

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LYDA GAS COMPANY)
FOR A RATE ADJUSTMENT PURSUANT TO)
THE ALTERNATIVE RATE FILING) CASE NO. 9600
PROCEDURE FOR SMALL UTILITIES)

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Lyda Gas Company ("Lyda") attached hereto as Appendix A shall be included as a part of the record in this proceeding.

2. Lyda shall have until the close of business on September 11, 1986, or within 2 weeks from the date of this Order, whichever is later, to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 29th day of August, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9600 DATED AUGUST 29, 1986.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

REPORT ON
THE LIMITED SCOPE AUDIT
OF
LYDA GAS COMPANY
August 25, 1986

Prepared By:
Gary L. Forman, Manager
Gas and Electric Revenue
Requirements Branch
Rates and Tariffs Division

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

REPORT ON
THE LIMITED SCOPE AUDIT
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REPORT ON THE
LIMITED SCOPE AUDIT

OF
LYDA GAS COMPANY

August 25, 1986

PREFACE

On July 14, 1986, the undersigned conducted an examination of the financial records of Lyda Gas Company ("Lyda") at the office of Mr. Robert Comstock, Jr., in Martin, Kentucky. The purpose of the examination was to verify the accuracy of the 1985 Operating Statement of Lyda in connection with Lyda's pending Rate Case No. 9600. The audit was limited to the cash receipts and disbursements of the 12-month period ending December 31, 1985.

AUDIT FINDINGS AND EXCEPTIONS

The accounting records of Lyda are severely deficient. For the period under review, only a few invoices were available. Bank statements and cancelled checks were available for 11 of the 12 months reviewed. A number of checks within the sequence for the period reviewed were not accounted for either through bank cancellation or voucher. The bank account of Lyda is available to the Holbrooks for apparently any purpose and many checks were written for personal expenditures. Mr. Mabry Holbrook also owns Right Beaver Gas Company ("Right Beaver") and it is apparent that the personal funds of Mr. Holbrook, Right Beaver and Lyda are commingled.

Mr. Comstock prepared the 1985 Annual Report for Lyda using the available records. Under the circumstances, Mr. Comstock presented a reasonable operating statement with only a few exceptions, however, the balance sheet is totally unreliable. Due to the limited scope of this audit and since the funds of Lyda are commingled, no attempt has been made herein to correct the balance sheet. In fact, it would be virtually impossible to produce a completely accurate balance sheet and income statement due to the fact that very few records have been maintained by Mr. Holbrook. A thorough audit of Mr. Holbrook, Right Beaver, and Lyda would be required to produce accurate financial statements.

Schedule I, attached, contains an adjusted operating statement reflecting the findings of this audit report. Following is a discussion of the findings with regard to the expenses reported in the 1985 Annual Report:

408.1	Taxes Other Than Income Taxes	\$554
	1985 Property Taxes	\$160.75
	School Tax	271.62
	Sales Tax	122.63
		<u>\$554.95</u>

In accordance with the Uniform System of Accounts the school taxes and sales taxes should not be reported as tax expense. These items should be charged to Account No. 241 - Tax Collections payable and debited for like amounts when remittance is made to appropriate authorities. Any amounts remaining in Account 241 should be credited to Account No. 495 - Other Gas Revenues. An

adjustment should be made to reduce the 1985 Taxes Other Than Income Taxes by \$394.25.

427 Interest on Long-Term Debt \$1,200

Mr. Holbrook stated that interest is paid directly to Mr. Albert A. Frederick on a loan to acquire Lyda. No documentation of any payments during 1985 was available and no payments were made from Lyda's checking account. Furthermore, no liability has been established on the books of Lyda. As a part of Case No. 8427, The Purchase and Sale of the Lyda Gas Company, Inc., the purchase of Lyda was approved and Mr. Holbrook was authorized to purchase the stock of Lyda from Mr. Frederick at a price of \$20,000. Since the purchase was in the form of a stock acquisition, the liability for repayment of the obligation is Mr. Holbrook's personal liability and not a liability of Lyda. Thus, the recording of interest expense on the books of Lyda is not proper and this account has been decreased by \$1,200.

730 Purchased Gas Expense \$3,366

Gas is purchased from Mr. Frederick based on the amount recorded as sold through customer meters. The cancelled checks of Lyda reflected that only \$1,508 was paid to Mr. Frederick during 1985. Therefore, the difference between the amount paid and the cost of gas based on metered sales of \$3,366 should be set up as an account payable at December 1, 1985.

767 Maintenance Lines \$150

In discussions with Mr. Holbrook and Mr. Comstock, it was revealed that this was the estimated cost of repairing a leak in a gas line. No documentation of this expense was available and both

parties indicated that these expenses could have been accounted for in other expenses. Therefore, this amount is not a valid expense for this period and has been excluded in the adjusted expenses.

903 Supplies and Expenses \$1,990

Expenses Documented by	
Cancelled Checks	\$1,484.37
Gas Purchases (Cash)	337.05
Misc. Purchases (Cash)	168.74
	<u>\$1,990.16</u>

The cash expenses listed above totaling \$505.79 were probably not paid from the funds of Lyda. Three checks totaling \$95 were written to Salisbury Methodist Church. These checks were evidently for contributions and should not be reported as operating expenses of the gas utility. These checks represent a donation which should be accounted for in Account No. 426.1 - Donations.

Two checks totaling \$514.85 were, according to Mr. Holbrook, for the purchase of gas meters and steel shelving for storing of meters. This cost should be capitalized and depreciated or included in Materials and Supplies until final disposition is made. No invoices were available to ascertain the appropriate accounts to which these costs should be charged. Therefore, no adjustment has been made to record depreciation expense on these items.

One check in the amount of \$255.75 was for bottled gas purchased to heat the building rented by Lyda from Mr. Holbrook. It was indicated by Mr. Holbrook that this expense would not be

incurred in the future since the building is no longer owned by Mr. Holbrook and not rented by Lyda.

921 Office Supplies and Expenses \$481

Four checks totaling \$282.21 were written to Kentucky Power Company for electricity at the building rented by Lyda during part of 1985.

924 Property Insurance \$300

This expense was not documented and not paid for from Lyda's account during 1985. Mr. Holbrook stated that this was paid out of his personal account and was for liability insurance.

929 Duplicate Charges - Credit \$281

This amount constituted the refunds of customer deposits and should not be included in this account or as an operating expense. Refunds of customer deposits should be debited to Account No. 235 - Customer Deposits and credited to Account No. 130 - Cash and Working Funds.

931 Rents \$1,800

This expense was reported for rental of a building by Lyda from Mr. Holbrook. No checks were issued during 1985 for payment of this expense and no liability was established to reflect any rental costs due from Lyda. Mr. Holbrook stated that he no longer owned this building and Lyda would not be renting this building in the future.


RECOMMENDATIONS

Due to the limited scope of this audit, no attempt has been made in this report to adjust for all of the improper accounting

practices observed. The finances of Lyda are kept in a very haphazard manner. Personal expenses of the Holbrooks are paid out of the Lyda account on a routine basis and totally inadequate records are maintained by Lyda. Also, some legitimate expenses of Lyda are paid from personal or other accounts of Mr. Holbrook and no liability or expenses has been established for these amounts. There is substantial evidence that the personal expenses of Mr. Holbrook and Lyda's expenses are also commingled with expenses of Right Beaver, also owned and operated by Mr. Holbrook.

Lyda should immediately establish a separate bank account for this operation and discontinue the practice of paying personal expenses from the Lyda account. Documentation should be required from all parties receiving funds from Lyda and invoices should be maintained for every disbursement with reference to checks issued in payment thereof. A cash disbursements ledger should be established to facilitate the proper accounting for expenses. Lyda should obtain a copy of the Uniform System of Accounts for Gas Utilities and establish and maintain its records in accordance with the accounting provisions contained therein.

Respectfully Submitted,



Gary L. Forman, Manager
Gas and Electric Revenue Requirements
Branch
Rates and Tariffs Division

Schedule I

INCOME STATEMENT

LYDA GAS COMPANY

December 31, 1985

<u>Acct. No.</u>	<u>Account Name</u>	<u>Per Annual Report for 12-31-85</u>	<u>Adjustments</u>	<u>Adjusted Per Audit</u>
<u>Operating Revenues:</u>				
480	Residential Sales	\$ 8,346	\$ -0-	\$ 8,346
481	Commercial and Industrial Sales	<u>1,923</u>	<u>-0-</u>	<u>1,923</u>
Total Gas Operating Revenues		\$ 10,269	\$ -0-	\$10,269
<u>Operating Expenses:</u>				
730	Natural Gas Purchases	\$ 3,366	\$ -0-	\$ 3,366
767	Maintenance of Lines	150	<150>	-0-
901	Meter Reading Labor	562	-0-	562
903	Supplies and Expenses	1,990	<610>	1,380
921	Office Supplies and Expenses	481	-0-	481
924	Property Insurance	300	-0-	300
925	Injuries and Damages	47	-0-	47
929	Duplicate Charges - Credit	281	<281>	-0-
931	Rents	<u>1,800</u>	<u>-0-</u>	<u>1,800</u>
Total Operating and Maintenance Expenses		\$ 8,977	\$<1,041>	\$ 7,936
Net Operating Income		\$ 1,292	\$ 1,041	\$ 2,333
408.1	Taxes Other Than Income Taxes	\$ 554	\$ <394>	\$ 160
426	Non Utility Deductions	-0-	95	95
427	Interest on Long-Term Debt	<u>1,200</u>	<u><1,200></u>	<u>-0-</u>
NET INCOME <LOSS>		<u>\$ <462></u>	<u>\$ 2,540</u>	<u>\$ 2,078</u>