

MEMORANDUM

June 18, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 961475-SU -- FOREST HILLS UTILITIES, INC.
AUDIT REPORT - LIMITED PROCEEDING (SHOW CAUSE) AS OF APRIL 30, 1998
AUDIT CONTROL NO. 98-138-2-1

.....

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 Jacobs
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)
Tampa District Office (McPherson)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER DATE

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State of Florida

Commissioners:

JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
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Public Service Commission

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING**


TAMPA DISTRICT OFFICE

FOREST HILLS UTILITIES, INC.

CUSTOMER DEPOSIT AUDIT

AS OF APRIL 30, 1998

**DOCKET NO. 961475-SU
AUDIT CONTROL NO. 98-138-2-1**


**James A. McPherson, Audit Manager and
Regulatory Analyst Supervisor
Tampa District Office**

DOCUMENT NUMBER-DATE

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FPSC RECORDS/REPORTING

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TABLE OF CONTENTS

I. AUDITOR'S REPORT	PAGE
PURPOSE	1
DISCLAIM PUBLIC USE.....	1
OPINION.....	1
SUMMARY OF SIGNIFICANT FINDINGS.....	2
SUMMARY OF SIGNIFICANT PROCEDURES.....	2
 II. EXCEPTIONS	
1. LACK OF SUPPORTING SCHEDULES.....	3
2. INACCURATE SCHEDULE OF LATE PAYERS.....	4
3. NON REGULATED DEPOSITS	5
4. DEPOSIT OVERCHARGES	8

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR' REPORT**

JUNE 3, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the customer deposit records of Forest Hills Utilities, Inc. as of April 30, 1998 in order to determine compliance with Commission approved rules and tariffs. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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.

In our opinion, Forest Hills Utilities is not in substantial compliance with Commission rules and directives regarding customer deposits. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

Forest Hills Utilities has improperly reclassified \$31,000 of utility deposits to its non regulated operations. The Utility is not refunding customer deposits on time. The company is continuing to collect customer deposits in excess of Commission approved tariffs.

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

CUSTOMER DEPOSITS: Agreed a sample of deposit refunds made December 1, 1997 through May 26, 1998 to the utility's billing register. Reviewed the utility's report showing customers with bad payment histories and tested for compliance with Commission approved refund policies. Reviewed the utility's current procedures regarding collection of customer deposits and tested for compliance with approved tariff amounts.

EXCEPTION NO. 1

SUBJECT: Lack of Supporting Schedules

STATEMENT OF FACTS: Florida Administrative Code 25-30.115 requires water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USof A). Accounting Instruction No. 2 of the NARUC US of A for Class B utilities requires each utility to keep its books of account, and all other books, records, and memoranda which support the entries in such accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as to permit a ready identification, analysis, and verification of all relevant facts.

The utility was asked to furnish a detail listing of customer deposits distinguishing between Water deposits and nonregulated Street Light and Garbage deposits for the years ended 12/31/93 through 12/31/97. The utility responded that in the years prior to 1997 deposits were not separated between utility and non-utility and that they did not keep any detail listing of customer deposits which agreed to the general ledger.

OPINION: The utility is not in compliance with rule 25-30.115 of the Florida Administrative Code because they have not maintained detail records to support its general ledger.

EXCEPTION NO. 2

SUBJECT: Inaccurate Schedule of Late Payers

STATEMENT OF FACTS: Florida Administrative Code 25-30.311(5) requires the utility to refund residential customer deposits after the customer has had 23 months of continuous service and a satisfactory payment history defined as no more than one late payment (20 days from date bill was mailed) in the last 12 months.

The utility periodically prepared a computerized schedule of water customers showing the last four late payments made by each customer. The utility used this schedule to determine which customers were eligible for refunds each month.

OPINION: This schedule was not calculating late payments correctly. This schedule was actually calculating if the customer had an outstanding accounts receivable balance and not whether the balance was past due. For example, if customer bills were issued 4/30 and this schedule was run 5/3, every customer who had not paid (virtually all) would show up as being late. Only when this schedule was run more than 20 days after bills were mailed would it correctly show customers that were late paying.

RECOMMENDATION: The utility's office manager agreed that this schedule was not accurately reporting late paying customers. We reviewed this schedule disregarding all late payment dates that were not 20 days or more from the previous billing date. The office manager agreed to refund water deposits to those customers that would then have no more than one late payment and were not currently past due. We agreed that approximately 200 customers should have their water deposits returned. Note - Many of these customers also have deposits that the utility has reclassified as non utility; they did not agree to refund these. The refund was to be made in June 1998.

EXCEPTION NO. 3

SUBJECT: Non Regulated Deposits

STATEMENT OF FACTS: The utility's Tariff Sheet No. 14 requires the utility to give each customer a deposit receipt. Section 25-30.311(2) FAC requires each customer to be issued a certificate (receipt) of deposit and means provided so that the customer may claim the deposit if the certificate is lost. Utilities are required to maintain their books in conformity with the NARUC Uniform System of Accounts (Us of A). According to the 1996 NARUC Us of A, Account 235 - Customer Deposits shall include all amounts deposited by customers as security for the payment of bills.

In December 1997 the utility made a journal entry transferring \$31,000 from regulated utility deposit accounts to a non regulated sub account. Prior to this time, all deposits were recorded on the company's books as utility deposits. All deposits were reported to the FPSC in the utility's annual reports as utility deposits. And in the utility's last rate case in 1980, all deposits collected were classified as pertaining to the regulated utility. In September 1997, utility attorneys first make the assertion that a portion of the deposits collected were for non regulated garbage and street light services. This assertion was made to explain why the Company had refunded less deposits than it had previously agreed to.

The Utility collects deposits in two ways. If a new customer is the homeowner, the deposit and turn-on fee is simply added to the first months bill where it is shown as "Fees and Deposits" with no distinction as to the type of deposit made. If the new customers are renting the property, the utility requires them to first pay their deposit before service is initiated. The customer is given a handwritten receipt for the total amount collected, including turn-on fees, that does not differentiate between regulated and non regulated services. No written notice has been issued to any customer informing them that a portion (in some cases 100%) of their deposit has been reclassified as non utility.

As reported in Exception No. 1, prior to 1997 the Company did not maintain a detail listing of customer deposits segregated between utility and non utility.

The utility charges the same deposit amount to a customer that only has regulated service as it does to a customer that has both regulated and non regulated service. For example, on June 17, 1996, Customer No. 22114 initiated service. This customer receives water, garbage and street light services and paid a \$50 deposit. The entire deposit was originally recorded in the utility's books as a water deposit. Likewise, on June 27, 1996, Customer No. 90032 initiated service. This customer receives only water service, no wastewater, no garbage and no street lights. This customer was also charged a \$50 deposit that was recorded as a water deposit. This is not an isolated case. We could not find one customer receiving only regulated services that was charged a lower deposit than they would have been required to pay if they received both regulated and non regulated services. Every customer was charged the same \$50 whether or not they received non regulated services. The Utility has transferred \$25 of both of the above customers' deposits to its non regulated account.

Exception No. 3 (con't)

STATEMENT OF OPINION: After reporting to the Commission for the last 16 plus years that all deposits were for regulated services, the Company now wants to turn back the clock and claim that they were really collecting deposits for both regulated and non regulated services. What the Company and its attorneys are trying to do is persuade the Commission that deposits that were collected in excess of approved tariff amounts were not really utility deposits. By reclassifying these deposits to non utility, the Company is trying to avoid ever having to repay them until the customer leaves the system.

This Company and its attorneys have put forth numerous reasons to prolong or delay making the required refunds since the problem was first noticed by staff in October 1994. As reported in PSC Order 97-1458-FOF-SU they stated in February 1995 that the owner had been sick. Then in April 1995 that research was taking longer than expected. In June 1995 they agreed to refund \$28,375 plus interest and submit refund reports showing the customers that received refunds. The refunds were to be completed by September 11, 1995. The Company then refused to supply the requested refund reports saying these reports were excluded from F.A.C. Rule 25-30.360. Not until September 23, 1997 were these reports received by staff. A review of these reports indicated that not all of the required refunds had been made within the agreed upon time.

During this three year period, no mention of non utility customer deposits was ever made until September 19, 1997. The burden of proof is on the utility to substantiate that it was charging an additional deposit to customers receiving non regulated services. None of the facts support this assertion. Prior to December 1997:

- The Company's books never distinguished between utility and non utility.
- Annual Reports to the FPSC never distinguished between utility and non utility.
- No detail deposit listing ever distinguished between utility and non utility.
- No distinction was made in the Utility's prior rate case.
- No written notice to customers showing a distinction has ever been given.
- The Company charges the same deposit to all customers whether or not they receive non regulated services.

Even after claiming that it is segregating deposits and requiring a deposit for non regulated services, the Company as of May 29, 1998, is still charging a \$50 deposit to all customers, even those that receive no wastewater, no street lights and no garbage collection. Since the utility is charging the same deposit to all customers, then there is in fact no additional deposit required for non utility services.

Exception No. 3 (con't)

RECOMMENDATION: The utility should be required to transfer all deposits that it is currently classifying as non utility back to the utility deposit account. At April 30, 1998 the general ledger showed \$30,125 of non regulated deposits. When this is done, many of these deposits will then have to be refunded because the customer either has had a good pay history or the total deposit held is larger than allowed by the tariff (see Exception No. 4).

The utility has shown a continued inability to properly collect, account for and refund deposits. It has also proven unwilling to change its practices and properly notify customers that a portion of their deposit is for non regulated service. Therefore, we recommend that it be required to immediately refund all deposits it currently holds and be prohibited from collecting deposits from any future utility customer. If the utility is allowed to continue collecting deposits it should not be allowed to classify any portion of this deposit to non regulated service until it provides the customer a written receipt which clearly distinguishes between utility and non utility amounts.

EXCEPTION NO. 4

SUBJECT: Deposit Overcharges

STATEMENT OF FACTS: Section 367.091(3), Florida Statutes says that a utility may only impose and collect those rates and charges approved by the Commission and a change in any rate schedule may not be made without Commission approval. The utility's current water tariff effective since 6/10/82 allows the utility to collect a customer deposit of \$25 or an amount necessary to cover three billing periods, whichever is greater. During this time, three months minimum water charges never exceeded \$25. Similarly, the utility's wastewater tariff during this time allowed them to collect the greater of \$0.00 or three months minimum charges which ranged from \$17.34 at 6/10/82 to \$56.40 currently.

At 12/31/97 the utility had 2237 water customers with 1112 of these also receiving wastewater service. A review of past annual reports indicates that in prior years approximately half the water customers did not receive wastewater service.

For at least the past 12 years, the utility has collected a minimum deposit of \$50 from every customer regardless of which services the customer receives. Amounts collected over \$50 have been refunded previously.

OPINION: If the Commission does not allow the utility to reclassify customer deposits as non utility deposits as recommended in Exception No. 3, then the utility has over collected deposits for the approximately 50% of its customers not receiving wastewater services.

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



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

Public Service Commission

June 19, 1998

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

Re: Docker No. 961475 - SU - Forest Hills Utilities, Inc.
Audit Report - Limited Proceeding (Show Cause) as of April 30, 1998
Audit Control # 98-138-2-1

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 case 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

KF/ABF

Enclosure

cc: Public Counsel
Division of Audit and Financial Analysis
Marshall Deterding