

950495-WS **Draft**

AUDIT DISCLOSURE NO. 16

**SUBJECT: INTERIM 1995 AND PROJECTED 1996 SALARY & WAGE EXPENSE
Executive Division**

FACTS: The Company's Interim 1995 and Projected 1996 budget for A&G accounts includes an estimated salary expenses of \$175,000 and \$185,272 respectively for the new company president to Acc# 601. The Company used an estimated amount because it had not completed the hiring process for the new president at the time of this filing

In July 1995 the hiring process was completed and the new company presidents salary was established at \$195,000.

The new presidents position includes responsibilities to two non-regulated operations, Heater Utilities and Topeka Group, which are subsidiaries of the parent corporation Minnesota Power.

The Company has established the following allocations of the presidents salary based on historical direct labor hours of past company presidents.

Southern States Utilities, President	70%
Heater Utilities, Chief Executive Officer	15%
Minnesota Power, Executive Vice President and member Board of Directors Topeka Group	15%

The Company will record 100% of the salary expense for the presidents position and then be reimbursed by the non-regulated operations for their respective labor cost based on the percentages listed above.

The new presidents base annual compensation for Interim 1995 and Projected 1996 is \$136,500 and \$144,349 respectively after considering the adjustments discussed above.

The Company allocates Employee Pension & Benefits Expense to Acc# 604 as a percentage of total salary expense using the following company determined percentages:

1995 at 24.83% and 1996 at 24.99%

The Company allocates Workman Compensation Expense to Acc# 658 as a percentage of total salary expense using the following company determined percentages:

1995 at 1.79% and 1996 at 1.71%

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Audit Disclosure Number 16, continued

OPINION/RECOMMENDATION: The Company's budgeted amounts to A&G Acc# 601 for Interim 1995 and Projected 1996 O&M Salary expenses is overstated by the following amounts:

1995 Per Company Budget estimate	\$175,000
1995 Per Company Budget actual	136,500
Total audit reduction	\$ 39,500
1996 Per Company Budget estimate	\$185,272
1996 Per Company Budget actual	144,349
Total audit reduction	\$ 40,923

The Company's budgeted amounts to A&G Acc# 604 for Interim 1995 and Projected 1996 O&M Employee Pension & Benefits expense is overstated by the following amounts:

Audit Adjustment to 1995 salary times 1995 Pen/Benefit Percentage	\$ 39,500 24.83%
Total audit reduction	\$ 9,808
Audit Adjustment to 1996 salary times 1996 Pen/Benefit Percentage	\$ 40,923 24.99%
Total audit reduction	\$ 10,227

The Company's budgeted amounts to A&G Acc# 658 for Interim 1995 and Projected 1996 O&M Insurance - Workman Compensation is overstated by the following amounts:

Audit Adjustment to 1995 salary times 1995 Work/Comp Percentage	\$ 39,500 1.79%
Total audit reduction	\$ 707
Audit Adjustment to 1996 salary times 1996 Work/Comp Percentage	\$ 40,923 1.71%
Total audit reduction	\$ 700

The Commission should require the Company to reduce Acc#'s 601, 604, and 658 for Salary expense, Employee Pension & Benefits expense, and Workman Compensation expense respectively by the amounts indicated above for Interim 1995 and Projected 1996 O&M expenses.

COMPANY COMMENTS: The Company may respond at a later date.

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