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DOCKET NO.: ~~068444~~ WU - [Lake Utility Services, Inc.]

WITNESS: Direct Testimony Of Elbert E. Phillips. Appearing On Behalf Of The Staff Of The Florida Public Service Commission, Division Of Auditing And Financial Analysis

DATE FILED: September 10, 1997

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FPSC-RECORDS/REPORTING

1 DIRECT TESTIMONY OF ELBERT E. PHILLIPS

2 Q. Please state your name and business address.

3 A. My name is Elbert E. Phillips and my business address is Hurston N.  
4 Tower, Suite N512, 400 W. Robinson Street, Orlando, Fl. 32804.

5 Q. By whom are you presently employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission as a Professional  
7 Accountant in the Division of Auditing and Financial Analysis.

8 Q. How long have you been employed by the Commission?

9 A. I have been employed by the Florida Public Service Commission for  
10 approximately one year and eight months.

11 Q. Briefly review your educational and professional background.

12 A. In 1989 I received a Bachelor of Science degree in Accounting from the  
13 Cumberland College in Williamsburg, Kentucky.

14 Q. Please describe your current responsibilities.

15 A. Currently, I am a Professional Accountant with the responsibilities of  
16 participating as a staff auditor in a large team effort and managing a  
17 financial audit using a standard audit program.

18 Q. What is the purpose of your testimony today?

19 A. The purpose of my testimony is to sponsor specific findings in the staff  
20 audit report of Lake Utility Services, Inc., Docket No. 960444-WU. I am  
21 sponsoring Audit Exceptions 5, 6, 7, 8, and 9. These exceptions are filed  
22 with my testimony and are identified as EEB-1.

23 Q. Please review the audit exceptions you are sponsoring.

24 A. Audit Exception No. 5 addresses real estate taxes. The utility recorded  
25 \$1,481 for real estate taxes for the twelve months ended December 31, 1995.

1 The tax bill submitted by the company did not match the legal description of  
2 the property on file with the Lake County Tax Collector's office. Until the  
3 utility can provide further evidence to substantiate the entry made in its  
4 books for the property taxes, I recommend that the Commission reduce Taxes  
5 Other than Income by \$1,481 to remove the entry made on its books.

6       Audit Exception No. 6 addresses insurance expense. The utility recorded  
7 \$7,651 in Account No. 657, Insurance - General Liability for the twelve months  
8 ended December 31, 1995. It purchased life insurance policies for various  
9 employees and officers of the company. The beneficiary on the policies is the  
10 utility itself. Also, the utility purchased fiduciary liability insurance  
11 policies for its directors and pension fund. The NARUC Uniform System of  
12 Accounts includes in Account Number 426, (Miscellaneous Nonutility Expenses),  
13 the following:

14       This account shall contain all expenses other than expenses of utility  
15 operations and interest expense. Items which are included in this account  
16 are: . . .

17       7. Life insurance on officers and employees where utility is  
18       beneficiary . . .

19 Since the beneficiary of the life insurance policies is the utility, then the  
20 cost of the premiums should have been recorded to the below-the-line account.  
21 I recommend that Insurance expense be reduced by the \$741 relating to these  
22 policies.

23       Audit Exception No. 7 addresses payroll taxes. The utility records  
24 indicate that \$8,988 was recorded for payroll taxes for the twelve months  
25 ended December 31, 1995. However, the staff audit indicates that the total

1 | for payroll taxes is \$9,117. This is a difference of \$129. The utility also  
2 | capitalized a portion of salaries to plant. However, the associated payroll  
3 | taxes of \$1,661 were not capitalized. I recommend that the taxes other than  
4 | income be adjusted for these two corrections. This results in a net  
5 | adjustment of \$1,532.

6 |         Audit Exception No. 8 addresses purchased power expense. The utility  
7 | recorded \$275 as purchased power expense. The \$275 charge was for a  
8 | refundable security deposit for electrical service. This item is not an  
9 | expense and will be returned to the utility at some point in the future.  
10 | Therefore, I recommend that purchased power expense be reduced by \$275 to  
11 | remove the deposit.

12 |         Audit Exception No. 9 addresses unsupported O&M expenses. The utility  
13 | recorded \$705 in purchased power expense and \$46 in materials and supplies  
14 | expense but had no supporting documentation. I recommend that these items be  
15 | removed from operations and maintenance expense.

16 | Q.     Does this conclude your testimony?

17 | A.     Yes, it does.

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**AUDIT EXCEPTION NUMBER 5**

**SUBJECT: REAL ESTATE TAXES**

**FACTS:** The utility recorded \$1,481 for real estate taxes for the twelve months ended December 31, 1995.

The tax bill submitted by the company did not match the legal description of the property on file with the Lake County Tax Collector's office.

**OPINION/RECOMMENDATION:** The company did not provide any further evidence to substantiate the entry made in its books for the property taxes. Staff recommends that the Commission reduce Taxes Other than Income by \$1,481 to remove the entry made on its books.

**AUDIT EXCEPTION NUMBER 6**

**SUBJECT: NONUTILITY INSURANCE PREMIUMS**

**FACTS:** The company recorded \$7,651 as insurance expense for the twelve months ended December 31, 1995.

The company purchased life insurance policies for various employees and officers of the company. The beneficiary on the policies is the utility itself.

The company purchased fiduciary liability insurance policies for its directors and pension fund.

Per NARUC, Class A, Account Number 426,

This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are: . . .

7. Life insurance on officers and employees where utility is beneficiary . . .

**OPINION/RECOMMENDATION:** The liability policies were purchased to protect the utility and present no clear benefit to the ratepayers. Since the beneficiaries of the life insurance policies is the utility, then the cost of the premiums should have recorded to the account referenced above.

The staff recommends to the Commission that Water Operations & Maintenance be reduced by \$741. See attached schedule for details.

AUDIT EXCEPTION NO. 6

POLICY TYPE	AMOUNT* EXPENSED 1995	x	ALLOCATED % TO UTILITY	PROPOSED ADJUSTMENT
DIRECTOR'S LIABILITY	37,756.00		1.21%	456.09
PENSION FIDUCIARY LIABILITY	4,320.00		1.21%	52.19
LIFE - KEY EMPLOYEES	19,305.00		1.21%	233.20
	<u>61,381.00</u>			<u>741.48</u>

\* Amounts represent the premiums paid by the parent company.

**AUDIT EXCEPTION NUMBER 7**

**SUBJECT: PAYROLL TAXES**

**FACTS:** The company records indicate that \$8,988 was recorded for payroll taxes for the twelve months ended December 31, 1995.

**OPINION/RECOMMENDATION:** The company also capitalized a portion of salaries to plant; however, the associated payroll taxes were not. The audit staff recommends to the Commission that payroll taxes be reduced by \$1,532.

See schedule for analysis of the above adjustment.



AUDIT EXCEPTION NO. 7

	TOTAL PAYROLL TAX PER AUDIT	TOTAL PAYROLL TAX PER COMPANY	DIFFERENCE
FL OPERATORS	7,630.80	7,512.00	118.80
FL OFFICE - SUPPORT	512.83	503.00	9.83
PARENT ALLOCATION	973.00	973.00	0.00
	<u>9,116.63</u>	<u>8,988.00</u>	<u>128.63</u>

	CAPITALIZED SALARIES PER AUDIT	SALARIES PER AUDIT	% DIFFERENCE	PAYROLL TAXES PER AUDIT	CAPITALIZED PAYROLL TAXES PER AUDIT
FL OPERATORS	(18,955.00) /	87,067.00 =	-21.77%	X 7,630.80	(1,661.27)

	ADJUSTMENTS
CALCULATION DIFFERENCE	128.63
CAPITALIZED TAXES	(1,661.27)
TOTAL ADJUSTMENT	<u>(1,532.64)</u>

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**AUDIT EXCEPTION NUMBER 8**

**SUBJECT: MISCLASSIFIED O & M EXPENSE**

**FACTS:** The utility recorded \$275 as purchased power expense for the twelve months ended December 31, 1995.

The \$275 charge was for a refundable security deposit for electrical service.

**OPINION/RECOMMENDATION:** The item is not an expense and will be returned to the utility at some point in the future. The staff recommends to the Commission that operation and maintenance expense be reduced by \$275 to remove the deposit.

**AUDIT EXCEPTION NUMBER 9****SUBJECT: UNSUPPORTED O & M EXPENSES**

**FACTS:** The company recorded \$705 in purchased power expense and \$46 in materials and supplies expense for the twelve months ended December 31, 1995.

**OPINION/RECOMMENDATION:** The company recorded various entries on its books without any supporting documentation. The company did not provide any additional evidence to support the entries. The audit staff recommends to the Commission that operations and maintenance expense be reduced by the following:

<u>Invoice #</u>	<u>Amount</u>
JE029	\$115.62
JE0130	417.39
JE0128	172.12
7336	<u>46.00</u>
Total Adj.	\$751.13