

State of Florida



**Public Service Commission**

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tallahassee District Office

**Auditor's Report**

Utilities, Inc.  
Audit of Affiliate Transactions  
For  
Sanlando Utilities Corp. and Labrador Utilities, Inc.

**Twelve Months Ended December 31, 2013**

Docket No. 140060-WS  
Audit Control No. 14-197-1-1  
**October 17, 2014**

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Debra M. Dobiac  
Audit Manager

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Lynn M. Deamer  
Reviewer

## Objectives and Procedures

### **General**

#### Definitions

The term “Company” refers to Utilities, Inc., the parent of Sanlando Utilities Corporation and Labrador Utilities, Inc.

Prior rate cases refer to prior Utilities, Inc. subsidiary rate cases.

Corporate refers to the Northbrook, Illinois headquarters.

Regional refers to the Altamonte Springs, Florida headquarters.

ERC refers to Equivalent Residential Connections as defined by Commission Rule 25-30.055, Florida Administrative Code. (F.A.C.)

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, F.A.C.

#### Background

The Company’s allocated costs were last audited in Docket No. 130212-WS. This audit addresses the costs allocated from the Company to the respective Utilities that are currently under review before the Commission. Sanlando Utilities Corporation (SU) and Labrador Utilities, Inc. (LU) use the test year ended December 31, 2013 in their applications for rate relief in Docket Nos. 140060-WS and 140135-WS.

The Company allocates its costs to each of its utility subsidiaries based on ERCs. Each subsidiary receives costs based on the ratio of its ERC per system to the total ERCs at the corporate level for the Northbrook, Illinois costs. In prior rate cases, the Company allocated costs using the same method for its Regional and Florida Altamonte Springs offices based on the total ERCs for the Region and the State of Florida, respectively. As of February 12, 2014, the Company implemented a new organizational structure and Florida no longer shares costs with other states on the Regional level. For the purpose of the two rate cases under review, audit staff used the ERCs that were in effect during March 2014 because this was the first full month after the implementation of the new organizational structure.

Any adjustments recommended in this report are in addition to any adjustments recommended in the Sanlando and Labrador Audit Reports, Audit Control Nos. (ACN) 14-199-4-1 and 14-268-4-1.

#### Utility Books and Records

**Objectives:** The objective was to determine whether the Company maintains its accounts and records in conformity with the NARUC USOA.

**Procedures:** Based on our review, the Company appears to be in substantial compliance with the NARUC USOA. Audit staff noted while reviewing documentation supporting gains on sales of utility property that the salvage received was booked to Account 414 - Gains (Losses) from Disposition of Utility Property instead of the appropriate depreciation account as dictated by the NARUC Accounting Instruction 27 (B) (2). Audit staff does not recommend an adjustment to LU's books because the amount is immaterial. No further work done.

## **Rate Base**

### Utility Plant in Service

**Objectives:** The objectives were to determine whether: 1) Plant additions that are allocated to subsidiaries are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Proper retirements were made when a replacement item was put into service, and 3) The allocation basis was reasonable for the assets allocated.

**Procedures:** We determined the corporate and regional plant balances as of December 31, 2012, that were established in Docket No. 130212-WS. We reviewed and sampled the corporate and regional additions for the period January 1, 2013, through December 31, 2013, and verified the ledger to the Company's allocation worksheets. We ensured that retirements were made when a capital item was removed or replaced. We reconciled the differences between the Company's allocated balances in its allocation worksheets and the SU and LU allocation ledgers to the rate base adjustments in the SU and LU filings. Findings 1, 2, 4, and 5 discuss plant in service.

### Accumulated Depreciation and Amortization

**Objectives:** The objectives were to determine whether: 1) Commission ordered adjustments to accumulated depreciation were included in the beginning balances, 2) Accruals to accumulated depreciation accounts that are allocated to subsidiaries are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Depreciation Expense accruals for accounts that are allocated are calculated using previously authorized rates, and 4) Retirements are properly recorded.

**Procedures:** We determined the corporate and regional accumulated depreciation balances as of December 31, 2012, that were established in Docket No. 130212-WS. We recalculated the corporate and regional accruals to accumulated depreciation for the period January 1, 2013, through December 31, 2013, using rates from prior audits and the verified Company's allocation worksheets. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. We reconciled the differences between the Company's allocation worksheets and the SU and LU allocation ledgers to the rate base adjustments in the SU and LU filings. Findings 1 through 5 discuss accumulated depreciation.

### Working Capital

**Objectives:** The objectives were to determine whether the adjustments made in the SU and LU filings for working capital were based on the correct ledger balances of the affiliate companies and that correct allocation factors were used.

**Procedures:** Working capital accounts allocated were reconciled to the Company's general ledger and traced to the appropriate ERC allocation for SU. No exceptions were noted. LU uses the 1/8 of operation and maintenance (O&M) expense method. The O&M balance may change for LU based on adjustments in the Labrador Audit Report, Docket No. 140135-WS, ACN 14-268-4-1.

## **Net Operating Income**

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether O&M expense allocated to subsidiaries are properly recorded in compliance with NARUC USOA and Commission rules, and that they are representative of its subsidiary's ongoing utility operations.

**Procedures:** We verified O&M expense accounts allocated for the 12-months ended December 31, 2013, by tracing a sample of invoices selected to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the SU and LU allocation ledgers to the net operating income (NOI) adjustments in the SU and LU filings.

Salaries, benefits, and transportation expenses from the corporate office, regional office, call center locations, and Florida offices by employee were recalculated and reconciled to payroll department data. The allocation factors were reviewed for applicability to the type of job. We tested the benefit and tax calculations. We reconciled the differences between the audited allocated balances and the SU and LU allocation ledgers to the NOI adjustments in the SU and LU filings. Findings 1, 6, 7, and 8 discuss O&M expenses.

### Depreciation and Amortization

**Objectives:** The objectives were to determine whether the depreciation expense allocated is properly recorded in compliance with Commission rules and that they accurately represent the depreciation of the Company's asset used to manage ongoing utility operations.

**Procedures:** We determined that the Company's calculation of depreciation expense was consistent with the balances in the ledger and the rates used in prior audits. We reconciled the differences between the Company's allocation worksheets and the SU and LU allocation ledgers to the NOI adjustments in the SU and LU filings. Findings 1 through 4 discuss depreciation expense.

### Taxes Other than Income

**Objectives:** The objectives were to determine whether the Company's allocation of taxes represented the actual taxes recorded in the ledger and that they were allocated using the appropriate ERC factors.

**Procedures:** We determined the real estate taxes for the Company and the ERC factors used. We re-calculated payroll taxes based on allocated payroll and compared it to the amounts included in the SU and LU allocation ledgers. We reconciled the ledger to the Company's

allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the SU and LU allocation ledgers to the NOI adjustments in the SU and LU filings. Finding 8 discusses payroll taxes.

## **Capital Structure**

**Objectives:** The objectives were to determine whether the equity and debt components of the Company's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are based on the weighted percent of the Company's financial statements audited by Ernst and Young LLP and the Commission's authorized rate of return.

**Procedures:** We verified the Company's long-term debt, short-term debt, and common equity to the 2013 audited financial statements and the general ledger. We traced the long-term debt to the prior audit. We traced short term debt to its supporting documentation. The equity rate filed was compared to Order No. PSC-14-0272-PAA-WS. Audit staff calculated a variance from the 13-month average for common equity in the SU filing. We also calculated a variance in the simple average for common equity noted in the LU filing. However, the audit calculated variances did not have an effect on the weighted cost of capital reflected in the respective minimum filing requirements (MFRs). No further work performed.

## **Net Operating Income**

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether O&M expense allocated to subsidiaries are properly recorded in compliance with NARUC USOA and Commission rules, and that they are representative of its subsidiary's ongoing utility operations.

**Procedures:** We verified O&M expense accounts allocated for the 12-months ended December 31, 2013, by tracing a sample of invoices selected to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the SU and LU allocation ledgers to the net operating income (NOI) adjustments in the SU and LU filings.

Salaries, benefits, and transportation expenses from the corporate office, regional office, call center locations, and Florida offices by employee were recalculated and reconciled to payroll department data. The allocation factors were reviewed for applicability to the type of job. We tested the benefit and tax calculations. We reconciled the differences between the audited allocated balances and the SU and LU allocation ledgers to the NOI adjustments in the SU and LU filings. Findings 1, 6, 7, and 8 discuss O&M expenses.

### Depreciation and Amortization

**Objectives:** The objectives were to determine whether the depreciation expense allocated is properly recorded in compliance with Commission rules and that they accurately represent the depreciation of the Company's asset used to manage ongoing utility operations.

**Procedures:** We determined that the Company's calculation of depreciation expense was consistent with the balances in the ledger and the rates used in prior audits. We reconciled the differences between the Company's allocation worksheets and the SU and LU allocation ledgers to the NOI adjustments in the SU and LU filings. Findings 1 through 4 discuss depreciation expense.

### Taxes Other than Income

**Objectives:** The objectives were to determine whether the Company's allocation of taxes represented the actual taxes recorded in the ledger and that they were allocated using the appropriate ERC factors.

**Procedures:** We determined the real estate taxes for the Company and the ERC factors used. We re-calculated payroll taxes based on allocated payroll and compared it to the amounts included in the SU and LU allocation ledgers. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the SU and LU allocation ledgers to the NOI adjustments in the SU and LU filings. Finding 8 discusses payroll taxes.

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**Objectives:** The objectives were to determine whether the equity and debt components of the Company's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are based on the weighted percent of the Company's financial statements audited by Ernst and Young LLP and the Commission's authorized rate of return.

**Procedures:** We verified the Company's long-term debt, short-term debt, and common equity to the 2013 audited financial statements and the general ledger. We traced the long-term debt to the prior audit. We traced short term debt to its supporting documentation. The equity rate filed was compared to Order No. PSC-14-0272-PAA-WS. Audit staff calculated a variance from the 13-month average for common equity in the SU filing. We also calculated a variance in the simple average for common equity noted in the LU filing. However, the audit calculated variances did not have an effect on the weighted cost of capital reflected in the respective minimum filing requirements (MFRs). No further work performed.

## Audit Findings

### **Finding 1: Transportation**

**Audit Analysis:** In prior rate cases, each Florida Utility has taken the 13-month or simple average of the cost of the vehicles and its accumulated depreciation, the depreciation expense, and the associated transportation costs, and allocated each vehicle based on the payroll allocation used for the employee assigned to the vehicle. Each Florida Utility uses the ratio of its ERC per system to the total ERCs for the State of Florida for pool vehicles and special equipment. In the Company provided schedules applicable to SU and LU, audit staff noted the following errors.

1. Due to the Company's reorganization, not all the employees whose time is now allocated to SU and LU were included in the vehicle schedules.
2. Vehicle costs, accumulated depreciation, and depreciation expense were not annualized for employees who were assigned new vehicles in 2013.
3. The ERC factors in the schedule did not agree with the ERC factors used to calculate the employees' salaries.
4. The Company's vehicle schedules did not support the adjustments made in its filing.

Tables 1-1 and 1-2 following this Finding detail the corrections.

**Effect on the General Ledger:** For affiliate adjustments, the Utility adjusts the filings but not the Company's ledger.

**Effect on the Filing:** The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1, is a decrease of \$224,456 to the 13-month average water plant balance and a decrease of \$177,147 to the 13-month average wastewater plant balance. The decrease to the 13-month average water accumulated depreciation balance is \$242,299. The decrease to the 13-month average wastewater accumulated depreciation balance is \$191,230. The decrease to water depreciation expense is \$10,921. The decrease to wastewater depreciation expense is \$8,620. The decrease to water transportation expense is \$4,272. The decrease to wastewater transportation expense is \$3,371.

The effect on LU's filing in Docket No. 140135-WS and the Labrador Audit Report, ACN 14-268-4-1, is a decrease of \$13,693 to the simple average water plant balance and a decrease of \$13,601 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is \$14,379. The decrease to the simple average wastewater accumulated depreciation balance is \$14,282. The increase to water depreciation expense is \$488. The increase to wastewater depreciation expense is \$484. The decrease to water transportation expense is \$1,234. The decrease to wastewater transportation expense is \$1,226.



**Table 1-1**

SANLANDO UTILITIES CORP.	Per Filing	Audit Adjusted Utility Schedules			Variance	Water	Wastewater
		Add. Vehicle	Staff Vehicle	Total			
<b>Vehicles - 13-Month Average</b>							
<b><u>NARUC 341.5/391.7 (JDE account 1555)</u></b>	\$ 972,535	\$ 141,892	\$ 429,040	\$ 570,932	\$ (401,603)	\$ (224,456)	\$ (177,147)
<b>Vehicle Accumulated Depreciation - 13-Month Average</b>							
<b><u>NARUC 108.1 (JDE account 2300)</u></b>	\$ (769,461)	\$ (107,567)	\$ (228,365)	\$ (335,932)	\$ 433,529	\$ 242,299	\$ 191,230
<b>Vehicle Depreciation Expense</b>							
<b><u>NARUC 403 (JDE account 6905)</u></b>	\$ 87,588	\$ 9,833	\$ 58,214	\$ 68,047	\$ (19,541)	\$ (10,921)	\$ (8,620)
<b>Transportation Expense</b>							
<b><u>NARUC 650/750 (JDE account 6215-6230)</u></b>	\$ 124,494	\$ 10,231	\$ 106,620	\$ 116,851	\$ (7,643)	\$ (4,272)	\$ (3,371)

**Table 1-2**

LABRADOR UTILITIES, INC.	Per Filing	Audit Adjusted Utility Schedules			Variance	Water	Wastewater
		Add. Vehicle	Staff Vehicle	Total			
<b>Vehicles - Simple Average</b>							
<b><u>NARUC 341.5/391.7 (JDE account 1555)</u></b>	\$ 60,650	\$ 1,051	\$ 32,305	\$ 33,356	\$ (27,294)	\$ (13,693)	\$ (13,601)
<b>Vehicle Accumulated Depreciation - Simple Average</b>							
<b><u>NARUC 108.1 (JDE account 2300)</u></b>	\$ (51,614)	\$ (1,051)	\$ (21,902)	\$ (22,953)	\$ 28,661	\$ 14,379	\$ 14,282
<b>Vehicle Depreciation Expense</b>							
<b><u>NARUC 403 (JDE account 6905)</u></b>	\$ 2,652	\$ -	\$ 3,624	\$ 3,624	\$ 972	\$ 488	\$ 484
<b>Transportation Expense</b>							
<b><u>NARUC 650/750 (JDE account 6215-6230)</u></b>	\$ 10,946	\$ 243	\$ 8,243	\$ 8,486	\$ (2,460)	\$ (1,234)	\$ (1,226)

## **Finding 2: Project Phoenix**

**Audit Analysis:** Project Phoenix is the Company's financial, customer care, and billing system, which became operational in December 2008. In Order No. PSC-10-0407-PAA-SU, the Commission established that the total cost for Project Phoenix at December 31, 2008, was \$21,617,487. The Commission reduced this balance to \$19,893,321, before allocating costs to the remaining UI subsidiaries. The Company provided audit staff a restatement schedule for all computer balances on its books taking into account past ordered adjustments. These schedules do not reflect the Commission ordered adjustments for Project Phoenix. The Company's restatement schedule shows the Project Phoenix balance at December 31, 2008, to be \$21,525,403. The difference between the Company's balance and the ordered amount is \$1,632,082.

Table 2-1 shows the calculation of the adjustment to plant, accumulated depreciation, and depreciation expense needed to comply with the Order. In the Order, Project Phoenix's depreciation rate was changed from eight to ten years. However, the Company continues to depreciate the project over eight years. In Finding 3, we adjusted the accumulated depreciation and depreciation expense on Project Phoenix from eight to ten years to comply with the Order using the Company's booked amount. However, Table 2-1 removes depreciation for the reduction in plant of \$1,632,082 using the ten year depreciation rate to avoid duplicating the adjustment.

The amount of allocated costs received by SU and LU is based on the ratio of its ERC per system to the total ERCs at the corporate level. The corporate office allocated 7.90% of its costs to SU and .56% to LU. Table 2-2 shows the adjustments to the SU and LU allocated rate base and expense accounts.

In December 2013, the Company's upgrade to the financial, customer care, and billing system was recorded in the amount of \$627,795. Audit staff reviewed the supporting documentation for the upgrade and no exceptions were noted. As of December 31, 2013, no accumulated depreciation or depreciation expense related to the upgrade had been recorded in the Company's ledger.

**Effect on the General Ledger:** These adjustments are allocations from the Illinois Headquarters for ratemaking purposes. The Utility should determine the effect these adjustments have on its general ledgers.

**Effect on the Filing:** The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1, is a decrease of \$72,061 to the 13-month average water plant balance and a decrease of \$56,873 to the 13-month average wastewater plant balance. The decrease to the 13-month average water accumulated depreciation balance is \$36,031. The decrease to the 13-month average wastewater accumulated depreciation balance is \$28,436. The decrease to water depreciation expense is \$7,206. The decrease to wastewater depreciation expense is \$5,687.

The effect on LU's filing in Docket No. 140135-WS and the Labrador Audit Report, ACN 14-268-4-1, is a decrease of \$4,585 to the simple average water plant balance and a decrease of \$4,554 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is \$2,293. The decrease to the simple average wastewater accumulated depreciation balance is \$2,277. The decrease to water depreciation expense is \$459. The decrease to wastewater depreciation expense is \$455.

**Table 2-1****Project Phoenix Reconciliation**

Description	Amount
Project Phoenix Total Cost Per Order	\$ 21,617,487
Ordered Adjustments Per Order	\$ (1,724,166)
Difference	\$ 19,893,321
Project Phoenix Total Cost Per Company	\$ (21,525,403)
Adjustment to Correct Beginning Balance	\$ (1,632,082)
Adj to Correct Dep Exp for 10 Year Life	\$ (163,208)
Adj to Correct Acc Dep at 66 Months	\$ (897,645)

**13-Month/Simple Average Calculation**

Date				Plant Adjustment	Acc. Dep. Adjustment
December 31, 2012				\$ (1,632,082)	\$ 734,437
January 31, 2013				\$ (1,632,082)	\$ 748,038
February 28, 2013				\$ (1,632,082)	\$ 761,638
March 31, 2013				\$ (1,632,082)	\$ 775,239
April 30, 2013				\$ (1,632,082)	\$ 788,840
May 31, 2013				\$ (1,632,082)	\$ 802,440
June 30, 2013				\$ (1,632,082)	\$ 816,041
July 31, 2013				\$ (1,632,082)	\$ 829,642
August 31, 2013				\$ (1,632,082)	\$ 843,242
September 30, 2013				\$ (1,632,082)	\$ 856,843
October 31, 2013				\$ (1,632,082)	\$ 870,444
November 30, 2013				\$ (1,632,082)	\$ 884,044
December 31, 2013				\$ (1,632,082)	\$ 897,645
<b>13-MONTH AVERAGE</b>				\$ (1,632,082)	\$ 816,041
<b>SIMPLE AVERAGE</b>				\$ (1,632,082)	\$ 816,041

**Table 2-2****Allocation of Adjustment to Divisions**

	<b>Total Company Adjustment</b>	<b>SU Water</b>	<b>SU Wastewater</b>	<b>LU Water</b>	<b>LU Wastewater</b>
Illinois Allocation	(A)	7.90%	7.90%	0.56%	0.56%
Water / Wastewater	(B)	55.89%	44.11%	50.17%	49.83%
Percent Allocated 2013	(A) x (B)	4.42%	3.48%	0.28%	0.28%
Average Plant	\$ (1,632,082)	\$ (72,061)	\$ (56,873)	\$ (4,585)	\$ (4,554)
Average Accumulated Depreciation	\$ 816,041	\$ 36,031	\$ 28,436	\$ 2,293	\$ 2,277
Depreciation Expense	\$ (163,208)	\$ (7,206)	\$ (5,687)	\$ (459)	\$ (455)

### **Finding 3: Project Phoenix Accumulated Depreciation and Depreciation Expense**

**Audit Analysis:** In Order No. PSC-10-0407-PAA-SU, the Company was directed to change the depreciation life for Project Phoenix from eight years to ten years, which went into service December 2008. The Company did not change the rate at which the software is being depreciated in Company provided restatement schedules.

The amount of allocated cost received by SU and LU is based on the ratio of its ERC per system to the total ERCs at the corporate level. SU and LU then allocate the cost from corporate between its water and wastewater systems by each system's ERC ratio.

Table 3-1 shows the calculation for accumulated depreciation and depreciation expense adjustments to correct the accrual balance for the Company, SU and LU.

**Effect on the General Ledger:** These adjustments are allocations from the Illinois Headquarters for ratemaking purposes. The Utility should determine the effect these adjustments have on its general ledgers.

**Effect on the Filing:** The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1, is a decrease of \$118,802 to the 13-month average water accumulated depreciation balance. The decrease to the 13-month average wastewater accumulated depreciation balance is \$93,762. The decrease to water depreciation expense is \$23,760. The decrease to wastewater depreciation expense is \$18,752.

The effect on LU's filing in Docket No. 140135-WS and the Labrador Audit Report, ACN 14-268-4-1 is a decrease of \$7,560 to the simple average water accumulated depreciation balance. The decrease to the simple average wastewater accumulated depreciation balance is \$7,508. The decrease to water depreciation expense is \$1,512. The decrease to wastewater depreciation expense is \$1,502.

**Table 3-1**

**Computation of Depreciation**

	Project Phoenix Cost	Depr Rate	2008 Dep. Exp.	2009 Dep. Exp.	2010 Dep. Exp.	2011 Dep. Exp.	2012 Dep. Exp.	2013 Dep. Exp.	Acc. Dep. at 12/31/13
STAFF	\$ 21,525,402.85	10.00%	\$ 1,076,270	\$ 2,152,540	\$ 2,152,540	\$ 2,152,540	\$ 2,152,540	\$ 2,152,540	\$ 11,838,972
COMPANY	\$ 21,525,402.85	12.50%	\$ 1,345,338	\$ 2,690,675	\$ 2,690,675	\$ 2,690,675	\$ 2,690,675	\$ 2,690,675	\$ 14,798,714
DIFFERENCE			\$ (269,068)	\$ (538,135)	\$ (538,135)	\$ (538,135)	\$ (538,135)	\$ (538,135)	\$ (2,959,743)

**Computation of 13-Month/Simple Avg**

Date	Acc. Dep. Adj. Debit
December 31, 2012	\$ 2,421,608
January 31, 2013	\$ 2,466,452
February 28, 2013	\$ 2,511,297
March 31, 2013	\$ 2,556,142
April 30, 2013	\$ 2,600,986
May 31, 2013	\$ 2,645,831
June 30, 2013	\$ 2,690,675
July 31, 2013	\$ 2,735,520
August 31, 2013	\$ 2,780,365
September 30, 2013	\$ 2,825,209
October 31, 2013	\$ 2,870,054
November 30, 2013	\$ 2,914,898
December 31, 2013	\$ 2,959,743
<b>13-Month Average</b>	<b>\$ 2,690,675</b>
<b>Simple Average</b>	<b>\$ 2,690,676</b>

**Allocation of Adjustment to Divisions**

	Total Company Adjustment	SU Water	SU Wastewater	LU Water	LU Wastewater
Illinois Allocation	(A)	7.90%	7.90%	0.56%	0.56%
Water / Wastewater	(B)	55.89%	44.11%	50.17%	49.83%
Percent Allocated 2013	(A) x (B)	4.42%	3.48%	0.28%	0.28%
Average Accumulated Depreciation	\$ 2,690,675	\$ 118,802	\$ 93,762	\$ 7,560	\$ 7,508
Depreciation Expense	\$ (538,135)	\$ (23,760)	\$ (18,752)	\$ (1,512)	\$ (1,502)

## **Finding 4: Allocated Plant, Accumulated Depreciation, and Depreciation Expense**

**Audit Analysis:** The SU and LU adjustments for the rate base allocations from the corporate and regional levels, MFR Schedules A-3, did not reflect the Commission Ordered Adjustments for plant, accumulated depreciation, and depreciation expense. These adjustments from prior orders had not been recorded on the Company's books. Therefore, audit staff calculated the adjustments by utilizing the restatement schedules provided in Docket 130212-WS for both SU and LU.

The decrease in depreciation expense noted above was offset by the following errors.

- 1) We reversed the SU MFR adjustments for water depreciation expense of (\$2,489) and wastewater depreciation expense of (\$1,963) because they were calculated incorrectly.
- 2) We reversed a prior period adjustment included in the depreciation expense balance of (\$51,971) recorded on the regional books in February of 2013. The allocated amount reflected in SU's books is (\$17,364), which is (\$51,971) times the regional ERC factor of 33.41%. The allocated amount reflected in LU's books is (\$1,237), which is (\$51,971) times the regional ERC factor of 2.38%.

Therefore, audit staff's adjustments increase depreciation expense.

Tables 4-1, 4-2, 4-3, and 4-4 following this Finding detail these adjustments.

**Effect on the General Ledger:** These adjustments are allocations from the Illinois and Florida Headquarters for ratemaking purposes. The Utility should determine the effect these adjustments have on its general ledgers.

**Effect on the Filing:** The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1, is a decrease of \$83,600 to the 13-month average water plant balance and a decrease of \$65,982 to the 13-month average wastewater plant balance. The decrease to the 13-month average water accumulated depreciation balance is \$127,614. The decrease to the 13-month average wastewater accumulated depreciation balance is \$100,715. The increase to water depreciation expense is \$7,393. The increase to wastewater depreciation expense is \$5,384.

The effect on LU's filing in Docket No. 140135-WS and the Labrador Audit Report, ACN 14-268-4-1, is a decrease of \$6,297 to the simple average water plant balance and a decrease of \$6,258 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is \$9,985. The decrease to the simple average wastewater accumulated depreciation balance is \$9,912. The increase to water depreciation expense is \$285. The increase to wastewater depreciation expense is \$286.



**Table 4-1**

**SANLANDO UTILITIES CORP. SUMMARY RATE BASE ADJUSTMENT**

Obj Acct	NARUC	Account Description	13-Mo Avg WSC	13-Mo Avg Regional	Audit Balance	13-Mo Avg UA Ledger	Variance	55.89% Water	MFR Adj Water	Audit Adj Water	44.11% Wastewater	MFR Adj Wastewater	Audit Adj Wastewater
1025	302.1	FRANCHISES	\$ -	\$ 663	\$ 663	\$ 669	\$ (6)	\$ (3)	\$ (2)	\$ (1)	\$ (3)	\$ (2)	\$ (1)
1045	303.5	LAND & LAND RIGHTS GEN	\$ 7,505	\$ -	\$ 7,505	\$ 7,526	\$ (21)	\$ (12)	\$ (18)	\$ 6	\$ (9)	\$ (14)	\$ 5
1175	304.5	OFFICE STRUCT & IMPRV	\$ 221,163	\$ 308,221	\$ 529,384	\$ 532,488	\$ (3,104)	\$ (1,735)	\$ (1,572)	\$ (163)	\$ (1,369)	\$ (1,241)	\$ (128)
1180	340.5	OFFICE FURN & EQPT	\$ 109,355	\$ 72,157	\$ 181,512	\$ 182,472	\$ (960)	\$ (537)	\$ (502)	\$ (35)	\$ (423)	\$ (396)	\$ (27)
1190	343.5	TOOL SHOP & MISC EQPT	\$ 1,658	\$ 73,024	\$ 74,682	\$ 75,276	\$ (594)	\$ (332)	\$ (254)	\$ (78)	\$ (262)	\$ (200)	\$ (62)
1205	346.5	COMMUNICATION EQPT	\$ 28,029	\$ -	\$ 28,029	\$ 28,108	\$ (79)	\$ (44)	\$ (66)	\$ 22	\$ (35)	\$ (52)	\$ 17
1580	340.5	MFRAME COMPUTER WTR	\$ 15,862	\$ 6,928	\$ 22,790	\$ 93,066	\$ (70,276)	\$ (39,277)	\$ (225)	\$ (39,052)	\$ (30,999)	\$ (178)	\$ (30,821)
1585	340.5	MINI COMPUTERS WTR	\$ 93,590	\$ 148,229	\$ 241,819	\$ 287,316	\$ (45,497)	\$ (25,428)	\$ (825)	\$ (24,603)	\$ (20,069)	\$ (651)	\$ (19,418)
1590	340.5	COMP SYS COST WTR	\$ 82,269	\$ 12,554	\$ 94,823	\$ 130,021	\$ (35,198)	\$ (19,672)	\$ (4,302)	\$ (15,370)	\$ (15,526)	\$ (3,394)	\$ (12,132)
1595	340.5	MICRO SYS COST WTR	\$ 36,633	\$ 6,093	\$ 42,726	\$ 50,690	\$ (7,964)	\$ (4,451)	\$ (125)	\$ (4,326)	\$ (3,513)	\$ (98)	\$ (3,415)
		TOTAL PLANT	\$ 596,064	\$ 627,869	\$ 1,223,933	\$ 1,387,632	\$ (163,699)	\$ (91,491)	\$ (7,891)	\$ (83,600)	\$ (72,208)	\$ (6,226)	\$ (65,982)
1840	108.1	ACC DEPR-FRANCHISES	\$ -	\$ (89)	\$ (89)	\$ (90)	\$ 1	\$ 1	\$ -	\$ 1	\$ 0	\$ -	\$ 0
1970	108.1	ACC DEPR-OFFICE STRUCT	\$ (129,207)	\$ (104,442)	\$ (233,649)	\$ (218,685)	\$ (14,964)	\$ (8,363)	\$ 615	\$ (8,978)	\$ (6,601)	\$ 485	\$ (7,086)
1975	108.1	ACC DEPR-OFFICE FURN/EQ	\$ (100,346)	\$ (54,619)	\$ (154,965)	\$ (150,404)	\$ (4,561)	\$ (2,549)	\$ 407	\$ (2,956)	\$ (2,012)	\$ 321	\$ (2,333)
1985	108.1	ACC DEPR-TOOL SHOP MISC E	\$ (1,639)	\$ (71,203)	\$ (72,842)	\$ (73,837)	\$ 995	\$ 556	\$ 246	\$ 310	\$ 439	\$ 194	\$ 245
2000	108.1	ACC DEPR-COMMUN EQPT	\$ (8,032)	\$ -	\$ (8,032)	\$ (9,406)	\$ 1,374	\$ 768	\$ 21	\$ 747	\$ 606	\$ 17	\$ 589
2320	108.1	ACC DEPR-MF COMP WTR	\$ (15,535)	\$ (6,922)	\$ (22,457)	\$ (79,086)	\$ 56,629	\$ 31,650	\$ 188	\$ 31,462	\$ 24,979	\$ 149	\$ 24,830
2325	108.1	ACC DEPR-MINI COMP WTR	\$ (72,957)	\$ (147,190)	\$ (220,147)	\$ (273,898)	\$ 53,751	\$ 30,041	\$ 804	\$ 29,237	\$ 23,710	\$ 635	\$ 23,075
2330	108.1	COMP SYS AMORT WTR	\$ (33,860)	\$ (12,554)	\$ (46,414)	\$ (182,954)	\$ 136,540	\$ 76,312	\$ 2,847	\$ 73,465	\$ 60,228	\$ 2,247	\$ 57,981
2335	108.1	MICRO SYS AMORT WTR	\$ (36,633)	\$ (6,093)	\$ (42,726)	\$ (50,690)	\$ 7,964	\$ 4,451	\$ 125	\$ 4,326	\$ 3,513	\$ 99	\$ 3,414
		TOTAL ACCUMULATED DEPRECIATION	\$ (398,209)	\$ (403,112)	\$ (801,321)	\$ (1,039,050)	\$ 237,729	\$ 132,867	\$ 5,253	\$ 127,614	\$ 104,862	\$ 4,147	\$ 100,715

**Table 4-2**

**LABRADOR UTILITIES, INC. SUMMARY RATE BASE ADJUSTMENT**

Obj Acct	NARUC	Account Description	Simple Avg WSC	Simple Avg Regional	Audit Balance	Simple Avg UA Ledger	Variance	50.17% Water	MFR Adj Water	Audit Adj Water	49.83% Wastewater	MFR Adj Wastewater	Audit Adj Wastewater
1025	302.1	FRANCHISES	\$ -	\$ 47	\$ 47	\$ 48	\$ (1)	\$ (1)	\$ -	\$ (1)	\$ (0)	\$ -	\$ (0)
1045	303.5	LAND & LAND RIGHTS GEN PLT	\$ 532	\$ -	\$ 532	\$ 540	\$ (8)	\$ (8)	\$ (3)	\$ (5)	\$ -	\$ -	\$ -
1175	304.5	OFFICE STRUCT & IMPRV	\$ 15,701	\$ 22,051	\$ 37,752	\$ 38,316	\$ (564)	\$ (283)	\$ (137)	\$ (146)	\$ (281)	\$ (134)	\$ (147)
1180	340.5	OFFICE FURN & EQPT	\$ 7,753	\$ 5,065	\$ 12,818	\$ 13,014	\$ (196)	\$ (98)	\$ (577)	\$ 479	\$ (98)	\$ (568)	\$ 470
1190	343.5	TOOL SHOP & MISC EQPT	\$ 118	\$ 5,202	\$ 5,320	\$ 5,399	\$ (79)	\$ (40)	\$ (21)	\$ (19)	\$ (39)	\$ (20)	\$ (19)
1205	346.5	COMMUNICATION EQPT	\$ 1,987	\$ -	\$ 1,987	\$ 2,016	\$ (29)	\$ (15)	\$ (7)	\$ (8)	\$ (14)	\$ (6)	\$ (8)
1580	340.5	MAINFRAME COMPUTER WTR	\$ 1,124	\$ 494	\$ 1,618	\$ 6,677	\$ (5,059)	\$ (2,538)	\$ -	\$ (2,538)	\$ (2,521)	\$ -	\$ (2,521)
1585	340.5	MINI COMPUTERS WTR	\$ 6,621	\$ 10,559	\$ 17,180	\$ 20,594	\$ (3,414)	\$ (1,713)	\$ -	\$ (1,713)	\$ (1,701)	\$ -	\$ (1,701)
1590	340.5	COMP SYS COST WTR	\$ 5,823	\$ 894	\$ 6,717	\$ 10,789	\$ (4,072)	\$ (2,043)	\$ -	\$ (2,043)	\$ (2,029)	\$ -	\$ (2,029)
1595	340.5	MICRO SYS COST WTR	\$ 2,597	\$ 434	\$ 3,031	\$ 3,637	\$ (606)	\$ (304)	\$ -	\$ (304)	\$ (302)	\$ -	\$ (302)
		TOTAL PLANT	\$ 42,256	\$ 44,746	\$ 87,002	\$ 101,030	\$ (14,028)	\$ (7,042)	\$ (745)	\$ (6,297)	\$ (6,986)	\$ (728)	\$ (6,258)
1840	108.1	ACC DEPR-FRANCHISES	\$ -	\$ (6)	\$ (6)	\$ (6)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1970	108.1	ACC DEPR-OFFICE STRUCTURE	\$ (9,159)	\$ (7,441)	\$ (16,600)	\$ (15,686)	\$ (914)	\$ (459)	\$ (54)	\$ (405)	\$ (455)	\$ (53)	\$ (402)
1975	108.1	ACC DEPR-OFFICE FURN/EQPT	\$ (7,113)	\$ (3,893)	\$ (11,006)	\$ (10,789)	\$ (217)	\$ (109)	\$ (409)	\$ 300	\$ (108)	\$ (402)	\$ 294
1985	108.1	ACC DEPR-TOOL SHOP & MISC EQPT	\$ (116)	\$ (5,065)	\$ (5,181)	\$ (5,295)	\$ 114	\$ 57	\$ (20)	\$ 77	\$ 57	\$ (19)	\$ 76
2000	108.1	ACC DEPR-COMMUNICATION EQPT	\$ (569)	\$ -	\$ (569)	\$ (675)	\$ 106	\$ 53	\$ (2)	\$ 55	\$ 53	\$ (2)	\$ 55
2320	108.1	ACC DEPR-MAINFRAME COMP WTR	\$ (1,100)	\$ (493)	\$ (1,593)	\$ (5,796)	\$ 4,203	\$ 2,109	\$ -	\$ 2,109	\$ 2,094	\$ -	\$ 2,094
2325	108.1	ACC DEPR-MINI COMP WTR	\$ (5,188)	\$ (10,485)	\$ (15,673)	\$ (20,095)	\$ 4,422	\$ 2,219	\$ -	\$ 2,219	\$ 2,203	\$ -	\$ 2,203
2330	108.1	COMP SYS AMORTIZATION WTR	\$ (2,401)	\$ (894)	\$ (3,295)	\$ (13,911)	\$ 10,616	\$ 5,326	\$ -	\$ 5,326	\$ 5,290	\$ -	\$ 5,290
2335	108.1	MICRO SYS AMORTIZATION WTR	\$ (2,597)	\$ (434)	\$ (3,031)	\$ (3,637)	\$ 606	\$ 304	\$ -	\$ 304	\$ 302	\$ -	\$ 302
		TOTAL ACCUMULATED DEPRECIATION	\$ (28,243)	\$ (28,711)	\$ (56,954)	\$ (75,890)	\$ 18,936	\$ 9,500	\$ (485)	\$ 9,985	\$ 9,436	\$ (476)	\$ 9,912

**Table 4-3**

**SANLANDO UTILITIES CORP. SUMMARY RATE BASE ADJUSTMENT**

Obj Acct	NARUC	Account Description	12/31/2013 WSC	12/31/2013 Regional	Audit Balance	12/31/2013 UA Ledger	Variance	55.89% Water	MFR Adj Water	Audit Adj Water	44.11% Wastewater	MFR Adj Wastewater	Audit Adj Wastewater
6450	403	Dep - Franchises	\$ -	\$ 40	\$ 40	\$ 44	\$ (4)	\$ (2)	\$ (3)	\$ 1	\$ (2)	\$ (2)	\$ 0
6580	403	Dep - Office Structure	\$ 5,537	\$ 7,739	\$ 13,277	\$ 11,452	\$ 1,825	\$ 1,020	\$ (542)	\$ 1,562	\$ 805	\$ (428)	\$ 1,233
6585	403	Dep - Office Furn/Eqpt	\$ 2,153	\$ 4,741	\$ 6,893	\$ 7,059	\$ (165)	\$ (92)	\$ (1,696)	\$ 1,604	\$ (73)	\$ (1,338)	\$ 1,265
6595	403	Dep - Tool Shop & Misc Eqpt	\$ 6	\$ 3,613	\$ 3,620	\$ 4,998	\$ (1,379)	\$ (771)	\$ (499)	\$ (272)	\$ (608)	\$ (393)	\$ (215)
6610	403	Dep - Communication Equipment	\$ 3,035	\$ -	\$ 3,035	\$ 2,547	\$ 488	\$ 273	\$ 251	\$ 22	\$ 215	\$ 198	\$ 17
6920	403	Dep - Computer	\$ 17,337	\$ 549	\$ 17,886	\$ 9,876	\$ 8,010	\$ 4,477	\$ -	\$ 4,477	\$ 3,533	\$ -	\$ 3,533
		<b>TOTAL DEPRECIATION</b>	<b>\$ 28,068</b>	<b>\$ 16,682</b>	<b>\$ 44,750</b>	<b>\$ 35,975</b>	<b>\$ 8,775</b>	<b>\$ 4,904</b>	<b>\$ (2,489)</b>	<b>\$ 7,393</b>	<b>\$ 3,871</b>	<b>\$ (1,963)</b>	<b>\$ 5,834</b>

**Table 4-4**

**LABRADOR UTILITIES, INC. SUMMARY RATE BASE ADJUSTMENT**

Obj Acct	NARUC	Account Description	12/31/2013 WSC	12/31/2013 Regional	Audit Balance	12/31/2013 UA Ledger	Variance	50.17% Water	MFR Adj Water	Audit Adj Water	49.83% Wastewater	MFR Adj Wastewater	Audit Adj Wastewater
6450	403	Dep - Franchises	\$ -	\$ 3	\$ 3	\$ 3	\$ 0	\$ 0	\$ -	\$ 0	\$ 0	\$ -	\$ 0
6580	403	Dep - Office Structure	\$ 393	\$ 551	\$ 944	\$ 726	\$ 218	\$ 109	\$ 31	\$ 78	\$ 108	\$ 31	\$ 77
6585	403	Dep - Office Furn/Eqpt	\$ 153	\$ 338	\$ 490	\$ 448	\$ 43	\$ 21	\$ 144	\$ (123)	\$ 21	\$ 141	\$ (120)
6595	403	Dep - Tool Shop & Misc Eqpt	\$ 0	\$ 257	\$ 258	\$ 317	\$ (59)	\$ (30)	\$ 5	\$ (35)	\$ (30)	\$ 5	\$ (35)
6610	403	Dep - Communication Equipment	\$ 215	\$ -	\$ 215	\$ 161	\$ 54	\$ 27	\$ 19	\$ 8	\$ 27	\$ 18	\$ 9
6920	403	Dep - Computer	\$ 1,229	\$ 39	\$ 1,268	\$ 558	\$ 710	\$ 356	\$ -	\$ 356	\$ 354	\$ -	\$ 354
		<b>TOTAL DEPRECIATION</b>	<b>\$ 1,990</b>	<b>\$ 1,188</b>	<b>\$ 3,178</b>	<b>\$ 2,213</b>	<b>\$ 965</b>	<b>\$ 484</b>	<b>\$ 199</b>	<b>\$ 285</b>	<b>\$ 481</b>	<b>\$ 195</b>	<b>\$ 286</b>

## **Finding 5: Allocations of Common Plant**

**Audit Analysis:** The allocations in SU's filing for common plant between water and wastewater were calculated using the year-end balances and not the 13-month average balances.

There were no adjustments for allocating common plant between water and wastewater in the LU filing. However, audit staff calculated common plant allocations to the general ledger balances in order to trace the plant and accumulated depreciation balances to the December 31, 2012 balances in LU's MFR Schedules A-5, A-6, A-9, and A-10. In order to trace to the December 31, 2013 balances in the MFR Schedules noted above, we calculated adjustments using different ERC factors to the plant and accumulated depreciation general ledger balances. These adjusted year-end amounts were used to calculate the filing's simple average balances.

In previous rate cases, the year-end balances for plant and accumulated depreciation were traced directly from the general ledger for a simple average balance calculation. Then, the simple average balances were adjusted for allocations of common plant. Using this methodology, audit staff calculated the allocations for common plant and found variances with LU's filing.

Tables 5-1 and 5-2 following this Finding detail the adjustments.

**Effect on the General Ledger:** For allocations of common plant, the Utility adjusts the filings but not the Company's ledger.

**Effect on the Filing:** The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1, is a decrease of \$44,118 to the 13-month average water rate base balance and an increase of \$44,118 to the 13-month average wastewater rate base balance.

The effect on LU's filing in Docket No. 140135-WS and the Labrador Audit Report, ACN 14-268-4-1, is a decrease of \$5,665 to the simple average water rate base balance and an increase of \$4,644 to the simple average wastewater plant balance.

**Table 5-1**

Sanlando Utilities Corp. NARUC Description		Audit 13-Mo Adj		MFR Adj		Variance	
		W	WW	W	WW	W	WW
340/390	OFFICE FURN & EQPT	\$(1,079,763)	\$1,079,763	\$(1,018,076)	\$1,018,076	\$ (61,687)	\$ 61,687
348/398	OTHER PLANT	\$ (9,864)	\$ 9,864	\$ (9,863)	\$ 9,863	\$ (1)	\$ 1
108.1	ACC DEPR-OFFICE FURN/EQPT	\$ 793,987	\$ (793,987)	\$ 776,417	\$ (776,417)	\$ 17,570	\$ (17,570)
						<u>\$ (44,118)</u>	<u>\$ 44,118</u>

**Table 5-2**

Labrador Utilities, Inc. NARUC Description		Audit Balance		MFR Balance		Variance	
		W	WW	W	WW	W	WW
304/354	OFFICE STRUCT & IMPRV	\$ 19,223	\$ 19,093	\$ 28,801	\$ 9,515	\$ (9,578)	\$ 9,578
340/390	OFFICE FURN & EQPT	\$ 90,635	\$ 88,544	\$ 93,918	\$ 85,260	\$ (3,283)	\$ 3,284
343/393	TOOL SHOP & MISC EQPT	\$ 33,714	\$ 3,176	\$ 29,391	\$ 10,436	\$ 4,323	\$ (7,260)
344/394	LABORATORY EQUIPMENT	\$ 443	\$ 552	\$ 473	\$ 523	\$ (30)	\$ 29
345/395	POWER OPERATED EQUIP	\$ 0	\$ 1,070	\$ 81	\$ 989	\$ (81)	\$ 81
346/396	COMMUNICATION EQPT	\$ 2,091	\$ 1,005	\$ 2,325	\$ 770	\$ (234)	\$ 235
108.1	ACC DEPR-OFFICE STRUCTURE	\$ (7,869)	\$ (7,816)	\$(11,870)	\$ (3,816)	\$ 4,001	\$ (4,000)
108.1	ACC DEPR-OFFICE FURN/EQPT	\$(66,295)	\$(64,678)	\$(69,070)	\$(61,903)	\$ 2,775	\$ (2,775)
108.1	ACC DEPR-TOOL SHOP & MISC EQPT	\$(26,836)	\$ (2,299)	\$(23,351)	\$ (7,699)	\$ (3,485)	\$ 5,400
108.1	ACC DEPR-LABORATORY EQUIPMENT	\$ (233)	\$ (118)	\$ (201)	\$ (150)	\$ (32)	\$ 32
108.1	ACC DEPR-POWER OPERATED EQUIP	\$ -	\$ (105)	\$ (18)	\$ (88)	\$ 18	\$ (17)
108.1	ACC DEPR-COMMUNICATION EQPT	\$ (1,352)	\$ (336)	\$ (1,293)	\$ (395)	\$ (59)	\$ 59
						<u>\$ (5,665)</u>	<u>\$ 4,644</u>

## **Finding 6: Expense Allocations between Water and Wastewater**

**Audit Analysis:** In the SU and LU rate cases under review, the Company changed the methodology in which it allocated expenses between water and wastewater. In prior rate cases, the Company used test year-end ERC factors to allocate O&M, depreciation, and TOTI expenses between water and wastewater, except for specific accounts that applied directly to water or wastewater. In the two current filings, the expenses were allocated based on business units. Each business unit represents a specific system, either water or wastewater.

Audit staff calculated the O&M water and wastewater expense balances, excluding salaries and benefits (see Finding 8) based on management practice in prior rate cases.

The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1 is water expenses should be increased by \$45,660 and wastewater expenses should be decreased by \$42,875.

The effect on LU's filing in Docket No. 140135-WS and the Labrador Audit Report, ACN 14-268-4-1 is water expenses should be increased by \$14,160 and wastewater expenses should be decreased by \$14,052.

The detail for these adjustments can be found in the audit work papers.

Findings 1 through 4 discuss depreciation expense. Finding 8 discusses TOTI.

**Effect on the General Ledger:** No effect on the general ledger.

**Effect on the Filing:** The analyst should be aware that the methodology changed from past dockets and determine the appropriate allocation amounts.

## **Finding 7: Allocated Operations and Maintenance Expense**

**Audit Analysis:** In reconciling the SU MFR adjustments for the O&M expense allocations from the corporate and regional offices, audit staff noted the following.

- 1) The Company used the ERC factors from December 2013 in calculating the adjustments in the filing. Audit staff used the ERC factors from March 2014, which is representative of the new organizational structure.
- 2) The Company provided worksheets that supported the SU MFR Schedule B-3 allocation adjustments included the 2012 year-end balances with the 2013 year-end balances for expenses prior to calculating the SU allocated amount.
- 3) We removed disallowed expenses such as Account No. 5795 – Contributions, Account No. 5815 – Penalties and Fines, Account No. 5870 – Holiday Events/Picnics, and Account No.5875 – Kitchen Supplies.

Tables 7-1 following this Finding detail the adjustments.

**Effect on the General Ledger:** Since the test year is already closed in the ledger, there is no effect on the general ledger.

**Effect on the Filing:** The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1 is water expenses should be increased by \$10,107 and wastewater expenses should be increased by \$7,949.

Table 7-1

**SANLANDO UTILITIES CORP. O&M EXPENSE ADJUSTMENTS**

<u>Obj</u>	<u>NARUC</u>	<u>Account Description</u>	<u>102</u>	<u>805</u>	<u>855</u>	<u>Total</u>	<u>UA Ledger</u>	<u>Audit</u> <u>Variance</u>	<u>W</u> <u>0.5589</u>	<u>MFR Adj</u> <u>W</u>	<u>Audit</u> <u>Adj</u>	<u>WW</u> <u>0.4411</u>	<u>MFR Adj</u> <u>WW</u>	<u>Audit</u> <u>Adj</u>
6290	620	Water-Maint. Repairs	\$ -	\$ -	\$ 143	\$ 143	\$ 157	\$ (14)	\$ (14)	\$ (54)	\$ 40			
6310	620	Water-Other Maint. Exp	-	-	17	17	18	(2)	(2)	-	(2)			
6345	720	Sewer-Other Maint Exp	-	-	17	17	15	1				1	-	1
5525	620/720	Bill Stock	1,844	-	-	1,844	1,849	(4)	(2)	-	(2)	(2)	-	(2)
5530	620/720	Billing Computer Supplies	44	-	-	44	44	(0)	(0)	-	(0)	(0)	-	(0)
5535	620/720	Billing Envelopes	3,638	-	-	3,638	3,647	(9)	(5)	-	(5)	(4)	-	(4)
5540	620/720	Billing Postage	56,407	-	-	56,407	56,552	(145)	(81)	-	(81)	(64)	-	(64)
5740	620/720	Computer Supplies	310	-	12	322	323	(1)	(1)	-	(1)	(1)	-	(1)
5860	620/720	Cleaning Supplies	303	-	21	324	324	(1)	(0)	-	(0)	(0)	-	(0)
5880	620/720	Office Supply Stores	1,109	79	1,430	2,619	2,605	14	8	-	8	6	-	6
6020	631/731	Engineering Fees	-	-	-	-	-	-	-	(2)	2	-	(2)	2
6010	632/732	Audit Fees	27,708	-	-	27,708	27,768	(60)	(33)	(230)	197	(26)	(182)	156
6040	632/732	Tax Return Review	8,837	-	-	8,837	8,856	(20)	(11)	-	(11)	(9)	-	(9)
6025	633/733	Legal Fees	681	-	70	751	753	(2)	(1)	(116)	115	(1)	(92)	91
5735	636/736	Computer Maintenance	121,911	-	66	121,977	122,273	(296)	(165)	(1,474)	1,309	(131)	(1,163)	1,032
6015	636/736	Employ Finder Fees	5,048	-	-	5,048	4,507	541	302	-	302	239	-	239
6035	636/736	Payroll Services	6,952	-	-	6,952	6,970	(18)	(10)	-	(10)	(8)	-	(8)
6050	636/736	Other Outside Services	26,190	-	519	26,709	26,762	(53)	(30)	-	(30)	(24)	-	(24)
5750	636/736	Internet Supplier	13,625	-	462	14,087	14,121	(34)	(19)	-	(19)	(15)	-	(15)
6090	641/741	Rent	1,430	-	-	1,430	1,433	(4)	(2)	(10)	8	(2)	(8)	6
5715	659/759	Insurance-Other	192,037	-	-	192,037	192,497	(460)	(257)	(1,034)	777	(203)	(816)	613
5785	660/760	Advertising/Marketing	411	-	-	411	411	-	-	(3)	3	-	(2)	2
6065	666/766	Rate Case Amort Expense	-	-	-	-	-	-	-	(30)	30	-	(24)	24
6070	667/767	Misc Reg Matters Comm Exp	-	-	24	24	24	0	0	(3)	3	0	(3)	3
5505	670/770	Agency Expense	1,813	-	-	1,813	1,817	(4)	(2)	(11)	9	(2)	(9)	7
5545	675/775	Customer Service Printing	-	-	527	527	531	(4)	(2)	(7,955)	7,953	(2)	(6,277)	6,275
5790	675/775	Bank Service Charge	7,159	-	-	7,159	7,178	(19)	(10)	-	(10)	(8)	-	(8)
5795	675/775	Contributions	878	-	-	878	879	(879)	(491)	-	(491)	(388)	-	(388)
5800	675/775	Letter of Credit Fee	-	-	-	-	-	-	-	-	-	-	-	-
5805	675/775	License Fees	38	-	-	38	12	26	14	-	14	11	-	11
5810	675/775	Memberships	692	-	2,147	2,839	2,751	88	49	-	49	39	-	39
5815	675/775	Penalties/Fines	18	-	-	18	18	(18)	(10)	-	(10)	(8)	-	(8)
5825	675/775	Misc Expense General	2,169	11,025	5	13,199	9,517	3,682	2,058	-	2,058	1,624	-	1,624
5855	675/775	Answering Service	2,157	-	-	2,157	2,162	(5)	(3)	-	(3)	(2)	-	(2)
5865	675/775	Copy Machine	578	219	-	797	725	72	40	-	40	32	-	32
5870	675/775	Holiday Events/Picnics	328	-	3,915	4,243	4,293	(4,293)	(2,399)	-	(2,399)	(1,894)	-	(1,894)



**Table 7-1 (continued)**

**SANLANDO UTILITIES CORP. O&M EXPENSE ADJUSTMENTS**

<u>Obj</u>	<u>NARUC</u>	<u>Account Description</u>	<u>102</u>	<u>805</u>	<u>855</u>	<u>Total</u>	<u>UA Ledger</u>	<u>Audit</u> <u>Variance</u>	<u>W</u> <u>0.5589</u>	<u>MFR Adj</u> <u>W</u>	<u>Audit</u> <u>Adj</u>	<u>WW</u> <u>0.4411</u>	<u>MFR Adj</u> <u>WW</u>	<u>Audit</u> <u>Adj</u>
5875	675/775	Kitchen Supplies	\$ 378	\$ -	\$ 43	\$ 421	\$ 422	\$ (422)	\$ (236)	\$ -	\$ (236)	\$ (186)	\$ -	\$ (186)
5885	675/775	Printing & Blueprints	469	62	524	1,054	1,038	16	9	-	9	7	-	7
5890	675/775	Publ Subscriptions/Tapes	26	-	277	302	305	(2)	(1)	-	(1)	(1)	-	(1)
5895	675/775	Shipping Charges	2,326	3,675	3,899	9,900	8,717	1,183	661	-	661	522	-	522
5900	675/775	Other Office Expenses	1,179	4	1,498	2,681	2,694	(13)	(7)	-	(7)	(6)	-	(6)
5930	675/775	Office Electric	1,579	-	3,224	4,803	4,832	(30)	(17)	-	(17)	(13)	-	(13)
5935	675/775	Office Gas	389	-	-	389	391	(2)	(1)	-	(1)	(1)	-	(1)
5940	675/775	Office Water	75	-	-	75	75	(0)	(0)	-	(0)	(0)	-	(0)
5945	675/775	Office Telecom	88,785	-	86	88,871	89,060	(189)	(106)	-	(106)	(83)	-	(83)
5950	675/775	Office Garbage Removal	572	-	1,959	2,531	2,547	(16)	(9)	-	(9)	(7)	-	(7)
5955	675/775	Office Landscape/Mow/Plow	2,461	-	1,971	4,433	4,450	(17)	(10)	-	(10)	(8)	-	(8)
5960	675/775	Office Alarm Sys Phone Exp	281	-	786	1,067	1,075	(8)	(4)	-	(4)	(3)	-	(3)
5965	675/775	Office Maintenance	1,626	174	3,817	5,617	5,595	22	12	-	12	10	-	10
5970	675/775	Office Cleaning Service	2,345	-	5,255	7,600	7,644	(44)	(25)	-	(25)	(19)	-	(19)
5975	675/775	Office Machine/Heat & Cool	1,018	-	625	1,642	1,651	(9)	(5)	-	(5)	(4)	-	(4)
5980	675/775	Other Office Utilities	12	-	-	12	13	(0)	(0)	-	(0)	(0)	-	(0)
6185	675/775	Travel/Lodging	5,732	-	3	5,735	5,792	(56)	(31)	-	(31)	(25)	-	(25)
6190	675/775	Travel Airfare	5,586	-	308	5,894	5,736	158	88	-	88	70	-	70
6195	675/775	Travel Transportation	1,660	145	(28)	1,778	1,899	(122)	(68)	-	(68)	(54)	-	(54)
6200	675/775	Travel Meals	3,447	-	161	3,608	3,568	40	22	-	22	18	-	18
6205	675/775	Travel Entertainment	253	-	-	253	307	(54)	(30)	-	(30)	(24)	-	(24)
6207	675/775	Travel Other	353	8	4,364	4,725	4,728	(3)	(2)	-	(2)	(1)	-	(1)
6360	675/775	Communication Expense	278	-	-	278	227	51	29	-	29	22	-	22
6385	675/775	Uniforms	8	-	160	168	161	7	4	-	4	3	-	3
6390	675/775	Weather/Hurricane Costs	-	-	1,699	1,699	1,713	(14)	(8)	-	(8)	(6)	-	(6)
			<u>\$ 605,419</u>	<u>\$ 15,391</u>	<u>\$ 40,005</u>	<u>\$ 660,545</u>	<u>\$ 656,430</u>	<u>\$ (1,445)</u>	<u>\$ (815)</u>	<u>\$ (10,922)</u>	<u>\$ 10,107</u>	<u>\$ (629)</u>	<u>\$ (8,578)</u>	<u>\$ 7,949</u>

## **Finding 8: Payroll, Benefits, and Taxes**

**Audit Analysis:** The Company allocates costs monthly to the divisions. In prior rate cases, the Company provided schedules by employee. In these schedules the Company allocated the most current annualized salary and allocated the salary, benefits, and taxes using the appropriate ERC allocation factor based on the employees' duties. The schedule was then compared to the costs recorded in the ledger by division. In the SU and LU current rate cases, adjustments made to the filing only represented the variances between the allocated corporate and regional salaries, benefits, and taxes as compared to the SU's and LU's UA (Allocated) Ledger.

We requested support for each employee, their most current annualized salary and the allocated salary, benefits, and taxes using the ERC allocation factor based on the employee's duties under the new organizational structure. The Company sent schedules for SU and LU using the salaries at the end of April 2014 with the overtime earned in 2013, and the ERC factors at the end of April 2014. Each employee's aggregate salary was then increased by 3% in preparation for the 2015 expense. The Company schedule was compared to the total adjusted amounts in the filings and variances were noted.

Tables 6-1 and 6-2 following this Finding show the details.

**Effect on the General Ledger:** Since the test year is already closed in the ledger, there is no effect on the general ledger.

**Effect on the Filing:** The effect on SU's filing in this Docket and the Sanlando Audit Report, ACN 14-199-4-1 is water expenses should be decreased by \$72,041 and wastewater expenses should be increased by \$5,425.

The effect on LU's filing in Docket No. 140135-WS and the Labrador Audit Report, ACN 14-268-4-1 is water expenses should be decreased by \$8,543 and wastewater expenses should be decreased by \$7,796.

**Table 8-1**

<b>Salaries</b>	<b>Sandlando</b>	<b>Water</b>	<b>Wastewater</b>
NARUC 601/701 (JDE account 6110)	\$ 105,016		
NARUC 601/701 (JDE account 6115)	\$ 5,650		
NARUC 603/703 (JDE account 6120)	\$ 133,432		
NARUC 601/701 (JDE account 6125)	\$ 15,794		
NARUC 601/701 (JDE account 6130)	\$ 28,114		
NARUC 601/701 (JDE account 6135)	\$ 47,604		
NARUC 601/701 (JDE account 6140)	\$ 28,970		
NARUC 601/701 (JDE account 6145)	\$ 66,819		
NARUC 601/701 (JDE account 6146)	\$ 35,459		
NARUC 601/701 (JDE account 6147)	\$ 35,970		
NARUC 601/701 (JDE account 6150)	\$ 900,279		
NARUC 601/701 (JDE account 6155)	\$ 44,140		
NARUC 601/701 (JDE account 6165)	\$ (218,227)		
<b>Per Books and Schedules B-5/B-6</b>	<b>\$ 1,229,020</b>	<b>\$ 721,510</b>	<b>\$ 507,509</b>
<b>Schedule B-3, pg 1 of 2, salary adjustment</b>		<b>\$ (4,587)</b>	<b>\$ (3,620)</b>
		<b>\$ 716,923</b>	<b>\$ 503,889</b>
<b>Per Audited Salary Detail for Annualized 2015</b>		<b>\$ 666,991</b>	<b>\$ 526,408</b>
<b>Total Audit Payroll Adjustment</b>		<b>\$ (49,932)</b>	<b>\$ 22,519</b>

<b>Payroll Taxes</b>		<b>Water</b>	<b>Wastewater</b>
<b>NARUC 408.12 (JDE account 7510-7520) Schedule B-15</b>		<b>\$ 75,203</b>	<b>\$ 59,293</b>
<b>Per Audited Salary Detail for Annualized 2015</b>		<b>\$ 67,505</b>	<b>\$ 53,276</b>
<b>Total Audit Payroll Tax Adjustment</b>		<b>\$ (7,698)</b>	<b>\$ (6,017)</b>

<b>Benefits</b>		<b>Water</b>	<b>Wastewater</b>
<b>NARUC 604/704 (JDE account 5625-5690)</b>		<b>\$ 207,537</b>	<b>\$ 163,497</b>
<b>Per Audited Salary Detail for Annualized 2015</b>		<b>\$ 193,126</b>	<b>\$ 152,420</b>
<b>Total Audit Benefits Adjustment</b>		<b>\$ (14,411)</b>	<b>\$ (11,077)</b>

<b>Total Audit Adjustment to Payroll, Benefit, and Taxes</b>		<b>\$ (72,041)</b>	<b>\$ 5,425</b>
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**Table 8-2**

<b>Salaries</b>	<b>Labrador</b>	<b>Water</b>	<b>Wastewater</b>
NARUC 601/701 (JDE account 6110)	\$ 7,384		
NARUC 601/701 (JDE account 6115)	\$ 399		
NARUC 603/703 (JDE account 6120)	\$ 9,299		
NARUC 601/701 (JDE account 6125)	\$ 1,111		
NARUC 601/701 (JDE account 6130)	\$ 1,977		
NARUC 601/701 (JDE account 6135)	\$ 3,350		
NARUC 601/701 (JDE account 6140)	\$ 2,013		
NARUC 601/701 (JDE account 6145)	\$ 4,703		
NARUC 601/701 (JDE account 6146)	\$ 2,494		
NARUC 601/701 (JDE account 6147)	\$ 546		
NARUC 601/701 (JDE account 6150)	\$ 84,992		
NARUC 601/701 (JDE account 6155)	\$ 5,414		
NARUC 601/701 (JDE account 6165)	\$ (12,817)		
<b>Per Books and Schedules B-5/B-6</b>	<b>\$ 110,865</b>	<b>\$ 55,872</b>	<b>\$ 54,992</b>
<b>Schedule B-3, pg 1 of 3, salary adjustment</b>		<b>\$ 913</b>	<b>\$ 897</b>
		<b>\$ 56,785</b>	<b>\$ 55,889</b>
<b>Per Audited Salary Detail for Annualized 2015</b>		<b>\$ 48,639</b>	<b>\$ 48,309</b>
<b>Total Audit Payroll Adjustment</b>		<b>\$ (8,146)</b>	<b>\$ (7,580)</b>

<b>Payroll Taxes</b>		<b>Water</b>	<b>Wastewater</b>
<b>NARUC 408.12 (JDE account 7510-7520) Schedule B-15</b>		<b>\$ 4,742</b>	<b>\$ 4,664</b>
<b>Per Audited Salary Detail for Annualized 2015</b>		<b>\$ 4,564</b>	<b>\$ 4,533</b>
<b>Total Audit Payroll Tax Adjustment</b>		<b>\$ (178)</b>	<b>\$ (131)</b>

<b>Benefits</b>		<b>Water</b>	<b>Wastewater</b>
<b>NARUC 604/704 (JDE account 5625-5690)</b>		<b>\$ 13,310</b>	<b>\$ 13,088</b>
<b>Per Audited Salary Detail for Annualized 2015</b>		<b>\$ 13,091</b>	<b>\$ 13,003</b>
<b>Total Audit Benefits Adjustment</b>		<b>\$ (219)</b>	<b>\$ (85)</b>

<b>Total Audit Adjustment to Payroll, Benefit, and Taxes</b>		<b>\$ (8,543)</b>	<b>\$ (7,796)</b>
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