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**SECOND REVISED EXHIBIT B**

DECLASSIFIED BY: 60322 UCBAW

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Doc	No.		Issue Date
1	21-01	PS - Daytona Meter Shop Local Disbursements Spec	01/24/2001
2	21-02	EMT - Risk Management Review Follow-Up II	01/30/2001
3	21-03	EMT - Trading Procedures Follow-up	01/30/2001
4	21-04	Software Licensing Process - Follow-Up - Corp Com	02/06/2001
5	21-05	Software Licensing Process - Follow-Up - CS	02/06/2001
6	21-06	Software Licensing Process - Follow-Up - EMT	02/06/2001
7	21-08	Software Licensing Process - Follow-Up - FIN	02/06/2001
8	21-11	Software Licensing Process - Follow-Up - GA	02/06/2001
9	21-12	Software Licensing Process - Follow-Up - HR	02/06/2001
10	21-13	IM - Software Licensing Process - Follow-Up	02/06/2001
11	21-14	Software Licensing Process - Follow-Up - IA	02/06/2001
12	21-15	Software Licensing Process - Follow-Up - NUC	02/06/2001
13	21-16	Software Licensing Process - Follow-Up - PGD	02/06/2001
14	21-17	Software Licensing Process - Follow-Up - PS	02/06/2001
15	21-18	Software Licensing Process - Follow-Up - Reg Af	02/06/2001
16	21-19	Software Licensing Process - Follow-Up -RA&P	02/06/2001
17	21-20	Software Licensing Process - Follow-Up - GC	02/06/2001
18	21-21	EMT - Fuel Oil Procurement Audit	02/16/2000
19	21-22	Nuclear Disaster Recovery Plan	02/22/2001
20	21-23	PSL Inventory Review	02/26/2001
21	21-24	FIN - Amex Credit Card Notification Review	02/23/2001
22	21-25	Review of Year-End Accruals	02/26/2001
23	21-26	CS - Review of Prepay Meters Beta Test Program	03/08/2001
24	21-27	CS - Collection - 45th Street Care Center Review	03/22/2001
25	21-28	CS - Residential - 45th Street Service Center Review	03/22/2001
26	21-29	OASIS Standard of Conduct Review Follow-up	03/30/2001
27	21-30	PG - Coal Procurement Audit	03/27/2001
28	21-31	EMT/FPLEPMI Credit Procedures Follow-Up	04/05/2001
29	21-32	NUC - Turkey Point Nuclear - Inventory Follow-Up At	04/12/2001
30	21-33	NUC - Nuclear Contract Administration - Numanco	04/17/2001
31	21-34	EMT/PMI Special Review by IA, HR and RM	03/27/2001
32	21-35	IM - DB2 Security	04/20/2001
33	21-37	PS - Walton Service Center	05/09/2001
34	21-38	eProcurement Project Review	05/07/2001
35	21-39	EMT - Mark to Market Review	05/24/2001
36	21-40	PS - Power Systems Tech 21 Project 1Q2001	06/01/2001
37	21-41	HR - Vehicle Auction Special	06/01/2001
38	21-42	PS - West Palm Beach Service Center	05/23/2001
39	21-43	Workers' Compensation Audit	06/13/2001
40	21-44	SAP - Local Disbursements	06/11/2001
41	21-45	HR - Trammel Crow - Limited Contract Administration	06/20/2001
42	21-46	CS - Residential - ECCR Contractor Incentive Paymer	06/15/2001
43	21-47	CS - Analysis of 2000 ECCR Contractor Incentive Pa	06/15/2001
44	21-48	HR - Vehicle Auction Special Addendum	06/29/2001
45	21-49	ISC - Corporate Recycling Services Process Review	06/29/2001
46	21-50	ISC - IR Inventory Tracking Benchmarking Study	06/29/2001
47	21-52	NUC - PTN License Renewal Per Diem - Special Revi	06/29/2001
48	21-53	CS - Prepay Meters Part 2	06/25/2001
49	21-54	IM - Corporate Firewall	07/12/2001
50	21-55	PGD - FOS Review	07/23/2001
51	21-56	FIN - New SAP On-line Approval Requirement (when	07/27/2001

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52	21-57	PS - Double Invoicing to FPL by Quantum Resources	07/30/2001
53	21-58	IM/CS - CTI Server	08/09/2001
54	21-59	HR - CRE Facilities Construction Special	08/17/2001
55	21-60	CS - Analysis of RES-MIS Inspection Query	08/15/2001
56	21-61	FIN - FPL and FPLE Duplicate Payments Review	08/28/2001
57	21-62	FIN - Benford's Law Transactions Review	09/06/2001
58	21-63	CS - Commercial/Industrial - ECCR Contractor Incent	09/11/2001 <i>SHP.6</i>
59	21-64	FIN - Direct Release Security Review	09/18/2001
60	21-65	FIN - Review of Bank Reconciliation	09/06/2001
61	21-67	HR - PMK Inventory Audit	09/25/2001
62	21-69	HR - TCC Reimbursable Overheads, Allocations and	09/26/2001
63	21-70	PGD - Sanford Repowering Contract Administration	09/24/2001
64	21-71	CS - Review of CS OSHA Recordables	09/27/2001
65	21-74	ISC/IM - ePro Server Audit	09/27/2001
66	21-75	PS - Power Systems Information Warehouse Server I	10/05/2001
67	21-76	ISC - Business Warehouse Security	10/08/2001
68	21-77	ISC - Nuclear Inventory Optimization Project	10/10/2001
69	21-79	IM - e-Pro Project Status EOM September 2001	10/19/2001
70	21-80	ISC - Power Systems Inventory Conversion to SAP	10/25/2001
71	21-81	CS - Florida Gas Audit	11/06/2001
72	21-82	PS - Power Systems Information Warehouse	11/07/2001
73	21-83	FIN - Review of Expense Advances	11/09/2001
74	21-84	PS - Power Systems Tech 21 - Fleet	11/09/2001
75	21-85	PGD - Review of OSHA Recordables	11/15/2001
76	21-86	IM - Compucom Contract Administration Review	11/20/2001
77	21-88	Rate Case Server Security Review	11/28/2001
78	21-89	PS - Review of Local Disbursements Staff Locations	11/28/2001
79	21-90	PS - Review of Local Disbursements Staff Locations	11/28/2001
80	21-91	PS - Review of Local Disbursement at Staff Location:	11/28/2001
81	21-92	PS - Review of Local Disbursements Staff Locations	11/28/2001
82	21-93	PS - Clarke Service Center	11/28/2001
83	21-94	PS - Company Car Follow-Up	11/28/2001
84	21-95	NDS Security Follow-up - CS	12/11/2001
85	21-96	NDS Security Follow-up -EMT	12/11/2001
86	21-97	NDS Security Follow-up - IM	12/11/2001
87	21-98	NDS Security Follow-up - PGD	12/11/2001
88	21-99	NDS Security Follow-up - PS	12/11/2001
89	21100	NDS Security Assessment Follo-w-Up - IM General	12/11/2001
90	21101	PS - Tech 21 - WMS Control Assessment of Critical li	12/11/2001
91	21102	PS - OSHA Recordables Follow-Up	12/11/2001
92	21103	IA - Basic Fiduciary Responsibilities	11/26/2001
93	21105	PS - Review of Local Disbursements Staff Locations	12/12/2001
94	21S03	HR - Bid Evaluation Threshold Review	01/30/2001
95	21S04	HR - Merit System Access Testing	02/23/2001
96	21S05	HR - ISC DME Procedures Review	03/15/2001
97	21S06	FPL - Review of 2001 FPSC Revenue Rebate	05/25/2001
98	21S08	FIN - Direct Release Implementation Review	06/26/2001
99	21S10	EMT - Self-Audit of Confirmations	08/31/2001

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Doc	No.		Issue Date
1	22-01	ISC - Business Warehouse Review	12/20/2001
2	22-02	PS UTILX Vendor Management Review	12/21/2001
3	22-04	HR - Fidelity Investments Contract Administration	01/08/2002
4	22-05	PS - Asset Management Vendor Selection	01/17/2002
5	22-06	PS - Power Systems Tech 21 Project - Status EOM August	01/17/2002

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1	22-01	ISC - Business Warehouse Review	12/20/2001
2	22-02	PS UTILX Vendor Management Review	12/21/2001
3	22-04	HR - Fidelity Investments Contract Administration	01/08/2002
4	22-05	PS - Asset Management Vendor Selection	01/17/2002
5	22-06	PS - Power Systems Tech 21 Project - Status EOM Ai	01/17/2002
6	22-07	EMT/PMI Fiduciary Responsibilities	01/30/2002
7	22-09	CS - Special - US Cold Storage	02/13/2002
8	22-10	FIN - Officers' Expense	02/20/2002
9	22-11	CS - Collections Special	02/21/2002
10	22-14	GC - Environmental Accruals	02/28/2002
11	22-15	EMT/PMI - Credit Procedures Second Follow-Up Aud	03/06/2002
12	22-17	CS - Review of ASSIST Controls	03/29/2002
13	22-18	ISC - Cost Reduction Process Audit	04/04/2002
14	22-19	HR - SAP Project Management Review	04/18/2002
15	22-20	IM - Magellan Development Server Security Review	04/18/2002
16	22-21	CS - Contract Administration of Media Expenses	04/17/2002
17	22-23	FPLE/FPL - SAP Financial Project Management Revi	04/25/2002
18	22-24	PS - Power Systems Tech 21-WMS User Administrat	05/10/2002
19	22-25	IM - SAP Technical Project Management Review	05/14/2002
20	22S01	HR-CRE & TCC Safe & Secure Audit Process	03/02/2002
21	22S02	PS - Corporate Purchase Order Presentation	04/11/2002
22	22S03	IA - Code of Conduct Survey	04/18/2002
23	22S05	EMT Procedures Review	05/07/2002

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Title: *Internal Audit*

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### Review of Residential Control Structure - ECCR Incentive Payments

The Florida Public Service Commission (FPSC) introduced a set of guideline allowing Florida utilities to establish Residential Conservation Service Programs in Florida on November 26, 1980. FPL has maintained its Residential Demand-Side Management Programs (DSM), paying rebates to customers for certain energy-saving improvements made to their premises. FPL's customer incentives are provided by means of a standard rebate certificate, whereby the contractor remits the certificate to FPL for reimbursement of the face value of the certificate. The face value of the certificate is subtracted from the price of the repair/installation work to arrive at the amount due from the customer. Currently, there are three programs that FPL offers rebates through incentive certificates to residential customers: (1) Residential Ceiling Insulation (RCI), (2) Duct System and Testing (DUCT), and (3) Heating, Ventilation and Air Conditioning (HVAC).

#### Audit Issue

With update access to both the Marketing Information System (MIS) and the Contractor Tracking System (CTS), a segregation of duties issue is created, whereby a user has the ability add a fictitious contractor in CTS and voucher payments to that same contractor using MIS.

#### Recommendation

Although there is no indication of wrongdoing, the activity by the one user appears high. Management should perform a review of 5% of the population to verify that (1) the contractors paid by these employees are valid contractors and (2) the payments appear to be proper.

Management should segregate the roles of vouchering from the administration of contractors and ensure all individuals with access levels to both systems (CTS or MIS) are removed.

#### Audit Issue

The Field Rep that issues a certificate to the customer should not be the same Field Rep performing the post-inspection of the contractor's job.

#### Recommendation

Given the exposure to possible illegitimate payments to contractors, management should perform a sample review of the instances, where a certificate has been issued and inspected by the same employee.

#### Audit Issue

The RES department did not meet the FPSC inspection quota guidelines requiring a 10% inspection rate by each program. This step is not only important for purposes of adhering to FPSC guidelines, but also is a key feature in the control environment.

#### Recommendation

It is critical that RES management ensures they are in compliance with all guidelines. This is step is a key feature in the control environment of the deterrent for improprieties by field reps or contractors, particularly in light of the segregation limitations/deficiencies that exist with the system.

#### Audit Issue

The current RES procedures had not been updated to reflect a change made to the Administrative Code in 1996.

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**Recommendation**

Management will update the RES procedures to reflect the current criteria required by the FPSC.

**Audit Issue**

1997 audit recommended the creation of an "Inspection Bypass Report and a "Certificates Issued by Voucher Clerk Report" to aid in management's review. As of the conclusion of this audit, neither report had been developed.

**Recommendation**

The creation of the report will identify the following scenarios:

- Issued and Vouchered by the same user (RCI and DUCT)
- Issued, Vouchered, and Bypassed by the same user (RCI and DUCT)
- CTS contractor addition and vouchered by the same user (RCI, DUCT and HVAC)
- CTS contractor addition, vouchered, and vouchered by the same user (RCI, DUCT and HVAC)

Management should review these reports on a periodic basis. In addition, a year-to-date report should be evaluate whether there is any recurring activity by a particular individual.

**Audit Issue**

There were a substantial number of employees who had update access to MIS or CTS. Based upon their regular job function, access to these applications may inappropriate.

**Recommendation**

The Power Systems employee and FPL contract employee who have administrative access to either MIS or CTS should be removed. If management believes this access to these individual is necessary, their activity needs to be monitored.

Management should determine the optimum number of employees requiring access to MIS or CTS, and remove all other employees from these user tables.

**Audit Issue**

Minor exceptions were noted in the auditors detailed review of 50 certificates.

**Findings**

**A. HVAC**

Of the 34 HVAC jobs reviewed:

- One HVAC certificate had been mailed by the contractor to FPL; however there was no recorded that a rebate certificate was processed in MIS for this customer's account.
- In two instances, it was noted that the customer might not have been informed of the incentive payment. This was evidenced by the fact that customers' copies of the HVAC certificates had been mailed to FPL along with the other certificate copies.
- There was one instance where the information reported by the contractor on the HVAC certificate did not agree to the Air Conditioning and Refrigeration Institutes Standards (ARI) manual, documentation that is required for all HVAC. This resulted in an overpayment of \$70 to the contractor.

**Recommendation**

Management should verify the incentive payment, ensures that the customers are contacted to verify whether the rebated had been received by the customers, and



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ensures that voucher clerks are trained to detect these errors during their review of the certificates and their associated documentation.

**B. DUCT**

Of the 9 DUCT jobs reviewed:

- In 2 instances, there was no charge to the customer for a duct test to a single detached home, which requires \$30 charge.
- In 2 jobs, the contractors' repair time of leaks identified in the duct survey were approximately double the estimated hours, giving question to the appropriateness of the charge to the customer or the validity of the Field Rep's estimate.
- In 2 jobs, the contractors' repair time of leaks identified in the duct survey was less than half the estimated time (E.G. 3 actual hours. Vs. 7 estimated hours).

**Recommendation**

On a periodic basis (e.g. quarterly), management should review the Duct No Bill Report, that lists those customer's accounts that are not billed for a duct test, to monitor the appropriateness in the number of incidences where a survey fee is not charged.

Management should review the 4 of 9 instances where the actual repair time differed greatly from the estimated repair time.

**Audit Issue**

In 8 of 10 certificates reviewed at the Customer Service North (CSN) location, there were no insurance certificates filed with the contract, as required by RES procedures. There were no exceptions noted at the LeJeune Flagler Office (LFO).

**Recommendation**

To better control the administration of contracts, the responsibility for maintaining all contractor documentation will be shifted to the LFO.

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## Analysis of 2000 ECCR Contractor - Incentive Payments

In June 2001, Internal Auditing issued a report detailing our assessment of the control structure with respect to the payment of Residential ECCR contractor incentives. This report identified several control weaknesses in regards to : (1) segregation of duties, (2) missed inspection quota targets, and (3) inadequate supervisory review of reports. Given these findings, to provide management comfort that the payments made during 2000 were proper. Internal auditing performed an analytical review of 72,000 payments totaling \$16.9 million for Residential Ceiling Insulation (RCI), Duct System and Testing (DUCT), and (3) Heating, Ventilation, and Air Conditioning (HVAC).

### A. TESTING OF DATA FOR QUESTIONABLE PAYMENTS

#### 1. Testing of Data for Questionable Payments

##### DUCT

- Four issuers of DUCT certificates accounted for 20% (\$57,750) of the activity in the maximum range (\$285,516).
- For these four issuers, their porportion of DUCT payments at the maximum range represented an average of 56% of their DUCT certificates issued.
- None of these four issuers had also vouchered the payment.

##### HVAC

- No obvious patterns were noted in HVAC data.

##### **Recommendation**

Given that a large percentage of payments in the DUCT program are being paid at their maximum value, management should evaluate the adequacy of the current incentive rate structure to determine if the intended participation and customer payback requirements are optimized.

##### RCI

The rate applied to the calculation of RCI incentive payments is based upon a range from \$.025 to \$.13 per square foot, depending upon the existing insulation levels. The square footage of the top twenty payments appeared reasonable. The square footage measured by the Field Rep. were compared to the county records for these homes maintained by Lexis-Nexis. Most homes were more or less agreeable except for 3 premises, where the square footage were greater than the amount reported by property records.

##### **Recommendation**

Although Internal Auditing recognizes that the property's square footage reported by Lexis-Nexis may be incorrect, management should review the three instances for appropriateness.

#### 2. Multiple Payments

The Residential Department Guidelines contains several limitations for repeat incentives.

##### **Recommendation**

Management should evaluate whether the number of multiple payments appears reasonable. If these amounts appear irregular, management should ensure that a review is performed on a sample basis of these jobs.

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**3. Steering by the Field Rep**

The auditors analyzed the DUCT and RCI population for incidences of possible steering to a particular contractor by the Field Reps. Steering by a field rep could potentially indicate that a Field Rep was receiving a "Kick-back" from a contractor for recommending customers to use this one contractor. HVAC was omitted from this test since they are issued by the contractor and are not initiated by a Field Rep.

The auditors identified 9 contractors that had an abnormally high percentage of jobs issued to them by a specific Field Rep (14 reps), as compared to all Field Reps department-wide. The auditors eliminated contractors with mass sales jobs. Based upon these criteria, we were able to eliminate 7 of 14 selections. The remaining 7 Field Reps had an abnormally high number of jobs totaling \$82,014 (an average 58% of their total dollar value jobs) issued to a non-mass sales job. Management has been forwarded this information and will determine if further review is necessary.

**B. CONFLICT OF INTEREST**

While Internal Audit had identified in its previous review control weaknesses, based on a review of incentive data by ourselves and RES management, it appears that there are obvious irregularities in the payment data.

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**REVIEW OF COMMERCIAL/INDUSTRIAL CONTROL STRUCTURE - ECCR  
INCENTIVE PAYMENTS**

In June 2001, Internal Auditing completed a review of the Residential (RES) programs' ECCR contractor incentive payments and identified certain improvement opportunities to be implemented. Internal Auditing continued its examination of ECCR expenditures by reviewing the Commercial/Industrial contractor incentive payments.

**I. PROPER CONTROLS**

**A. Segregation of Duties**

1. To properly segregate duties, management should ensure that: (1) the same employee who initiated the job (with incentive certificate issuance) through a direct lead does not also post-inspect the same job and (2) the same employee who pre-inspects a job (and in effect issues a certificate) should not also post-inspect the job.
2. Management should perform a review of the chiller jobs' documentation processed at other C/I locations (not reviewed in this report) to verify that the post-inspections were performed by a different C/I rep. Should there be additional jobs that have been issued and post-inspected by the same C/I rep, management should require that they be field inspected to ensure the equipment referenced on the certificate has been installed.

**B. Compliance with Inspections Quotas**

1. As the incidence of 100% inspection rates may be high and may offer an opportunity to lessen their frequency and reallocate resources, a reporting mechanism should be developed to monitor such activity. Inspection information is already entered in BES, therefore, the data can be queried to provide management a reporting mechanism to monitor inspection activity and adjust workload accordingly.
2. Management should consider tracking the contractor failure rates, as done by RES, to better document and monitor their performance. Those with higher failure rates may require additional inspections.

**C. Supervisory Review of Reports**

Internal auditing noted that one of three locations visited had not reviewed the SAP Transaction Register since May 2000. During the course of the audit, CSE management represented that this deficiency was corrected and the manager has reviewed all prior activity without exception. The SAP Transaction Registers are now represented as being reviewed on a monthly basis. A separate review of the location's disbursement activity will be performed by Internal Auditing.

**II. DETAILED TESTING OF CERTIFICATE PAYMENTS**

**FINDINGS**

Of the 202 certificates reviewed, the auditors only noted the following:

- One underpayment to a CIL contractor of \$160 and one overpayment to a CIBE contractor of \$73. The contractors have since been notified by management of the miscalculations and have made arrangements to correct the payments.

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- In 5 of 30 HVAC DX certificates reviewed, the contractor's invoice with the FPL rebate subtracted was not attached to the paperwork submitted by the contractors.
- As was previously recommended in a prior audit and agreed to by management, serial numbers are not being required to be provided on the HVAC DX certificates by the contractors.

**Recommendation**

- (1) Due to the nature of the program (i.e. there is less contact with HVAC DX contractors as with other programs), it is important that contractors provide the necessary supporting documentation (the invoices with the FPL rebate subtracted). As such, reps should be instructed to withhold payment from contractors until they have fully satisfied the program requirements.
- (2) To provide adequate information to conduct a thorough post-inspection, the incentive certificate should be modified in order to require contractors to provide the serial number of the HVAC DX unit(s).