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 MAR 12-29-00

AUDIT EXCEPTION 1**SUBJECT: REVENUES**

STATEMENT OF FACTS: Revenues for the months of January and February 1999 reported on the A-2 schedule do not agree with the company documentation.

The regulatory assessment fee is included in the rate per therm billed to the customers. The company included .5% in the rate per therm when billing the customer as stated in Rule 25-7.0101(a) Florida Administrative Code. When calculating the revenue to include on the A-2 schedule for the month of January and February, the company reduced the actual revenue billed to the customers for .375% instead of the .5% actually billed to the customer.

In February another error occurred. One of the revenue cycles that was accrued in the billing register was not included in the PGA filing. The company explained that when preparing the A-2 schedule, a billing cycle was left off.

The differences follow:

	Schedule A-2	Based on Actual Company Documentation	Difference
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January 1999	2,014,309	2,011,780	(2,529)
February 1999	2,191,454	2,307,597	113,052

RECOMMENDATION: The revenue for January and February 1999 should be corrected on the A-2 schedules by decreasing January revenue in the amount of \$2,529 and increasing February revenue in the amount of \$113,052. A revised A-2 schedule is included in the exhibit section of this report. This revised schedule also includes the other audit exceptions.

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AUDIT EXCEPTION 2

SUBJECT: COST OF GAS

STATEMENT OF FACTS: When comparing the cost of gas on the A-2 schedules submitted to the Commission for the year end December 31, 1999 with the general ledger, it was determined that there were discrepancies for eight of the 12 months. Discrepancies were also found when comparing the A-2 schedules with the supporting documents filed with the Commission. Because of all the differences, the A-2 schedules were disregarded and the amounts in the general ledger were used to audit. When the amounts in the general ledger were verified, an adjustment was made to the A-2 cost of gas to agree with the general ledger.

Staff determined the differences that are detailed on the schedule following this exception.

1. January, April, July, October and November 1999

For the months of January, April, July, October and November, the company could not explain why the general ledger was different than the amounts submitted on the A-2 schedules, and in some cases different than the amounts on the supporting documents filed with the Commission.

2. February 1999

The general ledger reflects a lower cost of gas than the A-2 schedule for the month of February 1999. In the A-2 schedule, the company included two items that were not booked to the general ledger. The first item was for the difference between the amount accrued on the A-2 and the amount that the company believed should be accrued from the Energy Management System.

<u>Amount Accrued in the General Ledger</u>	<u>Amount included in the A-2</u>	<u>Difference</u>
87,059.16	89,720.25	2,661.09
<u>354,902.77</u>	<u>496,509.47</u>	<u>141,606.70</u>
441,961.93	586,229.72	144,267.79

The amount of \$441,961.93 was reversed in the general ledger the next month. The same amount was reversed on the A-2 even though \$586,229.72 was accrued on the A-2. By the company adding \$144,267.93 to the cost of gas on the A-2 in February, it will be reflected in February and March. Therefore, the cost of gas is overstated by \$144,267.93.

Also added to the A-2 cost of gas was \$187,758.76 for gas taken from storage in February 1999. This amount was never booked to the general ledger in the year 1999 or 2000 to

date. As this transaction actually occurred, it should be included in the cost of gas on the A-2.

The total difference as seen on the attached schedule is \$333,362.37. The above two items account for \$332,026.55. The A-2 is still higher than the general ledger in the amount of \$1,335.82. The reason for this could not be determined. The total of the \$144,267.93 and \$1,335.82 is \$145,603.75.

The filing is prepared from the Energy Management System (EMS) data rather than from the general ledger. The EMS is continually updated for changes, while the general ledger is not updated until the next month. Therefore, if the filing is prepared after the books are closed, then the filing and the general ledger will be different.

3. March 1999

The difference in the month of March was explained and resolved. The company representative explained that there was a formula error when completing the documentation to include the cost in A-2. A review of the documentation confirmed that there was a formula error. The general ledger is correct. The cost of gas on the A-2 schedule should be increased by \$160,960.97

4. December 1999

When the company reduced the cost of gas for the off system sales, it made a journal entry in December as follows:

Dr. Off System Sales 800400	4,021,836.25	
Cr. Cost of Gas 800710		4,021,836.25

Entry to removed the cost of gas for off system sales from the cost account..

According to the company the journal entry should have been:

Dr. Off System Sales 800400	4,021,836.25	
Cr. Cost of Gas 800710		3,571,585.25
Cr. Inventory		450,251.00

This has the effect of increasing the cost of gas. Therefore, the increase of 450,251 on the A-2 schedule.

The A-2 schedule shows a cost of gas that is \$450,251 higher than the general ledger. The A-2 schedule was changed in December. There was not a journal entry to the general ledger until January, 2000 . The journal entry in January was:

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Dr. Cost of Gas 800710
Cr. Inventory

366,710.80

366,710.80

The amount added to the A-2 in December 1999 is \$83,540.20 higher than the actual booked in January 2000. Also, there is a remaining difference between the general ledger and the A-2 in the amount of \$19.74. The A-2 is higher by this amount. This could not be explained by the company. The total difference is 83,559.94

RECOMMENDATIONS:

1. January, April, July, October and November

Where the company could not explain the differences, the A-2 schedules were adjusted to agree with the general ledger amounts which were audited. The differences as noted on the attached schedule are \$16,494.58, \$22,061.20, (\$2,704.17), \$5,132.88, and (\$15,322.15) for January, April, July, October and November respectively. The net impact is an increase to the cost of gas in the amount of \$25,662.34. See the schedule following this exception.

2. February 1999

The cost of gas on the A-2 should be reduced in the amount of \$144,267.93 for items that are already included in March 1999 costs. The inexplicable difference of \$1,335.82 should also be reduced from the A-2 costs in order to agree with the general ledger.

The company should make every effort to either prepare the filings from the general ledger or to keep a reconciliation of the filings prepared from the Energy Management System to the general ledger for each month. There needs to be a clear audit trail. Also, any changes to the A-2 that do not agree with the general ledger should be detailed and a clear reconciliation with the general ledger kept.

3. March 1999

The cost of gas on the A-2 should be increased in the amount of \$160,960.61 because of formula errors. The company should make every effort to review the formulas used in its filings to make sure there are no future errors.

4. December 1999

The cost of gas on the A-2 schedule should be reduced in the amount of \$83,559.94. The company should also make sure that the \$366,710.80 booked in January 2000 (366,710.80) for December 99 is not included in its January 2000 filing. The filings should not be changed without keeping a reconciliation or without booking an entry in the month the filing is changed. A clear audit trail needs to be maintained. Changing the filing and not the general ledger until the next month without a reconciliation could lead to reporting the same invoices in both months.

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5. The schedule accompanying this exception details the adjustments to the cost of gas by month. A revised A-2 schedule is prepared as an exhibit to this report and includes all other audit exceptions.

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COMPANY: CITY GAS CO.
 TITLE: RECONCILIATION OF A-2 SCHEDULES WITH THE GENERAL LEDGER
 PERIOD: YEAR END 12/31/99
 DATE: September 5, 2000

	Column (1)	Column (2)	Column (3)	Column (4)	Column (5)	Column (6)	Column (7)	Column (8)	Column (9)
			(1) - (2)		(4)-(3)	Note B	(5) - (6)		(7)-(8)
	Off System Sales	Note A		Note C	Cost of Gas Less	(Plus)/ Minus	Cost of Gas		
	General Ledger	Futures		Total Cost of	Off System =	(Gain) or loss	per G/L		
	Balance EOM	General Ledger		Gas Per G/L	Cost of Gas	on Margin	to include	Cost of Gas	Difference
	Account 800400	Balance EOM	Sub Total	800 accounts	Before Margin	Sharing	on Schedule	on Schedule	between
1999		Account 830000			Sharing	Account 191022	A-2	A-2	G/L and A-2
					per G/L	per G/L			G/L is Higher
									(Lower)
Jan	450,876.59	(33,867.00)	417,009.59	2,841,337.31	2,424,327.72	(25,800.14)	2,398,527.58	2,382,033.00	16,494.58
Feb	732,848.33	(22,522.00)	710,326.33	2,478,124.79	1,767,798.46	(25,323.83)	1,742,474.63	2,075,837.00	(333,362.37)
March	1,032,383.29	(5,254.00)	1,027,129.29	3,356,826.71	2,329,697.42	(13,002.45)	2,316,694.97	2,155,734.00	160,960.97
April	1,470,758.11	(6,106.00)	1,464,652.11	3,288,861.21	1,824,209.10	(33,259.90)	1,790,949.20	1,768,888.00	22,061.20
May	2,163,039.48	0.00	2,163,039.48	3,718,791.43	1,555,751.95	(64,585.41)	1,491,166.54	1,491,167.00	(0.46)
June	1,458,552.15	0.00	1,458,552.15	3,009,375.61	1,550,823.46	(47,251.50)	1,503,571.96	1,503,573.00	(1.04)
July	1,887,440.86	(400.00)	1,887,040.86	3,711,292.41	1,824,251.55	(83,370.72)	1,740,880.83	1,743,585.00	(2,704.17)
Aug	2,355,929.98	0.00	2,355,929.98	4,132,424.60	1,776,494.62	(131,616.04)	1,644,878.58	1,644,878.00	0.58
Sept	2,271,002.69	0.00	2,271,002.69	4,098,351.16	1,827,348.47	(124,490.87)	1,702,857.60	1,702,857.00	0.60
Oct	2,474,748.15	0.00	2,474,748.15	4,469,631.91	1,994,883.76	(69,890.88)	1,924,992.88	1,919,860.00	5,132.88
Nov	3,773,362.88	0.00	3,773,362.88	6,149,047.13	2,375,684.25	(104,466.40)	2,271,217.85	2,286,540.00	(15,322.15)
Dec	4,080,187.08	0.00	4,080,187.08	6,363,086.58	2,282,899.50	(47,399.24)	2,235,500.26	2,685,771.00	(450,270.74)
	24,151,129.59	(68,149.00)	24,082,980.59	47,617,150.85	23,534,170.26	(770,457.38)	22,763,712.88	23,360,723.00	(597,010.12)

Note A

Gain on Futures is a credit to cost of gas (reduces cost of gas to the customer)
 Loss on futures is a debit to cost of gas (increases cost of gas to customer)
 Futures are accounted for in the following manner:
 Total gain on futures is a credit to 830000 and a debit to an intercompany broker account.
 Then it is divided in half and if it is a gain 1/2 is debited to 800400 and the other half is to 191022.
 If a loss occurs the reverse journal entries are used.

Note B

Gain on Margin share is a credit to cost of gas (reduces cost of gas to the customer)
 Loss in margin share is a debit to cost of gas (increases cost of gas to customer)

Note C

Comprised of accounts 800400, 800640, 80700, 800710, 800720, and 830000

**Differences
Explained on
Next Page**

COMPANY: CITY GAS CO.
 TITLE: RECONCILIATION OF A-2
 SCHEDULES WITH THE G/L
 PERIOD: YEAR END 12/3199
 DATE: September 5, 2000

1999	Column (9) (7)-(8) Difference between G/L and A-2 G/L is Higher (Lower)	Column (10) Explanation of Differences	Column (11) Differences that are documented and reasonable on A-2	Column (12) Remaining Differences to Dr (Cr) to Gas cost on A-2 to agree with G/L
Jan	16,494.58	Note E	0.00	16,494.58
Feb	(333,362.37)	Note G	(187,758.76)	(145,603.61)
March	160,960.97	Note F	0.00	160,960.97
April	22,061.20	Note E	0.00	22,061.20
May	(0.46)	Note E	0.00	(0.46)
June	(1.04)	Note E	0.00	(1.04)
July	(2,704.17)	Note E	0.00	(2,704.17)
Aug	0.58	Note E	0.00	0.58
Sept	0.60	Note E	0.00	0.60
Oct	5,132.88	Note E	0.00	5,132.88
Nov	(15,322.15)	Note E	0.00	(15,322.15)
Dec	(450,270.74)	Note D	(366,710.80)	(83,559.94)
	(597,010.12)		(554,469.56)	(42,540.56)

Note D Reduced cost of gas for a portion of off system sales.

Note E Company could not explain difference, possibly formula errors on the A-2 and the back up documentation submitted with the A-2. Adjust cost of gas to agree with general ledger.

Note F Company had formula error on A-2.

Note G Adjust cost of gas for gas taken out of storage.

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