990001

FPL
Review of Internal Audit (1/88 - 9/30/89 — RD
10/89 - 3/31/90 — 6/25/90

St Lucie Fuel Company (SLFC) a subsidiary of JH Holdings Corporation owns the nuclear fuel for St Lucie Unit 1 (SL1) and leases the fuel back to FPL. Transactions related to the fuel lease between FPL and SLFC were reviewed for propriety and compliance with the terms of the lease for period 1/1/88 through 9/30/89.

Audit tests were performed on

1 Rent expense which consists of nuclear fuel assemblies (burn up charge), amortization of commercial paper, commitment fees and management fees.

A Burn up charges are calculated based on energy generated by the nuclear unit. This information was agreed to input listing of SNAP Finance Report.

B Amortization of commercial paper were recalculated and reconciled to transaction statements from Goldman Sachs the commercial dealer.

2 Commitment Fees.
Since Jan. 1988 commitment fees and lessor management fees were being accrued monthly. In December 1988 other lease service charges such as trustee fees, were also being accrued monthly. Charges to lease were analyzed and compared to actual payments to vendors.

A A comparison of actual payments to Moody's Investors Service and amounts accrued revealed an overcharge of $4162 for annual service fee.

B A comparison of payments to Manufacturers Hanover Trust Co. and amounts accrued also revealed two overcharges to the lease one in the amount of $755 for annual record keeping for period 6/26/88 through 6/25/89 and another $411 overcharge for trustee fee covering same period.

As a result of the findings above, an adjustment to the daily lease charges was recorded in October 1989 to correct the overcharges to the lease.

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(2) Review of Payments to Vendors:

Vendor payments are made either by FPL or SLFC. When payments are made by FPL an accounts receivable bill is prepared and sent to SLFC.

Vendor payments were reviewed for proper approval and authorization. Charges were reviewed to verify that they were reasonable and properly reported on schedule D to the lease, and Annex 1 to Schedule D.

A The audit noted three instances where the vendor invoice was received by the accounting department and then forwarded to the Finance dept or Fuel Resources for approval. The initial approval of the finance department was not documented. The only approval was on the SLFC authorization for disbursement form.

B Of the three instances where invoices were not approved. there was one from Manufactures that included an overcharge of $340.

(3) Sales of Materials to SLFC by FPL

Quantities of materials sold were agreed to information provided by Fuel Resources (FR) regarding St Lucie 2 fuel requirements. The average prices per unit were agreed to FPL's subsidiary ledger for nuclear fuel in process and Allowance for Fund Used During Construction. related to materials sold was recalculated.

Findings:

The 2/88 sale included an erroneous average cost per unit for conversion Kgs and AFUDC was calculated using the wrong conversion balance. These errors were noted and subsequently corrected in 7/88. This error caused the "Out of Reactor inventory to be understated from 2/88 through 6/88 by approximately $200,000 and the lease service charges which were capitalized to Out of Reactor for the month of April through July 1988 were slightly understated. These amounts were deemed immaterial for adjustment.

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The 9/88 sale occured during refueling for cycle 9. The cost per unit were properly calculated for the sale, however, the related AFUDC was omitted from the sale. This error was discovered and corrected in 8/89. The error has caused "In Reactor" inventory to be understated by approximately $35,000 from 9/88 through 7/89. However since these costs have been included and are being amortized as cycle 9 costs only the timing of the amortization has been affected.

4) Recording of Cycle 9 Reload

Cycle 8 ended 7/11/88 and cycle 9 started on 8/31/88. Each month the SNAP Finance Report included a summary of all costs included in the SL1 reactor by assembly and in total. The report includes the original costs of the assemblies at the beginning of cycle and accumulated amortization to date. The costs and accumulated amortization removed from SNAP Finance Report were agreed to assemblies identified by Fuel Resources as those removed at the end of cycle 8

The subsidiary ledger of SLFC's Out reactor" inventory were reviewed for accuracy.

The Lease schedules containing nuclear rod assembly information were reviewed to determine if the uranium components were consistent with that reported to Nuclear Regulatory Commission.

5) Accounting for fuel lease was audited and found to be in accordance with statements of Financial Accounting Standards Nos. 71 and 13.

6) Section 2 of the fuel lease originally defined Daily Lease Charges to include a lessor management charge composed of the cost recovery for all administrative, accounting and management services. The lessor charges paid to Salomon Brothers (former owner SLFC) were approximately $60,000 in 1986 and 1987.

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(D) As a result of the sale of SLFC between Solomon Brothers and Holdings on December 16, 1987, the annual lessor management fee to Holdings was reduced to $8000 and FPL is absorbing the costs of the additional responsibilities of SLFC's record keeping and these costs are not considered a part of the lease

Recommendation

It is recommended that FPL Fuel and Material Inventory section of the Accounting Department tracks the costs associated with SLFC's record keeping responsibilities (employee time and related fringe benefits) to determine if it is cost beneficial for FPL to continue to maintain SLFC's books and records in-house.