

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-

DATE: May 23, 2006

TO: Richard J. Wright, Professional Accountant Specialist, Division of Competitive Markets & Enforcement

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

RE: **Docket No:** 060300-TL; **Company Name:** GT Com
Audit Purpose: Audit To Verify 2005 Storm Costs.
Audit Control No: 06-123-1-1

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 Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
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DOCUMENT NUMBER-DATE

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FLORIDA COMMISSION OF ELECTRICITY



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office


GT COM

AUDIT TO VERIFY 2005 STORM COSTS

RELATING TO HURRICANE DENNIS

DOCKET NO. 060300-TL

AUDIT CONTROL NO. 06-123-1-1


Michael Buckley, Audit Manager

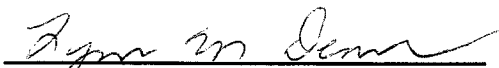

Lynn M. Deamer, Audit Supervisor

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

May 19, 2005

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Competitive Markets and Enforcement in its audit service request. We have applied these procedures to the petition prepared by GT COM in support of its filing for recovery of intrastate costs and expenses relating to repair, restoration, and replacement of facilities damaged by Hurricane Dennis in Docket 060300-TL. Hurricane Dennis made landfall on July 10, 2005.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use. There is confidential information associated with this audit.

OBJECTIVES and PROCEDURES

Objective: - To verify the amounts included in GT COM's petition dated March 31, 2006.

Procedures: - Traced work orders to invoices and other supporting documentation dated July 7, 2005 through October 17, 2005. Audit staff requested company provide support for the methodology of overhead allocations, and benefits but did not receive an adequate response to verify. Audit staff agreed the rates represented as per the contract in Exhibit RME-13, 2005 Tracom Contract Price List to the invoices and to the actual pre-existing contract. Audit staff reviewed insurance policies to see if damage to buildings sought for recovery were covered and company had obtained funds for these repairs. Based on our work, audit staff believes that the total cost to repair the damage is less than the deductible.

Objective: - To determine if the amounts sought for recovery were costs budgeted prior to the subject storm.

Procedures: - We reviewed budgets for 2004 and 2005. We reviewed financial statements for 2004 and 2005. We reviewed Board of Directors Meeting Minutes and scanned invoices for dates prior to storm.

Objective: - To verify access lines included in GT COM's petition dated March 31, 2006.

Procedures: - Reconciled lines in the Petition filed in this docket to lines reported on the 10K of the SEC Report for 2005 and Schedule 8 filed with this Commission.

AUDITING FINDING 1

Subject: Upgrade from copper cable to fiber optic cable

Statement of Facts:

One work order included in the Petition for recovery is for \$226,386 to replace copper cable destroyed at Alligator Point. The work order included replacing the copper cable with fiber optic cable.

According to the 364.051(4)(b)1, Florida Statutes

"A company may file a petition to recover its intrastate costs and expenses relating to repairing, restoring, or replacing the lines, plants or facilities damaged by a named tropical system."

Audit staff believes the intent of this is to make the company whole again, not to fund upgrades that should be done through normal business operations.

The company stated that the cost to run fiber optic cable to Alligator Point is \$40,000 more than the cost to replace the copper wiring with similar wiring.

Recommendation:

Company chose to upgrade the copper cable to Alligator Point with fiber optics. Therefore, the petitioned amount should be reduced by \$40,000.

AUDITING FINDING 2

Subject: Employee Benefits

Statement of Facts:

The Company calculated employee benefits charged to each of the six work orders used to account for all repair and restoration costs relating to Hurricane Dennis. The average benefit to payroll ratio for all 6 work orders is 90.4%. This number is skewed because of the amount charged to work orders 838 and 839. The benefits calculated for work orders 797, 861, 796, and 798 range from 24.3% to 52.2% for an audit calculated average of 31.7%. For work order 838 the percentage of benefits to payroll was 95.4% (\$49,775/ \$52,187) and for work order 839 the percentage of benefits to payroll was 133.2% (\$3,555/\$2,668). We asked the Company why the average for all six work orders was 90.4%. GT COM responded that it needed more investigation and would respond on or about May 27, 2006. This date is outside the issuance of this report so we recommend reducing the benefit to an average of the benefits calculated from the work orders 797, 861, 796, 798. Auditor used an average of the first 4 work orders to apply to work orders 838 and 839 to determine the recommended adjustment.

Recommendation:

We requested information from the company to support the benefit rates and did not receive sufficient information. In order to support the benefit rate, the company should provide a description of the items included, the actual costs and how they were allocated to the work orders, and an explanation addressing why there is a significant difference between the work orders. Because we did not receive sufficient information to justify these amounts, we recommend that the petition be reduced by the following amounts.

Work Order	Amount
2005-838	\$33,232
2005-839	\$2,709
Total	\$35,941

AUDITING FINDING 3

Subject: Overhead

Statement of Facts:

On Exhibit RME-10, Map of Work Order Costs to Petition Amounts, the Company calculated overhead for each work order to be recovered.

Exhibit RME-12, Summary of Cost Allocations, provides the amounts allocated to the work orders used in the storm recovery. Audit staff asked for support showing how each amount allocated to each work order was determined, and how the amounts in column 4 and 5, titled "Amount Expensed" and "Amount to Work Orders" respectively were derived. We also asked if there were any allocations from the parent company or from any related party reported here. We expected to receive documentation detailing how the company arrived at the numbers that were listed including percentages used to allocate the charges and source of the numbers.

What we received was a response indicating that:

1. The Work Order allocations were based on FCC Part 32, Uniform System of Accounts For Telecommunications Companies;
2. BSNS 2003 is the major account for Telephone Plant Under Construction (TPUC). 210, 211, 212, & 213 are sub accounts labeled TPUC Cost Allocation Vehicle and OWE, TPUC Cost Allocation Engineering, TPUC Cost Allocation Plant OP's and TPUC Cost Allocation Benefits and non productive respectively;
3. Column 5 plus 6 equals total expense and column 6 is transferred to TPUC .

Audit staff asked how Overhead was calculated, the dollar amounts and the items in it. The company response was that it should be called "other" rather than Overhead, but is attributable to allocation of vehicle and other work equipment expenses. The company also responded that "overhead was calculated basically by identifying all other categories of expense such as labor, material and benefits and by default what is remaining of total was classified as overhead." However the audit staff expected to be provided support detailing how the company arrived at the numbers, what the sources were, and how the percents used to apply the allocations were derived. In addition, the company responded that of the \$28,080 charged to Other Overhead, \$3,861 was fuel invoices. Audit review of these fuel invoices traced them to Materials on the petition, not Other Overhead.

auditing finding 3, continued

Recommendation:

Therefore the adjustment to the petitioned amount is to reduce it by \$28,080 for unsupported overhead because the company failed to provide backup documentation detailing calculations for the overhead, and that Audit Staff could not determine if the calculated overhead was supported or not.

Work order	Amount
2005-797	\$214
2005-861	\$540
2005-796	\$540
2005-798	\$134
2005-838	\$25,260
2005-839	\$1,391
Total	\$28,079

GT COMM
SUMMARY OF COSTS SOUGHT BY COMPANY FOR STORM RECOVERY
AS OF MAY 19, 2006

	AMOUNT AS FILED IN PETITION	COMPANY ADJUSTMENT	REVISED REQUESTED AMOUNT
CONTRACT LABOR	\$26,985		\$26,985
MATERIALS	31,354		31,534
LABOR COSTS	131,522	3,313	134,835
ALLIGATOR POINT RESORATION	227,000	(614)	226,386
INDIAN PASS FIBER	24,000	452	24,452
TOTAL	\$441,041	3,151	\$444,192