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June 13, 2002

Blanca Bayo, Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

In re: Docket No. 011073-WS – Application of Ferncrest Utilities, Inc.
for Increased Water and Wastewater Rates

Dear Ms. Bayo:

The PSC audit was completed on May 7, 2002. Ferncrest Utilities has reviewed the audit and offers responses to Audit Exception No. 8 and Audit Disclosure No. 8. The response is attached hereto.

The company does not intend to take issue with the other audit findings.

Sincerely,



David B. Erwin

DBE:jm

Cc: Robert Salerno
Andrew Trumbach
Tricia Merchant
Marshall Willis
Public Counsel
Larry Harris

DOCUMENT NUMBER DATE

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Response to PSC Audit of Ferncrest Utilities, Inc.

Response to Audit Exception No. 8

Subject: Building Materials for Office Construction

The statement that materials and supplies used to construct new structures or additions to them should be included in account 304 for water and account 354 for wastewater is correct. The error is in assuming that these materials were used for new construction. Ferncrest Utilities office has been in place since 1994. We have not constructed any new buildings nor have we built any additions to existing buildings. The \$3,204.74 is the total amount of building materials and supplies that were purchased from Home Depot at different times during the year. These purchases were used for maintenance and repair to existing building and are properly classified as such.

Response to Disclosure No. 8 - Accounting Fees

Statement of Facts: The statement of facts as shown on Disclosure No. 8 is not correct.

First, The monthly fixed fee billed to Ferncrest by AMM is not only for the salary allocation for Mr. Trumbach but includes a fee for the amount of time and resources spent by M Austin Forman and AMM. As an example, Mr. Forman was able to secure a reimbursement of over \$100,000 from the City of Davie and had personally guaranteed or put up funds to enable Ferncrest to purchase its fixed assets.

Specifically, paragraph #5 "...According to the filing supporting schedule B-9, Mr. Trumbach works 280 hours per year on Ferncrest utility matters. This supporting schedule states that AMM bills Ferncrest \$125 per hour for Mr. Trumbach..." This is incorrect. Mr. Trumbach does not work 280 hours per year nor does he get billed at \$125.00 per hour.

This incorrect schedule was completed using a rate that Mr. Trumbach bills out to other non related clients and then that rate was divided into the \$35,100 that was paid to AMM. A true and revised schedule was filed that reflected the actual monthly fixed fee that was paid to AMM as well as detailed the scope of the work completed by Mr. Trumbach during that year.

The Opinion of the PSC's auditors is seriously flawed as they have based their percentage of salary to allocate to Ferncrest based on a 280 hours over 2080 hours (280/2080) to arrive at 13% when in fact Mr. Trumbach spends a substantial more time than 280 hours per year. His true allocation should be between 40 to 50% of his time or 1040/2080 hours. The following will correctly estimate the scope of work done by Mr. Trumbach and the estimated hours which are shown on the revised schedules submitted to the PSC that shows that the 280 hours is an absolute travesty.

All Cost Associated with Regulatory Requirements

- a. Annual PSC Annual Report & Intangible Tax Return
The attached Engagement Letter shows that Barry Asmus quoted a cost of \$8,500.00 or 56 hours annually plus out of pocket cost to do this report on an annual basis. This was prepared by Mr. Trumbach.
- b. Annual Rate Index Report
The attached engagement Letter shows that Barry Asmus quoted \$5,600 or 37 hours annually plus out of pocket expenses to file and Annual Price Index Report. These were prepared by Mr. Trumbach.
- c. Corporate Tax Returns
Tax Returns are prepared by Jeff Jordan CPA. To decrease his cost, all Fixed Assets schedule and IRS depreciation forms are prepared by Mr. Trumbach and given to Jeff Jordan. 20 Hours annually.

Liability Insurance

American Marketing and Management bids all Liability Insurance on an Annual Basis in order to make sure adequate insurance is maintained at a competitive cost.
20 Hours annually.

Workers Compensation Insurance

Ferncrest WP Insurance premiums were skyrocketing out of control. This led to the carrier making a decision not to renew. As such, American Marketing was unable to locate replacement Wp insurance coverage at a reasonable price. This led to the decision to migrate the employees to a -co-employment arrangement with an Employee Leasing Organization. 16 Hours.

Payroll

American Marketing & Management operates as Master Payroll Company for its affiliates to decrease cost and maximize benefits to the employees within its affiliated group. All Payroll Processing and Human Resources Decisions are handled by M. Austin Forman and Christine Forman. Andrew Trumbach of American Marketing & Management does all payroll function on a biweekly basis and sits in on Employee reviews. An estimated 4 Hours by-weekly or 104 Hours Annually is spent by Andrew Trumbach. As a benefit to Ferncrest, American Marketing has provided Oasis with a refundable deposit of \$20,000 to guarantee the cost of processing payroll for its Ferncrest Utilities.

Funding requirements

American Marketing and Management provides all necessary funding either

directly or indirectly on behalf of Ferncrest. Directly since American Marketing up front the required cash to make the major purchases then either directly or indirectly guarantees the loan from the leasing company or the Bank on behalf of Ferncrest.

Any Regulatory Inquiries

All inquiries are handled by American Marketing and management by either Andrew Trumbach or M. Austin Forman.

Budgeting

Budgets are prepared Annually by both Bob Salerno and Andrew Trumbach. All financial information are prepared and given to Ferncrest on an as needed basis. Once a week, M. Austin Forman and Andrew Trumbach meets to review all operational items as it relates to Ferncrest and provide financial and management support to Bob Salerno. 3 Hours weekly or 156 hours annually.

Major Purchases

American Marketing negotiates and bid on all major purchases on behalf of Ferncrest Utilities and its affiliates. This results in economies of scale that Ferncrest could not achieve by itself as well as a tighter internal control. 10 - 20 Hours Annually.

Accounting

To provide better internal control as well as a more timely and organized financial work papers, all accounting processes was assumed by American Marketing and management. Mr. Trumbach review all billings, the coding and paying of all bills, bank reconciliation, cash management, monthly financial statements etc. 24 Hours monthly or 192 hours annually.

Information System

American Marketing and management has provided 100% of all software and hardware expertise to Ferncrest. This included the development and implementation of its Custom Billings Software as well as its hardware. In addition, American Marketing and Management provides maintenance and support on an as needed basis.

Because of the extensive time, not being able to quantify some of these cost as well as the overlapping of these functions, there was no cost benefit to be assumed by trying to bill Ferncrest on an hourly basis. We knew that Karen Alexander, the accountant allocated to do Ferncrest's accounting spend approximately 50% of her time there. As such, we allocated 50% of her Salary or approximately \$22,000 to Ferncrest.

As the Chief Financial Officer of American Marketing and Management providing most of the functions to Ferncrest as listed above, it was deemed appropriate to allocate approximately

\$12,500 per year to Ferncrest to recoup a small portion of the cost of providing the extensive Accounting and Information System Support.

In addition American Marketing and Management allocated a Consulting Fee of \$22,500 for the year Ended December 21, 2000 since it had taken the responsibility to prepare and do all of Ferncrest Regulatory Reports in-house.

During the year 2000, American Marketing was able to completely develop and enhance the billing software, fund and negotiate the lease of a \$94,000 purchase of a new Digester Equipment, purchase vehicles (truck and golf carts), completely oversaw many new operational upgrades, place competitive WC and Liability insurance, restructure the employees pay scale and payroll processing arrangement, install a new time clock and magnetic card system but above all created a strong internal control system to make sure the company was operating as efficient as possible.

The actual cost savings provided by American Marketing and Management resulted in an amount far in excess of the total amount paid to American Marketing and Management for the above services. American Marketing and Management does not generate a profit nor add any markup in its cost for the services reimbursed by its affiliates.