

DOCKET NO. 060300-TL: Petition for recovery of intrastate costs and expenses relating to repair, restoration and replacement of facilities damaged by Hurricane Dennis, by GTC, Inc. d/b/a GT Com

WITNESS: **Direct Testimony Of Michael E. Buckley**, Appearing On Behalf Of the Staff of the Florida Public Service Commission

DATE FILED: May 25, 2006

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FPSC-COMMISSION CLERK

DIRECT TESTIMONY OF MICHAEL E. BUCKLEY

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Q. Please state your name and business address.

A. My name is Michael E. Buckley and my business address is 2540 Shumard Oak Blvd., Tallahassee, Florida, 32399.

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

A. I am employed by the Florida Public Service Commission as a Professional Accountant Specialist in the Division of Regulatory Compliance and Consumer Assistance.

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

A. I have been employed by the Florida Public Service Commission since July, 1989.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration with a major in accounting from Oklahoma University. I was hired as a Regulatory Analyst I by the Florida Public Service Commission on July 10, 1989.

Q. Please describe your current responsibilities.

A. Currently, I am a Professional Accountant Specialist with the responsibilities of planning and managing the most complex audits of regulated companies, affiliate company transactions, multi-layered cost allocation, cross-subsidization issues, anti-competitive behavior, predatory pricing, and fraud. I also am responsible for creating audit work programs to meet a specific audit purpose and assisting the field audit supervisor in reviewing staff reports and work papers for compliance with audit standards.

1 Q. Have you presented testimony before this Commission or any other regulatory agency?

2 A. Yes. I have filed testimony in the United Water Florida Inc. rate case, Docket No.
3 960451-WS and the Fuel and Purchased Power cost recovery clause proceedings, Docket No.
4 030001-EI.

5
6 Q. What is the purpose of your testimony today?

7 A. The purpose of my testimony is to sponsor the staff audit report of GTC, Inc. d/b/a GT
8 Com (Company) which addresses the Company's petition for issuance of a storm recovery
9 financing order, Audit Control Number 06-123-1-1. This audit report is filed with my
10 testimony and is identified as Exhibit MEB-1.

11
12 Q. Did you prepare or cause to be prepared under your supervision, direction, and control
13 this audit report?

14 A. Yes, I was the audit manager of this audit.

15
16 Q. Please describe the work performed in the audit.

17 A. We traced work orders to invoices and other supporting documentation dated July 7,
18 2005 through October 17, 2005. We requested the company provide support for the
19 methodology of overhead allocations and benefits, but did not receive an adequate response to
20 verify. We agreed the rates represented in the contract (Exhibit RME-13, 2005 Tracom
21 Contract Price List) to the invoices and to the actual pre-existing contract. We reviewed
22 insurance policies to see if the damage to buildings sought for recovery in this petition were
23 covered and if the company had obtained funds for these repairs. Based on our work, we
24 found that the total cost to repair the damage was less than the deductible. We also reviewed
25 budgets for 2004 and 2005 and financial statements for 2004 and 2005. We reviewed Board

1 of Directors Meeting Minutes and scanned invoices for dates prior to storm. We also
2 reconciled access lines in the Petition filed in this docket to the lines reported on the 10K of
3 the SEC Report for 2005 and Schedule 8 filed with this Commission.

4
5 Q. Please review the audit findings in the audit report.

6 A. **Audit Finding 1**

7 Auditing Finding 1 addresses the replacement of copper cable in Alligator Point with
8 fiber optic cable. Three work orders we reviewed totaled \$226,386 and were to replace copper
9 cable destroyed at Alligator Point. The work orders included replacing the copper cable with
10 fiber optic cable.

11 According to the 364.051(4)(b)1, Florida Statutes:

12 A company may file a petition to recover its intrastate costs and expenses
13 relating to repairing, restoring, or replacing the lines, plants or facilities
14 damaged by a named tropical system.

15 From an auditing perspective, we believe the intent of this is to make the company
16 whole again, not to fund upgrades that should be done through normal business operations.
17 However, this is not a legal interpretation of the statute. The company stated that the cost to
18 run fiber optic cable to Alligator Point is \$40,000 more than the cost to replace the copper
19 wiring with similar wiring. Therefore, we recommend that the petitioned amount be reduced
20 by \$40,000 (total company).

21

22 **Audit Finding 2**

23 Auditing Finding 2 addresses employee benefits. The Company calculated employee
24 benefits charged to each of the six work orders used to account for all repair and restoration
25 costs relating to Hurricane Dennis. The average benefit to payroll ratio for all 6 work orders is

1 90.4%. This number is skewed because of the amount charged to work orders 838 and 839.
2 The benefits calculated for work orders 797, 861, 796, and 798 range from 24.3% to 52.2% for
3 an audit calculated average of 31.7%. For work order 838 the percentage of benefits to
4 payroll was 95.4% and for work order 839 the percentage of benefits to payroll was 133.2%.
5 We asked the Company why the average for all six work orders was 90.4%. GT Com
6 responded that it needed more investigation and would respond on or about May 27, 2006.
7 This date was outside the issuance of the audit report so we recommend reducing the benefit
8 to an average of the benefits calculated from the work orders 797, 861, 796, and 798. We
9 used an average of the first 4 work orders to apply to work orders 838 and 839 to determine
10 the recommended adjustment.

11 We requested information from the company to support the benefit rates and did not
12 receive sufficient information. In order to support the benefit rate, the company should
13 provide a description of the items included, the actual costs and how they were allocated to the
14 work orders, and an explanation addressing why there is a significant difference between the
15 work orders. Because we did not receive sufficient information to justify these amounts, we
16 recommend that the petition be reduced by \$35,941 (total company).

17

18 **Audit Finding 3**

19 Auditing Finding 3 addresses Overhead. On Exhibit RME-10, Map of Work Order
20 Costs to Petition Amounts, the Company calculated overhead for each work order to be
21 recovered. Exhibit RME-12, Summary of Cost Allocations, provides the amounts allocated to
22 the work orders used in the storm recovery. We asked for support showing how each amount
23 allocated to each work order was determined, and how the amounts in column 4 and 5, titled
24 "Amount Expensed" and "Amount to Work Orders" respectively were derived. We also
25 asked if there were any allocations from the parent company or from any related party

1 reported here. We expected to receive documentation detailing how the company arrived at
2 the numbers that were listed including percentages used to allocate the charges and source of
3 the numbers. What we received was a response indicating that:

- 4 1. The Work Order allocations were based on FCC Part 32, Uniform System of Accounts For
5 Telecommunications Companies;
- 6 2. BSNS 2003 is the major account for Telephone Plant Under Construction (TPUC). 210,
7 211, 212, & 213 are sub accounts labeled TPUC Cost Allocation Vehicle and OWE,
8 TPUC Cost Allocation Engineering, TPUC Cost Allocation Plant OP's and TPUC Cost
9 Allocation Benefits and non productive respectively;
- 10 3. Column 5 plus 6 equals total expense and column 6 is transferred to TPUC .

11 We asked how Overhead was calculated, the dollar amounts for overhead, and the
12 items in it. The company response was that it should be called "other" rather than Overhead,
13 but is attributable to allocation of vehicle and other work equipment expenses. The company
14 also responded that "overhead was calculated basically by identifying all other categories of
15 expense such as labor, material and benefits and by default what is remaining of total was
16 classified as overhead." However the audit staff expected to be provided support detailing
17 how the company arrived at the numbers, what the sources were, and how the percents used to
18 apply the allocations were derived. In addition, the company responded that of the \$28,080
19 charged to Other Overhead, \$3,861 was fuel invoices. Audit review of these fuel invoices
20 traced them to Materials on the petition, not Other Overhead.

21 Therefore, because the company did not fully support the overhead amount, we
22 recommend an adjustment to the petitioned amount to reduce it by \$28,080 (total company).

23

24 Q. Does this conclude your testimony?

25 A. Yes, it does.

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WITNESS: **Direct Testimony Of Michael E. Buckley**, Appearing On Behalf Of the Staff of the Florida Public Service Commission

EXHIBIT MEB-1: Audit Report



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

GT COM

AUDIT TO VERIFY 2005 STORM COSTS

RELATING TO HURRICANE DENNIS

DOCKET NO. 060300-TL

AUDIT CONTROL NO. 06-123-1-1

Michael Buckley
Michael Buckley, Audit Manager

Lynn M. Deamer
Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

May 19, 2005

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Competitive Markets and Enforcement in its audit service request. We have applied these procedures to the petition prepared by GT COM in support of its filing for recovery of intrastate costs and expenses relating to repair, restoration, and replacement of facilities damaged by Hurricane Dennis in Docket 060300-TL. Hurricane Dennis made landfall on July 10, 2005.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use. There is confidential information associated with this audit.

OBJECTIVES and PROCEDURES

Objective: - To verify the amounts included in GT COM's petition dated March 31, 2006.

Procedures: - Traced work orders to invoices and other supporting documentation dated July 7, 2005 through October 17, 2005. Audit staff requested company provide support for the methodology of overhead allocations, and benefits but did not receive an adequate response to verify. Audit staff agreed the rates represented as per the contract in Exhibit RME-13, 2005 Tracom Contract Price List to the invoices and to the actual pre-existing contract. Audit staff reviewed insurance policies to see if damage to buildings sought for recovery were covered and company had obtained funds for these repairs. Based on our work, audit staff believes that the total cost to repair the damage is less than the deductible.

Objective: - To determine if the amounts sought for recovery were costs budgeted prior to the subject storm.

Procedures: - We reviewed budgets for 2004 and 2005. We reviewed financial statements for 2004 and 2005. We reviewed Board of Directors Meeting Minutes and scanned invoices for dates prior to storm.

Objective: - To verify access lines included in GT COM's petition dated March 31, 2006.

Procedures: - Reconciled lines in the Petition filed in this docket to lines reported on the 10K of the SEC Report for 2005 and Schedule 8 filed with this Commission.

AUDITING FINDING 1

Subject: Upgrade from copper cable to fiber optic cable

Statement of Facts:

One work order included in the Petition for recovery is for \$226,386 to replace copper cable destroyed at Alligator Point. The work order included replacing the copper cable with fiber optic cable.

According to the 364.051(4)(b)1, Florida Statutes

"A company may file a petition to recover its intrastate costs and expenses relating to repairing, restoring, or replacing the lines, plants or facilities damaged by a named tropical system."

Audit staff believes the intent of this is to make the company whole again, not to fund upgrades that should be done through normal business operations.

The company stated that the cost to run fiber optic cable to Alligator Point is \$40,000 more than the cost to replace the copper wiring with similar wiring.

Recommendation:

Company chose to upgrade the copper cable to Alligator Point with fiber optics. Therefore, the petitioned amount should be reduced by \$40,000.

AUDITING FINDING 2

Subject: Employee Benefits

Statement of Facts:

The Company calculated employee benefits charged to each of the six work orders used to account for all repair and restoration costs relating to Hurricane Dennis. The average benefit to payroll ratio for all 6 work orders is 90.4%. This number is skewed because of the amount charged to work orders 838 and 839. The benefits calculated for work orders 797, 861, 796, and 798 range from 24.3% to 52.2% for an audit calculated average of 31.7%. For work order 838 the percentage of benefits to payroll was 95.4% (\$49,775/ \$52,187) and for work order 839 the percentage of benefits to payroll was 133.2% (\$3,555/\$2,668). We asked the Company why the average for all six work orders was 90.4%. GT COM responded that it needed more investigation and would respond on or about May 27, 2006. This date is outside the issuance of this report so we recommend reducing the benefit to an average of the benefits calculated from the work orders 797, 861, 796, 798. Auditor used an average of the first 4 work orders to apply to work orders 838 and 839 to determine the recommended adjustment.

Recommendation:

We requested information from the company to support the benefit rates and did not receive sufficient information. In order to support the benefit rate, the company should provide a description of the items included, the actual costs and how they were allocated to the work orders, and an explanation addressing why there is a significant difference between the work orders. Because we did not receive sufficient information to justify these amounts, we recommend that the petition be reduced by the following amounts.

Work Order	Amount
2005-838	\$33,232
2005-839	\$2,709
Total	\$35,941

AUDITING FINDING 3

Subject: Overhead

Statement of Facts:

On Exhibit RME-10, Map of Work Order Costs to Petition Amounts, the Company calculated overhead for each work order to be recovered.

Exhibit RME-12, Summary of Cost Allocations, provides the amounts allocated to the work orders used in the storm recovery. Audit staff asked for support showing how each amount allocated to each work order was determined, and how the amounts in column 4 and 5, titled "Amount Expensed" and "Amount to Work Orders" respectively were derived. We also asked if there were any allocations from the parent company or from any related party reported here. We expected to receive documentation detailing how the company arrived at the numbers that were listed including percentages used to allocate the charges and source of the numbers.

What we received was a response indicating that:

1. The Work Order allocations were based on FCC Part 32, Uniform System of Accounts For Telecommunications Companies;
2. BSNS 2003 is the major account for Telephone Plant Under Construction (TPUC). 210, 211, 212, & 213 are sub accounts labeled TPUC Cost Allocation Vehicle and OWE, TPUC Cost Allocation Engineering, TPUC Cost Allocation Plant OP's and TPUC Cost Allocation Benefits and non productive respectively;
3. Column 5 plus 6 equals total expense and column 6 is transferred to TPUC .

Audit staff asked how Overhead was calculated, the dollar amounts and the items in it. The company response was that it should be called "other" rather than Overhead, but is attributable to allocation of vehicle and other work equipment expenses. The company also responded that "overhead was calculated basically by identifying all other categories of expense such as labor, material and benefits and by default what is remaining of total was classified as overhead." However the audit staff expected to be provided support detailing how the company arrived at the numbers, what the sources were, and how the percents used to apply the allocations were derived. In addition, the company responded that of the \$28,080 charged to Other Overhead, \$3,861 was fuel invoices. Audit review of these fuel invoices traced them to Materials on the petition, not Other Overhead.

auditing finding 3, continued

Recommendation:

Therefore the adjustment to the petitioned amount is to reduce it by \$28,080 for unsupported overhead because the company failed to provide backup documentation detailing calculations for the overhead, and that Audit Staff could not determine if the calculated overhead was supported or not.

Work order	Amount
2005-797	\$214
2005-861	\$540
2005-796	\$540
2005-798	\$134
2005-838	\$25,260
2005-839	\$1,391
Total	\$28,079

GT COMM
SUMMARY OF COSTS SOUGHT BY COMPANY FOR STORM RECOVERY
AS OF MAY 19, 2006

	AMOUNT AS FILED IN PETITION	COMPANY ADJUSTMENT	REVISED REQUESTED AMOUNT
CONTRACT LABOR	\$26,985		\$26,985
MATERIALS	31,354		31,534
LABOR COSTS	131,522	3,313	134,835
ALLIGATOR POINT RESORATION	227,000	(614)	226,386
INDIAN PASS FIBER	24,000	452	24,452
TOTAL	\$441,041	3,151	\$444,192