

MEMORANDUM

December 19, 1997

ORIGINAL

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *OV*

RE: DOCKET NO. 961475-SU - FOREST HILLS UTILITIES, INC.
AUDIT REPORT - CUSTOMER DEPOSITS REVIEW
AUDIT CONTROL NO. 97-286-2-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Forest Hills Utilities, Inc.
Robert L. Dreher
1518 U. S. Highway 19
Holiday, FL 34691-5649

DNV/sp
Attachment

cc: Chairman Johnson
Commissioner Clark
Commissioner Deason
Commissioner Garcia
Commissioner Kiesling
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Austin/Rendell)
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DOCUMENT NUMBER-DATE

14333 DEC 22 5

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

AS OF OCTOBER 31, 1997

Field Work Completed

NOVEMBER 21, 1997

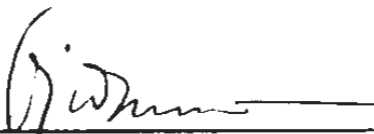
FOREST HILLS UTILITIES, INC.

**Holiday, Florida
Pasco County**

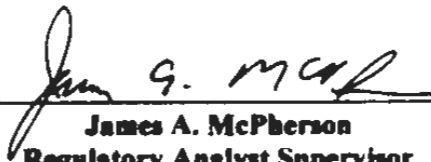
CUSTOMER DEPOSITS REVIEW

Docket Number 961475-SU

Audit Control Number 97-286-2-1



**Simon O Ojada
Audit Manager**



**James A. McPherson
Regulatory Analyst Supervisor
Tampa District Office**

DOCUMENT NUMBER-DATE

13113 DEC 22 5

FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

PURPOSE: We have applied the procedures described in Section II of this report to audit Forest Hills Utilities' compliance with Commission approved rules and tariffs regarding customer deposits as of October 31, 1997. The last day of field work was November 21, 1997.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must 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.

OPINION: In regards to customer deposits, Forest Hills Utilities is not in substantial compliance with Commission rules and directives. The expressed opinion extends only to the scope of work described in Section II of this report.

SUMMARY FINDINGS: Forest Hills Utilities is not properly accounting for customer deposits in its General Ledger. The Utility is not refunding customer deposits on time. The company has collected customer deposits in excess of Commission approved tariffs.

II. AUDIT SCOPE:

The opinions contained in this report are based on the audit work described below.

CUSTOMER DEPOSITS: Examined a sample of customer deposit refunds contained in the Utility report submitted to staff. Tested customer deposits for compliance with Commission approved tariff and Florida Administrative Code. Examined a sample of canceled checks listed as refunded. Reviewed deposit refunds made by billing credit by examining Company's Billing Register. Reviewed payment of interest on customer deposits. Reviewed customer deposit refunds to ascertain compliance with Commission rules.

EXCEPTION NO. 1

SUBJECT: REFUND OF CUSTOMER DEPOSITS.

STATEMENT OF FACT: Florida Administrative Code 25-30.311 (5) states that "after a customer has established a satisfactory payment record and continuous service for a period of 23 months, the utility shall refund the residential customer's deposits, provided the customer has not, in the preceding 12 months, (a) made more than one late payment of a bill, (b) made payment with a check refused by bank, (c) been disconnected for nonpayment at any time . . . "

OPINION: The utility provided a deposit listing showing account numbers, customer names, deposit dates, deposit amounts, and late payment history of 887 water customers with deposits totaling \$21,985.00 as of October 31, 1997. Based on an analysis of this report, at least 261 of these customers (29%) have deposits totaling \$7375.00 that are more than two years old and also have a good payment history.

CONCLUSION: The utility is not in compliance with rule 25-30.311(5) Florida Administrative Code, therefore, the utility should be required to refund these customers deposits with the appropriate accrued interest.

EXCEPTION NO. 2

SUBJECT: Customer Deposits in Excess of Commission Approved Tariff.

STATEMENT OF FACT: Commission approved tariff sheets' No. 13 and 14, says, "before rendering service, the company will require a deposit or guarantee satisfactory to the company to secure the payment of bills, and the company shall give the customer a nonnegotiable and non-transferable deposit receipt. The amount of such deposit shall be \$25.00 or an amount necessary to cover minimum charges for service for three (3) billing periods, whichever is greater . . ." Under the Utility's current tariff, the minimum charge for three billing periods is \$66.93

OPINION: The company has collected customer deposits in excess of the approved tariff. According to the Utility Customer Deposit Listing as of October 31, 1997, the company has 143 customers with \$100.00 deposits. The utility claimed that all 143 customers have \$75.00 for water and \$25.00 for non regulated street lights and garbage service. Further investigation into the company's billing journal revealed that 19 of those customers do not have street lights and garbage which the company claimed the \$25.00 was for.

CONCLUSION: The 124 customers with water, garbage, and street lights have been required to pay \$8.07 (\$75.00-66.93) in excess of the maximum allowed deposit. The 19 customers without garbage and street lights have been over charged \$33.07. Therefore, the company is not in compliance with the Commission's approved tariff. The company should be made to refund the excess amount above the tariff with any accrued interest.

DISCLOSURE NO. 1

SUBJECT: Deposit Records and Interest.

STATEMENT OF FACTS:

Receipt for deposit: Florida Administrative Code No. 25-30.311 (2) requires a non-transferable certificate of deposit be issued to each customer and means provided so that the customer may claim the deposit if the certificate is lost.

Record for deposits: Florida Administrative Code No. 25-30.311 (3) requires utilities to keep a record of (a) the name of each customer making the deposit; (b) the premises occupied by the customer when the deposit was made; (c) the date and amount of deposit; and (d) a record of each transaction concerning such deposit.

Interest on deposit: Florida Administrative Code No. 25-30.311(4), says (a) Each utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6 percent per annum. (b) The deposit shall be simple interest in all cases and settlement shall be made annually, either in cash or by credit on the current bill. This does not prohibit any public utility paying a higher rate of interest than required by this rule.

STATEMENT OF OPINION: The first month's bill received by the customer shows the total deposit amount paid. However, the amount is not broken down to show how much is related to Water and how much is related to Garbage and Street Lights. The Utility maintains a record for each customer's deposit on a "New Account Information" sheet. The Utility is paying 8 percent annual interest on customers' deposits every July by crediting customer bills.

CONCLUSION: The company is in substantial compliance with Rule 25-30.311 (2), (3), and (4) Florida Administrative Code.

Disclosure No. 2 (contd)

Note that the \$100.00 deposit is part utility and part non utility. However, the entire refund amount is debited to the Utility Deposit sub account. Similarly, when a new customer pays the initial deposit, the entire amount is credited to the Utility sub account even though a portion is non utility.

RECOMMENDATION: Since the detailed deposit listing was being maintained independent of the General Ledger control account, there is no way to assure its completeness. However, we observed several months transactions in the detailed deposit listing and found them to be accurate. We recommend accepting the detailed listings as substantially correct and adjusting the General Ledger sub accounts to agree to these detailed lists. The Utility should also correct its accounting procedures so that the full amount of the deposit refunded is posted to the correct General Ledger sub accounts. The detailed deposit listing should be agreed to the General Ledger monthly and any differences corrected.

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYO
DIRECTOR
(850) 413-6770

Public Service Commission

December 23, 1997

Mr. Robert L. Dreher
Forest Hills Utilities, Inc.
1518 U. S. Highway 19
Holiday, Florida 34691-5649

Re: Docket No. 961475 - SU - Forest Hills Utilities, inc.
Audit Report - Customer Deposits Review
Audit Control # 97-286-2-1

Dear Mr. Dreher:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn, Chief
Bureau of Records

KF/clc
Enclosure
cc: Public Counsel
Rose Law Firm