



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

**DATE:** June 30, 2008

**TO:** Patricia B. Daniel, Public Utilities Supervisor, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

**RE:** Docket No: 080064-WU; Company Name: East Marion Sanitary Systems, Inc.;  
Audit Purpose: Collections for Service Availability and other fees;  
Company Code: SU535; Audit Control No: 07-290-1-1:

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk. There are no confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Mr. Herbert Hein  
East Marion Sanitary Systems, Inc.  
G-4225 Miller Road, #190  
Flint, Michigan 48507-1227

TO: \_\_\_\_\_  
 FROM: \_\_\_\_\_  
 SUBJECT: \_\_\_\_\_  
 DATE: \_\_\_\_\_  
 BY: \_\_\_\_\_  
 APPROVED: \_\_\_\_\_  
 M.M.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION**  
**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE**  
**BUREAU OF AUDITING**

*Tallahassee District Office*

**EAST MARION SANITARY SYSTEMS, INC.**  
**AUDIT COLLECTIONS OF SERVICE AVAILABILITY FEES**  
**AND OTHER FEES**

**JANUARY 1, 2005 THROUGH OCTOBER 15, 2007**

**DOCKET NO. 080064-WU**  
**AUDIT CONTROL NO. 07-290-1-1**

A handwritten signature in cursive script, reading "Denise N. Vandiver".

*Denise N. Vandiver, Audit Manager*

A handwritten signature in cursive script, reading "Lynn M. Deamer".

*Lynn M. Deamer, District Supervisor*

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

**JUNE 27, 2008**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated October 16, 2007. We have applied these procedures to provide information to Commission staff in Docket No. 080064-WU.

This audit was 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.

## OBJECTIVES AND PROCEDURES

### *Objective:*

Schedule, by month, amounts charged to customers:

- ◆ Service availability,
- ◆ Customer deposits,
- ◆ Miscellaneous service charges (MSC), and
- ◆ Other charges.

Customer Complaints 727133W and 753207W indicate a \$597 charge for an irrigation meter. It appears that the utility is charging service availability charges for irrigation meters. Determine whether the utility over charged for any additional irrigation meters.

*Procedures:* Staff compiled the Billing Registers and summarized the meter readings, monthly consumption, and monthly bills. Staff further recalculated the monthly bills based on the monthly consumption. Staff verified that the company reduced its rates after four years to reflect the removal of the revenues associated with the amortization of rate case expense, pursuant to Commission Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS. Staff also compiled the charges in the Billing Registers included in the two columns marked Turn-On and Adjustments. We compared these to the charges included in the tariff. Audit Finding No. 1 addresses the errors we found in the application of the rates and charges. Audit Finding No. 2 addresses the utility's failure to update its tariff.

*Objective:* Customer Complaint 727133W indicates that customer application for irrigation meter requires a customer to provide a driver's license and social security number. Application on file in tariff does not require these documents. Verify what documents were used for all new customers (water, wastewater, and irrigation) in audit period. Include copy of each application that is not consistent with the tariff, during this period.

Verify location of accounting records. If location of records is out of state, discuss Rule 25-30.110(1)(b) and (c), Florida Administrative Code with the owner.

*Procedures:* We reviewed the utility's general ledger and tariff for compliance with Commission Rules. Audit Finding No. 2 further addresses this issue.

## AUDIT FINDING NO. 1

### SUBJECT: OVER CHARGES

**AUDIT ANALYSIS:** Staff compiled the Billing Registers and summarized the meter readings, monthly consumption, and monthly bills. Staff further recalculated the monthly bills based on the monthly consumption. Only a few calculations were different than the bills reflected on the billing register. Most of these were initial or terminating bills. Audit staff did not pursue these few differences.

Staff also compiled the charges included in the Billing Registers in the two columns marked Turn-On and Adjustments. We requested further information from the company on those charges that did not obviously match the tariff rates. Mr. Hein called and went through the list and answered questions on many of the items. Based on his response, staff determined that he charged several fees that are not in his tariff, as detailed below.

First, the utility charged customers two connection fees, for water and wastewater, when the tariff states that if "both water and wastewater services are provided, only a single charge is appropriate." For the period January 1, 2005 through October 31, 2007, staff found 51 instances of this overcharge, for a total amount of \$765.

Second, the utility charged a \$25 bounced check charge that is not included in the tariff. For the period January 1, 2005 through October 31, 2007, staff found 9 instances of this overcharge, for a total amount of \$225.

Third, the utility charged \$894 for an irrigation meter for account #187. The tariff only allows a \$70 meter charge, plus a \$15 connection fee. Therefore, the utility overcharged \$809.

Staff also requested information regarding several charges \$10, \$20, \$25, and \$50. The utility owner did not know what these were for. These totaled \$525. There were several other items that staff requested information on and the amounts provided by the utility did not add up to the total on the billing register. These amounts were small and netted to zero for the entire period reviewed.

Staff also asked about numerous dollar amounts, positive and negative, that did not add up to the usage charges or the service availability fees. The utility owner addressed several of these specifically, and the remainder in general. These included:

- ◆ Bills to developers where the meter was not read on a monthly basis,
- ◆ Corrections for misreads,
- ◆ Returned checks charged back to accounts,
- ◆ Other adjustments.

The chart below summarizes the charges that the auditors determined were incorrect or were not fully supported by the utility.

Total Connection Fees	\$765
Bounced check fee	\$225
Irrigation meter	\$809
Doesn't add up but nets to zero	\$0
Unknown	\$525
Total	<u><u>\$2,324</u></u>

**EFFECT ON THE GENERAL LEDGER:** The utility should refund the amounts overcharged to the customers.

## AUDIT FINDING NO. 2

### SUBJECT: RECORDS

#### AUDIT ANALYSIS:

As part of our review in this audit, we reviewed the utility's accounting system and billing records.

#### Accounting

Rule 25-30.115, Florida Administrative Code, requires water and wastewater utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA) adopted by the National Association of Regulatory Utility Commissioners (NARUC). The USOA requires:

The books of accounts of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

The USOA further prescribes the specific account numbers and descriptions that shall be used.

East Marion provided a general ledger for the years requested. These general ledgers did not use the prescribed account system. However, the accounts were labeled clearly and were easily compared to the USOA. However, our review also showed that the utility does not appear to keep its books on a monthly basis. Our primary basis for this is the fact that the depreciation is only booked at the end of the year.

Rule 25-30.110 (1) (b), Florida Administrative Code, states that, "unless otherwise authorized by the Commission, each utility shall maintain its records at the office or offices of the utility within this state and shall keep those records open for inspection during business hours by Commission staff." Our review indicates that although the company records are maintained within the state, they were not readily available for our review.

#### Tariffs

Rule 25-30.135 (2), Florida Administrative Code, states that "no utility may modify or revise its rules or regulations or its schedules of rates and charges until the utility files and receives approval from the Commission for any such modification or revision." Our review of the utility's billing registers found several charges that did not match the utility's tariff:

- ◆ The utility charged customers two connection fees, for water and wastewater,
- ◆ The utility charged a \$25 bounced check charge,
- ◆ The utility charged \$894 for an irrigation meter for account #187.



The current tariff on file is from the 2002 staff assisted rate case (Commission Order No. PSC-02-1168-PAA-WS, in Docket No. 010869-WS.) This order required the company to reduce its rates after four years to reflect the removal of the revenues associated with the amortization of rate case expense. Our recalculation of the customer bills found that the company reduced its rates in October 2006. However, the company did not file revised tariff pages to reflect this change.

Customer Complaint 727133W indicates that the customer application for an irrigation meter requires the customer provide a driver's license and social security number. The application on file in the tariff does not require these documents. The utility owner has stated that he will revise his application to be in compliance with the tariff and we have requested that the utility owner provide a copy of his current application to the analyst to prove his compliance.

**CONCLUSION:**

The utility is in general compliance with Commission Rules but should make some improvements as follows:

- ◆ Close its accounting records on a monthly basis,
- ◆ Establish a system so accounting records are more readily available,
- ◆ File and comply with current tariff.