audit staff and is the representation of company management.

**NET OPERATING INCOME:** Compiled company surcharge revenues and operating expenses for the historical 12-month period ended June 30, 2003. Reviewed and verified the company surcharge revenues and operating expenses for the historical 6-month period ended December 31, 2003, and for the estimated 12-month period ended June 30, 2004, respectively. Verified and recalculated the company surcharge revenues and operating expenses for the projected 12-month period ended June 30, 2005. Reconciled the company's fiscal year ended 2003 Federal Tax Return to its general ledger. Assembled the attached schedule of company operations for the time periods mentioned above.

## Exception No. 1

### Subject: Variances Established in Prior Orders

**Statement of Fact:** Orders Nos. PSC-02-0786-FOF-TP, issued June 10, 2002, and PSC-03-0678-FOF-TP, issued June 5, 2003, approved Florida Telecommunications Relay, Inc.'s (FTRI) operating budgets for the 12-month periods ended June 30, 2003, and 2004, respectively.

Additionally, the Orders stated that the budget shall be grouped into five categories. FTRI may move amounts between these five categories not to exceed 10 percent of the category from which the funds are being moved; greater movement would require prior Commission approval.

The company's results from operations for the 12-month period ended June 30, 2003, are illustrated below.

<u>Category</u>	Fiscal Year End 2002-2003		Actual	Approved	Variance
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>10% Variance</u>	<u>Compliance</u>
Category I	\$8,890,898	\$8,535,912	\$354,986	\$853,591	within
Category II	3,562,305	3,470,648	91,657	347,065	within
Category III	1,307,737	1,199,592	108,145	119,959	within
Category IV	791,134	926,550	(135,416)	92,655	exceed
Category V	<u>897,071</u>	<u>998,132</u>	<u>(101,061)</u>	99,813	exceed
Total Expenses	\$15,449,145	\$15,130,834	\$318,311		

The company's estimated results from operations for the 12-month period ended June 30, 2004, are illustrated below.

<u>Category</u>	Fiscal Year End 2003-2004		Actual	Approved	Variance
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>10% Variance</u>	<u>Compliance</u>
Category I	\$7,603,854	\$8,011,548	(\$407,694)	\$801,155	within
Category II	4,230,662	3,920,871	309,791	392,087	within
Category III	1,525,329	1,390,499	134,830	139,050	within
Category IV	830,300	892,900	(62,600)	89,290	within
Category V	<u>1,056,063</u>	<u>1,186,997</u>	<u>(130,934)</u>	118,700	exceed
	\$15,246,208	\$15,402,815	\$658,781		

**Recommendation:** The company has exceeded the allowable category variances established in the Commission Orders referenced above.

The audit staff defers disposition of this issue to the staff analyst in Tallahassee.

**Exception No. 2**

**Subject: Warranty Expense**

**Statement of Facts:** Line 11 - Cap Tel Phone Equipment of the company's Fiscal Year End 2003-2004- Estimate and Fiscal Year End 2005 - Budget includes \$10,500 and \$42,000 of expenses identified as an extended manufacturer's warranty on the Cap Tel Phone Equipment. The company estimated an extended warranty cost \$35 which is 10 percent of the individual unit cost of \$350.

Period	Estimated Number of Units Purchased	Estimated Manufacturer's Warranty Expense Per Unit	Total Warranty Expense
FY 2003-2004	300	\$35	\$10,500
FY 2004-2005	1,200	\$35	\$42,000

During the audit staff's fieldwork, the company provided supplemental information that indicates that the extended manufacturer's warranty will actually cost \$11 per unit.

**Recommendation:** The company's Fiscal Year End 2004 - Estimate and Fiscal Year End 2005 - Budget expenses are overstated by \$7,200 and \$28,800, respectively, based on the following audit staff calculations.

Period	Estimated Number of Units Purchased	Estimated Manufacturer's Warranty Expense Per Unit	Total Extended Warranty Expense
FY 2003-2004	300	Per company \$35	\$10,500
	300	Per audit \$11	<u>3,300</u>
			\$7,200
FY 2004-2005	1,200	Per company \$35	\$42,000
	1,200	Per audit \$11	<u>13,200</u>
			\$28,800

Additionally, the audit staff adjustments indicated above correspondingly increase the company's surplus fund account by \$36,000 for the FYE 2005 budgeted operations. (\$7,200 + \$28,800)

**Disclosure No. 1**

**Subject: Employee Compensation and Temporary Employment Expense**

**Statement of Facts:** Line 45 - Employee Compensation and Line 46 - Temporary Employment reflect balances of \$513,545 and \$101,920, respectively, for the company's Fiscal Year End 2005 budget.

The \$513,545 for Line 45 identified above is based on approved salaries for 16 authorized and budgeted positions. The company currently has 11 positions filled and is actively searching to fill 4 vacant positions. (Outreach Manager, EDP Manager, DPC -I, and DPC-II) FTRI's Board of Directors has frozen one authorized position (Accountant II) for six months to evaluate the workflow over the first six months to determine the necessity for the position.

The \$101,920 for Line 46 identified above is based on the following use of temporary employees in the indicated positions:

	<u>Length</u>	<u>Hours</u>	<u>Rate per hour</u>	<u>Total Expense</u>
Temporary staff to cover workload:				
Receptionist	1 year	2,080	\$14	\$29,120
DPC-I (data entry)	1 year	2,080	\$14	29,120
Temporary staff to cover vacancies:				
Receptionist	6 months	1,040	\$14	14,560
DPC-I (data entry)	6 months	1,040	\$14	14,560
Other	6 months	1,040	\$14	<u>14,560</u>
				\$101,920

The company maintains that the purpose for the two full-time temporary staff positions identified above is to supplement its current staff and to handle increased client service demands observed for the first six months of 2004.

The company maintains that the purpose for the three half-time temporary staff positions identified above is to fill three positions that may become vacant, most likely DPC-I for data entry or receptionist work, as these positions tend to be higher turnover positions with fluctuating workloads.

**Recommendation:** The company's budgeted amount for temporary employment expenses mentioned above may overstate its actual need to adequately staff its ongoing operations. Two of the four vacant but authorized positions identified above, DPC-I and DPC-II, could be occupied by a temporary staff employee until they are filled. In this scenario, the company's budget would include two salary amounts for each of the budgeted positions.

The Commission should require the company to provide additional supporting documentation and justification for its temporary employment needs. At a minimum, the company's temporary employment expense of \$43,680 ( $\$14,560 \times 3$ ) to cover anticipated vacancies should be offset by one-half of the budgeted salary expense for the authorized positions that may become vacant.



EXHIBIT - Page 1 of 3  
 FLORIDA TELECOMMUNICATIONS RELAY, INC.

	12-Month Period Ended June 30, 2003 (Actual)	6-Month Period Ended Dec. 31, 2004 (Actual)	6-Month Period Ended June 30, 2004 (Estimate)	12-Month Period Ended Dec. 31, 2004 (Estimate)	12-Month Period Ended June 30, 2005 ( Budget)
<b>Revenues:</b>					
1 Surcharge	\$10,341,114	\$7,341,819	\$7,788,988	\$15,130,807	\$17,852,927
2 Interest	60,440	7,926	7,156	15,082	14,950
3 Miscellaneous Revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	10,401,554	7,349,745	7,796,144	15,145,889	17,867,877
4 Surplus Account	6,308,889			1,563,702	1,463,383
<b>Expenses:</b>					
5 DPR Provider	8,890,898	3,770,988	3,832,866	7,603,854	8,133,661
6 TDD Equipment	358,800	271,000	73,500	344,500	355,806
7 Large Print TDD	7,868	11,360	0	11,360	5,680
8 VCO/HCO-TDD	60,885	36,000	36,000	72,000	86,220
9 VCO Telephone	50,104	28,055	28,917	56,972	39,745
10 Dual Sensory Equipment	27,470	0	6,500	6,500	13,000
11 CapTel Phone Equipment	0	0	157,200	157,200	478,800
12 VCP Hearing Impaired	2,549,859	1,427,860	1,529,353	2,957,213	3,548,655
13 VCP Speech Impaired	17,731	4,364	4,734	9,098	10,936
14 TeliTalk Speech Aid	78,000	90,000	100,800	190,800	136,800
15 Jupiter Speaker Phone	0	12,250	12,250	24,500	24,500
16 In-Line Amplifier	5,422	2,320	2,060	4,380	5,260
17 ARS Signaling Equipment	287,035	131,716	119,483	251,199	301,430

EXHIBIT - Page 2 of 3  
 FLORIDA TELECOMMUNICATIONS RELAY, INC.

	12-Month Period Ended June 30, 2003 (Actual)	6-Month Period Ended Dec. 31, 2004 (Actual)	6-Month Period Ended June 30, 2004 (Estimate)	12-Month Period Ended Dec. 31, 2004 (Estimate)	12-Month Period Ended June 30, 2005 (Budget)
18 VRS Signaling Equipment	69,117	22,088	31,633	53,721	53,721
19 TRS Signaling Equipment	1,560	0	560	560	1,120
20 Telecomm. Equipment Repair	<u>48,454</u>	<u>46,780</u>	<u>43,879</u>	<u>90,659</u>	<u>112,560</u>
Subtotal	3,562,305	2,083,794	2,146,868	4,230,662	5,174,233
21 Freight-Telecom Equipment	32,466	9,288	9,799	19,087	43,040
22 Regional Distribution Centers	1,190,443	720,897	730,679	1,451,576	1,942,755
23 Workshop Expense	32,192	33,981	131	34,112	47,568
24 Training Expense	<u>52,636</u>	<u>13,090</u>	<u>7,464</u>	<u>20,554</u>	<u>3,732</u>
Subtotal	1,307,737	777,256	748,073	1,525,329	2,037,095
25 Outreach Expense	791,134	496,379	333,921	830,300	1,100,450
26 Advertising	3,264	686	6,100	6,786	6,600
27 Accounting/Auditing	14,125	14,150	0	14,150	14,575
28 Legal	72,000	36,000	36,000	72,000	72,000
29 Computer Consultation	5,750	5,002	5,003	10,005	18,200
30 Bank Charges	1,948	1,171	1,171	2,342	2,412
31 Dues and Subscriptions	2,719	970	970	1,940	3,256
32 Office Furniture Purchase	7,781	1,453	1,280	2,733	7,041
33 Office Equipment Purchase	11,652	3,141	11,895	15,036	39,628
34 Depreciation	0	0	0	0	0
35 Office Equipment Lease	3,212	1,653	1,662	3,315	4,925
36 Insurance-Health/Life/Disability	127,742	68,968	91,148	160,116	238,418

## EXHIBIT - Page 3 of 3

## FLORIDA TELECOMMUNICATIONS RELAY, INC.

	12-Month Period Ended June 30, 2003 (Actual)	6-Month Period Ended Dec. 31, 2004 (Actual)	6-Month Period Ended June 30, 2004 (Estimate)	12-Month Period Ended Dec. 31, 2004 (Estimate)	12-Month Period Ended June 30, 2005 (Budget)
37 Insurance-Other	5,093	1,937	3,863	5,800	6,634
38 Office Expense	13,493	7,275	10,320	17,595	22,427
39 Office Moving Expense	0	0	0	0	0
40 Postage	18,430	7,825	7,825	15,650	24,703
41 Printing	4,339	1,551	1,550	3,101	3,496
42 Rent	77,316	39,018	39,798	78,816	81,181
43 Utilities	4,758	2,827	3,200	6,027	7,383
44 Retirement	42,653	23,018	32,578	55,596	69,637
45 Employee Compensation	386,491	216,070	223,901	439,971	513,545
46 Temporary Employment	19,801	3,631	34,045	37,676	101,920
47 Taxes-Payroll	29,566	16,529	17,129	33,658	39,286
48 Taxes-Unemployment Compensation	3,019	316	3,714	4,030	5,571
49 Taxes-Licenses	61	0	61	61	61
50 Telephone	18,816	9,895	9,896	19,791	23,201
51 Travel & Business	14,904	16,657	16,657	33,314	36,950
52 Equipment Maintenance	1,713	2,940	3,675	6,615	7,215
53 Employee Training/Development	4,665	1,619	1,619	3,238	7,160
54 Meeting Expense	1,760	1,076	5,625	6,701	3,960
55 Miscellaneous Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>200</u>
Subtotal	897,071	485,378	570,685	1,056,063	1,361,585
Total Expenses	<u>15,449,145</u>	<u>7,613,795</u>	<u>7,632,413</u>	<u>15,246,208</u>	<u>17,807,024</u>
Revenues Less Expenses	<u>\$1,261,298</u>			<u>\$1,463,383</u>	<u>\$1,524,236</u>