

State of Florida



ORIGINAL
Public Service Commission

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

RECEIVED-FPSC

JUN 23 PM 2:02

COMMISSION
CLERK

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

DATE: June 22, 2005

TO: John Slemkewicz, Division of Economic Regulation

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

RE: **Docket No.:** 041441-GU; **Company Name:** Florida Public Utilities Co.;
Audit Purpose: Review the charges made to the Storm Damage Reserve
as a result of the damages from Hurricanes Charley, Frances and Jeanne;
Audit Control No.: 05-125-4-1

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

DNV/jcp
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

CMP _____

COM _____ Mr. John T. English, President & CEO

CTR _____ Florida Public Utilities Co.

ECR _____ 401 South Dixie Highway

GCL _____ West Palm Beach, FL 33402

OPC _____ Cheryl Martin, Controller

MMS _____ Florida Public Utilities Company

RCA _____ P. O. Box 3395

SCR _____ West Palm Beach, FL 33402-3395

SEC 1

OTH _____

DOCUMENT NUMBER-DATE

05991 JUN 23 05

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

Miami District Office

Florida Public Utilities, Inc.
Gas Division
Storm Reserve Charges

September 2004 through March 2005

DOCKET #041441-GU
AUDIT CONTROL NO. 05-125-4-1

A handwritten signature in cursive script, reading "Ruth K. Young".

Ruth K. Young
Audit Manager

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

Kathy Welch
Public Utilities Supervisor

TABLE OF CONTENTS

	PAGE
I. AUDITOR'S REPORT	
Audit Purpose	1
Disclaim Public Use	1
Summary of Significant Procedures	2
II. AUDIT DISCLOSURES	
1. Background	3
2. Payroll Expense	4
3. Transportation Expense	8
4. Estimated Expenses	9
III. COMPANY EXHIBITS	
Updated Compilation of Storm Reserve Charges As of March 3, 2005	10

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

JUNE 17, 2005

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

We have applied the procedures described later in this report to audit the accompanying updated schedules of charges to the storm reserve account submitted by Florida Public Utilities for its gas division. These schedules were prepared by the company as part of its petition for storm reserve recovery in docket number 041441-GU.

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 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 amount were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Confirmed - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

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

Scope:

From a printout of all the charges to the storm capital and expense accounts, a random sample was taken of the payroll, vouchers, petty cash, transportation and inventory charges. Vouchers were agreed to appropriate supporting documentation and reviewed to determine if the charges were for the storms. Payroll hours were traced to time sheets, and time sheets were reviewed to determine if regular hours were included. Petty cash charges for meals were compared to the hours worked by the employee and the union contract. The various transportation charges were traced to appropriate source documents such as gasoline and repair invoices. Inventory was tracked to the original handwritten slip prepared by the field technician. Capital items were tested to determine if they were booked according to company storm policy.

AUDIT DISCLOSURE NO. 1

SUBJECT: BACKGROUND

STATEMENT OF FACTS: The Company in its filing asked for \$860,000 to be recovered over four years in equal amounts of \$215,000. This is to recover expenses incurred during the summer of 2004 for damage from three hurricanes. The total amount is comprised of actual expenses, estimated expenses and an amount to replenish the storm reserve fund. At the start of the audit we asked the company to prepare an updated detail of these three types of expenses. We were provided with an update as of March 31, 2005 as follows:

Actual Expenses	\$559,690.73
Estimated Expenses	40,500.00
Remainder to Replenish Storm Fund	<u>259,809.27</u>
Total	\$860,000.00

An analysis of the Storm Reserve Fund showed that as of March 31, 2005 it was depleted, and there was a debit balance of \$426,358.76. Adding \$215,000 over four years or a total of \$860,000 to this account would create a credit balance of \$433,641.24.

Balance on December 31, 2004	(\$ 59,069.51)
Accrual to Storm Reserve from Over Earnings	(79,819.49)
Storm Charges through December 31, 2004	555,334.40
Storm Charges in February 2005	1,200.00
Storm charges in March 2005	3,156.33
Interest Income March 2005	<u>5,548.13</u>
Balance at March 31, 2005	426,358.76
Plus Amount Asked for in Filing	(860,000.00)
Estimated Storm Reserve After Recovery	(433,641.24)

AUDIT DISCLOSURE NO. 2

SUBJECT: PAYROLL EXPENSE

STATEMENT OF FACTS: Of the \$559,690.73 in actual expenses reported in Disclosure No. 1, \$470,787 was for payroll. A sample of 73 payroll payments were selected to agree the hours booked in the payroll system with the hours reported on the time sheets, and to determine the amount paid for regular hours and the amount paid for overtime hours. The sample consisted of hourly employees, salaried employees and special one time payments to directors.

Hourly Employees

The results show that of the 73 sampled, 63 were for hourly employees. Of those, 33 time sheets showed both regular hours and overtime hours were charged to the storm accounts. We asked the company to prepare a schedule separating the regular hours from the overtime hours. A company representative explained that its payroll system was not set up to do this, and that the dollar amounts charged to the storm expense for overtime are not necessarily a reflection of the actual overtime hours charged to the storm on the time sheets. An example of the calculation of overtime pay follows:

EXAMPLE

	<u>Hours</u>	<u>Rate</u>	<u>Gross Pay</u>	<u>Average Hourly Rate</u>
Regular Hours	40	\$25.00	\$1,000.00	
Overtime Hours at 1-1/2	<u>7</u>	37.50	<u>262.50</u>	
	47		<u>\$1,262.50</u>	\$26.86
Amount Booked in the General Ledger For Overtime in Storm Account	7	\$26.85	188.02	
If Booked at Actual Overtime Rate	7	37.50	<u>262.50</u>	
Difference			74.48	

For 8 of the items sampled, we found that the number of hours in the payroll system did not agree with the time sheets. Also, the time sheets for these sample items included both regular and overtime hours. During the audit, the company prepared a journal entry correcting the number of hours paid to agree with the time sheets. The net effect of this correction was to credit the storm payroll in the amount of \$2,943.60. The overall effect on the filing is to reduce payroll by \$2,943.60 and increase the amount to replenish the storm reserve account. The correction did not separate regular and overtime.

One sample item showed that the number of hours in the payroll system did not agree with the time sheets. All hours reported on the time sheet were overtime.

Another sample item showed that the hours on the time sheet were not coded to the storm account, but included in the storm expense. The amount was \$328.00. Reducing the storm payroll expense in this amount would have the effect of increasing the amount to replenish to storm fund.

Twenty of the time sheets included only overtime and agreed with the payroll system.

Salaried Employees

Ten salaried employees were included in our sample. Seven salaried employees were paid for overtime hours worked after 50 hours at their regular rate of pay. The amount paid to all salaried employees for overtime was \$44,064.84. Two salaried employees were paid for regular time, and one received a special one time payment.

Directors

Because we found a one time payment to a director in the sample, we reviewed the payroll and determined that a total of six directors were paid a total of \$10,257 as a one time payment.

Items Included in Payroll Amounts

The total amount of payroll charged to the storm expense account includes FICA, pension plan, group health insurance plan and workers compensation costs.

OPINION: As the company's payroll system is not set up to distinguish between overtime and regular time pay, we cannot determine this as requested in the audit service request. A possible method of determining the regular pay versus the overtime pay is for the company to review each time sheet, separate the regular and overtime hours, and then calculate the regular and overtime pay separately. It should be noted that the storms occurred mostly on the weekends and much of the payroll could be attributed to the overtime occurred during that time.

For the 33 sample items found that included both regular and overtime, we prepared a schedule showing what the difference would be. Also included are the two salaried employees that were paid for regular time. The total dollars for all 73 sample items was \$192,850. The results on the next page show that \$27,061 was for regular hours, that is 14%. The total payroll is \$470,787. This is not a statistical sample, therefore, we could not apply our findings to the population.

	Note A	Note A	Note A	Note B			
Sample No.	Total Hrs			Average			
	Charged to Storm	Regular Hours	Overtime Hours	Hourly Rate	Regular Pay	Overtime Pay	Total Pay for Storm
HOURLY							
1	9.0	8.0	1.0	21.89	175.11	21.89	197.00
3	19.5	1.5	18.0	26.97	40.46	485.54	526.00
4	23.0	1.5	21.5	33.91	50.87	729.13	780.00
5	24.5	1.3	23.3	34.73	43.42	807.58	851.00
6	49.5	8.0	41.5	36.73	293.82	1,524.18	1,818.00
10	32.5	8.0	24.5	30.18	241.48	739.52	981.00
11	32.5	8.0	24.5	31.42	251.32	769.68	1,021.00
19	45.0	15.0	30.0	40.45	606.76	1,213.53	1,820.29
29	61.5	16.0	45.5	23.59	377.50	1,073.50	1,451.00
32	58.0	5.0	53.0	34.48	172.41	1,827.59	2,000.00
34	81.0	36.5	44.5	25.14	917.46	1,118.54	2,036.00
35	77.5	24.0	53.5	26.92	645.99	1,440.01	2,086.00
36	65.0	16.0	49.0	33.57	537.11	1,644.89	2,182.00
39	66.5	16.0	50.5	33.62	537.98	1,698.02	2,236.00
41	106.5	32.0	74.5	25.24	807.66	1,880.34	2,688.00
44	75.5	26.5	49.0	37.05	981.73	1,815.27	2,797.00
45	92.0	32.0	60.0	30.46	974.61	1,827.39	2,802.00
48	81.0	32.0	49.0	36.79	1,177.28	1,802.72	2,980.00
49	77.5	3.5	74.0	39.02	136.57	2,887.43	3,024.00
51	79.0	32.0	47.0	40.24	1,287.70	1,891.30	3,179.00
52	80.0	2.5	77.5	39.84	99.59	3,087.41	3,187.00
55	117.0	28.5	88.5	41.18	1,173.62	3,644.38	4,818.00
56	125.0	32.0	93.0	38.64	1,236.48	3,593.52	4,830.00
57	162.5	76.0	86.5	29.90	2,272.05	2,585.95	4,858.00
60	123.5	7.0	116.5	41.00	287.03	4,776.97	5,064.00
61	133.0	15.5	117.5	41.08	636.67	4,826.33	5,463.00
62	191.5	16.0	175.5	36.33	581.35	6,376.65	6,958.00
63	218.0	72.0	146.0	33.33	2,399.78	4,866.22	7,266.00
65	202.5	45.0	157.5	37.45	1,685.33	5,898.67	7,584.00
66	215.5	17.0	198.5	44.13	750.29	8,760.71	9,511.00
72	53.5	25.5	28.0	20.30	517.63	568.37	1,086.00
74	88.0	40.0	48.0	34.18	1,367.27	1,640.73	3,008.00
75	<u>88.0</u>	<u>40.0</u>	<u>48.0</u>	34.25	<u>1,370.00</u>	<u>1,644.00</u>	<u>3,014.00</u>
TOTAL HOURLY	2,954.5	739.8	2,214.8		24,634.32	79,467.98	104,102.29

Sample No.	NOTE A	NOTE A	NOTE A	NOTE B	Regular Pay	Overtime Pay	Total Pay for Storm
	Total Hrs			Average			
	Charged to Storm	Regular Hours	Overtime Hours	Hourly Rate			
SALARIED							
22	32.0	32.0	0.0	31.75	1,016.00	0.00	1,016.00
25	<u>32.0</u>	<u>32.0</u>	<u>0.0</u>	<u>44.09</u>	<u>1,411.00</u>	<u>0.00</u>	<u>1,411.00</u>
TOTAL SALARIED	64.0	64.0	0.0		2,427.00	0.00	2,427.00

HOURLY AND SALARIED	27,061.32	79,467.98	106,529.29
----------------------------	-----------	-----------	------------

TOTAL OF 73 SAMPLES 192,880.00

Regular Hours as a %
of Payroll Samples $\frac{27,061.32}{192,888} = 14\%$

TOTAL PAYROLL 470,787.00

NOTE A Information from Time Sheets

NOTE B Information from Download from the payroll system

This calculation does not include any employees who were included in the adjustment for \$2,943.60. The company's recalculation of overtime hours does not address regular time as this does.

AUDIT DISCLOSURE NO. 3

SUBJECT: TRANSPORTATION EXPENSES

STATEMENT OF FACTS: A calculated cost per hour for transportation costs is applied to the hours reported on the time sheets for storm work. The transportation expenses used to calculate this rate include depreciation and insurance. These fixed expenses are already included in base rates.

OPINION: Below is a schedule recalculating the amount to be allocated to the storm without insurance and depreciation expense. This calculation shows that the expense would be reduced in the amount of \$2,589.69. The overall effect is to reduce storm transportation expense and increase the storm reserve in the same amount.

Calculation of Hourly Rate without Insurance

	August WPB	August Central	September WPB	September Central	Total
Total Transportation Expenses		17,702.39	55,255.28	24,135.00	
Insurance Amount Booked		1,213.40	2,801.28	1,200.55	
Depreciation Amount Booked		<u>3,315.00</u>	<u>6,558.00</u>	<u>3,315.00</u>	
Total Transportation Expense less Insurance and Depreciation		<u>13,173.99</u>	<u>45,896.00</u>	<u>19,619.45</u>	
Total Hours Recorded		4,738	8,771	4,917	
Recalculated Rate Per Hour		2.78050	5.23270	3.99053	
Number of Hours Charged to Storm		<u>313</u>	<u>1570</u>	<u>774</u>	
Recalculated Amount		870.30	8,215.34	3,086.68	
Amount Booked		<u>1,170.00</u>	<u>9,890.00</u>	<u>3,702.00</u>	
Difference		-299.70	-1,674.66	-615.32	-2,589.69

NOTE A – No Charges in August to Storm Expense in WPB.

AUDIT DISCLOSURE NO. 4

SUBJECT: ESTIMATED EXPENSES

STATEMENT OF FACTS: Included in the \$860,000 the company is requesting in its filing is \$40,500 for expenses yet to be incurred. These are estimates for:

Travel for Hearing, Administrative Fees and Miscellaneous	\$ 5,000
Repairs to the Main Office in West Palm Beach	11,000
Legal Fees	4,500
Customer Notices and Advertising	20,000
	<u>\$40,500</u>

Documents provided by the company supporting these items are:

Travel for Hearing, Etc. - A memo from the company estimating overtime, travel and administrative fees relating to the hearings for the storm filing.

Repairs to the Main Office in West Palm Beach - A memo from the company estimating \$3,500 for landscaping replacement, \$3,500 for South Door Replacements and \$4,000 for roof repairs.

Legal - E-Mail from the attorney to the Company estimating \$3,500, and a note from the company adding \$1,000 for travel costs for the attorney.

Customer Notices and Advertising - The company has already spent \$14,970.91 for the printing of Customer Notices, mailing Customer Notices and Newspaper Notices. It estimates that \$5,800 more will be spent on customer notices when the surcharge is implemented for a total of \$20,770.91.

OPINION: It is possible that at the time of the hearing the company will have incurred some of these expenses. If so, they company should be asked to produce documents for expenses incurred.

**2004 HURRICANES
Natural Gas**

Exhibit

CMM-3
Page 1 of 4

	South Florida		Central Florida	
	Capital	Expense	Capital	Expense
Payroll	745.16	388,066.00	535.00	81,438.40
Transportation	0.00	9,945.00	62.00	4,922.00
Inventory	0.00	4,254.00	601.00	760.00
Petty Cash Receipts	246.59	12,111.19	6.50	1,157.06
PL	36,854.84	26,704.55	15.60	9,465.84
JE 33,34 Reclass	(17,200.00)	(1,000.00)	0.00	0.00
	20,646.59	440,080.74	1,220.10	97,743.30

	Amount to Reserve in Dec.	Amount to Reserve in Feb	Amount to Reserve in March	Remaning Balance in S/L
Actual Costs:				
Total Expense	537,824.04	534,367.42	1,200.00	2,256.62
Total Capital	21,866.69	20,966.98	0.00	899.71
Total to storm reserve	559,690.73	555,334.40	1,200.00	3,156.33

Estimated Remaining Costs:

	As of May	Remaining
Travel, admin fees, misc	5,000	5,000.00
Repairs	11,000	11,000.00
Legal	4,500	4,500.00
Customer Notice & Advertisi	20,000	20,000.00
Total Estimated Costs	40,500	40,500

Total Storm costs 2004 **600,190.73**

HURRICANE JEANNE

CMM-3
Page 2 of 4

	South Florida		Central Florida	
	34505 Capital	34506 Expense	34501 Capital	34502 Expense
September:				
Payroll				13,378.00
Transportation		3,537.00		1,446.00
Inventory		113.00		
Petty Cash Receipts		1,934.67		
PL		1,024.83		115.46
Reclass		121.40		792.36
October:				
Payroll		89,026.00		3,829.00
Transportation		26.00		
Inventory		429.00		
Petty Cash Receipts		149.09		221.00
PL		6,470.13		814.64
Reclass		(121.40)		(792.36)
November:				
Payroll		2,244.00		641.00
Transportation				
Inventory				
Petty Cash Receipts				
PL		1,576.50		
Reclass				
December:				
Payroll				4,004.70
Transportation				
Inventory				
Petty Cash Receipts				
PL		(610.56)		
Reclass				
	0.00	105,919.66	0.00	24,449.80
December's Sub-Ledger Balance (From 1860.1 Reconciliation)		105,919.66		24,449.80
		0.00		0.00
January:				
Payroll				
Transportation				
Inventory				
Petty Cash Receipts				
PL		(17.04)		
Reclass				
Balance	0.00	(17.04)	0.00	0.00
February:				
PL				1200
March:				
PL				190.64
	0.00	0.00	0.00	1,390.64
Total Expense	0.00	105,902.62	0.00	25,840.44

HURRICANE FRANCES

CMM-3
Page 3 of 4

	South Florida		Central Florida	
	34452 Capital	34453 Expense	34450 Capital	34451 Expense
September:				
Payroll		250,418.00		26,306.00
Transportation		6,353.00		2,256.00
Inventory		3,712.00	356.00	431.00
Petty Cash Receipts	246.59	10,268.03		450.22
PL	17,200.00	6,701.85		
Reclass		(847.62)		2,844.14
October:				
Payroll		40,929.00		6,438.00
Transportation		29.00		
Inventory				
Petty Cash Receipts		1,759.40		153.22
PL	18,755.13	7,840.34		2,842.84
Reclass	(17,200.00)	(2,152.38)		(2,844.14)
November:				
Payroll		5,449.00		1,472.00
Transportation				16.00
PL		4,680.43		42.81
Reclass				
December:				
Payroll	745.16			4,004.70
PL		(3,044.95)	15.60	273.88
Reclass				
	<u>19,746.88</u>	<u>332,095.10</u>	<u>371.60</u>	<u>44,686.67</u>
November's Sub-Ledger Balance (From 1860.1 Reconciliation)	19,746.88	332,095.10	371.60	44,686.67
	0.00	0.00	0.00	0.00
December:				
PL		1819.62	0	
Reclass				
Balance	<u>0.00</u>	<u>1,819.62</u>	<u>0.00</u>	<u>0.00</u>
Total Expense	<u>19,746.88</u>	<u>333,914.72</u>	<u>371.60</u>	<u>44,686.67</u>
January:				
PL				
March:				
PL	899.71	263.4		
	<u>899.71</u>	<u>263.40</u>	<u>0.00</u>	<u>0.00</u>
	<u>20,646.59</u>	<u>334,178.12</u>	<u>371.60</u>	<u>44,686.67</u>

HURRICANE CHARLIE

CMM-3
Page 4 of 4

	South Florida		Central Florida	
	<u>Capital</u>	<u>Expense</u>	<u>Capital</u>	<u>Expense</u>
September:				
Payroll			535.00	18,869.00
Transportation			62.00	1,204.00
Inventory			245.00	329.00
Petty Cash Receipts		(2,000.00)	6.50	332.62
PL				3,685.57
Reclass		2,000.00		
October:				
Payroll				1,855.00
Transportation				
Inventory				
Petty Cash Receipts				
PL				300.00
Reclass				
November:				
Payroll				641.00
Transportation				
Inventory				
Petty Cash Receipts				
PL				
Reclass				
	<u>0.00</u>	<u>0.00</u>	<u>848.50</u>	<u>27,216.19</u>
November's Sub-Ledger Balance		0.00	848.50	27,216.19
(From 1860.1 Reconciliation)		0.00	0.00	0.00