

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--|---|----------|
| NOTICE OF PENDLETON COUNTY WATER DISTRICT, |) | |
| GAS DIVISION, TO INCREASE BASIC GAS RATES, |) | CASE NO. |
| TO IMPOSE A TEMPORARY GAS SURCHARGE TO PAY |) | 8568 |
| ITS SUPPLIERS AND MOTION FOR INTERIM RATES |) | |

O R D E R

On May 29, 1985, the Commission requested proposals for a financial/operations audit of Pendleton County Water District ("Pendleton County"). The firm of Cotton and Allen, Certified Public Accountants, ("Cotton and Allen") was selected to perform the audit and a contract was finally approved on July 22, 1985.

Since the audit's initiation, numerous delays in obtaining documents and information required to conduct the audit have been encountered, as the September 30, 1985, letter from Cotton and Allen, attached as Appendix A, documents. Agreements to furnish the required information by certain deadlines have not been honored, jeopardizing a timely completion of the audit.

In light of the above circumstances, the Commission hereby
ORDERS that:

1. A hearing is scheduled at the Commission's offices in Frankfort, Kentucky, at 9:00 a.m., Eastern Daylight Time, on October 17, 1985.


2. The following personnel of Pendleton County shall appear at the hearing: Harry Asher, Manager; Fern Thornsberry,


Office Manager; Denver Hornbeek, Chairman; Louis McClanahan, Treasurer; J. C. Crowley, H. T. Ammerman and Paul Wright, commissioners; and Theodore Munroe, C. P. A.


3. Pendleton County shall produce at the hearing documents and information previously requested for the audit, as indicated by the September 9, 1985, letter from Cotton and Allen, attached as Appendix B. Although not necessary to physically produce at the hearing, a list of checks for which back-up invoices are needed has previously been supplied to Pendleton County and should be available by the hearing to turn over to Cotton and Allen.

Done at Frankfort, Kentucky, this 11th day of October, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

CA
COTTON AND ALLEN
Certified Public Accountants
100 East Liberty Street, Suite 600
Louisville, KY 40202 502/589-6050

Nolan C. Allen, CPA
David L. Chervenak, CPA
John E. Chilton, CPA
Richard A. Dentinger, CPA
Roy B. Hill, CPA
Louis A. Koss, CPA
C. Robert Montgomery, CPA
Mark C. Robbins, CPA
Karen L. Bryant, CPA
Nancy T. Langan, CPA
Diane B. Medley, CPA
Lawrence J. Mehler, CPA
Michael J. Mueller, CPA
W. Allen Priest, CPA

September 30, 1985

Mr. Gary Foreman
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40602

Dear Mr. Foreman:

This letter will serve as an update on our engagement with the Public Service Commission (PSC) for the Financial/Operations audit of Pendleton County Water District (District).

In response to a letter from the PSC dated May 29, 1985, we submitted a proposal dated June 10, 1985 for this engagement. Both the letter from the PSC and our proposal letter indicated that the engagement was to begin on July 1, 1985, and our proposal letter, subsequent to conversations with personnel of the PSC, indicated that the final report was to be submitted to the Commission by September 1, 1985.

We made our proposal on the basis of these dates since the engagement was to be performed during the months of July and August when we had staff available to devote to the engagement.

The first delay came in the approval of the contract by the Commonwealth of Kentucky. The contract effective date was finally entered as July 22, 1985. Because of this delay and the interim reassignment of personnel slated for this engagement, we then picked up the records of the District in the PSC's offices on August 6, 1985.

We began our work immediately upon securing the records of the District. It soon became evident that we had insufficient documents and other data for the completion of the engagement as set forth in the PSC's request for proposal and in our proposal for the engagement.

We communicated this situation to personnel of the PSC by telephone and followed this up on August 20, 1985 with a letter to Mr. Harry Asher, copied to you, setting forth a preliminary list of additional required data.

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On August 27, 1985, two of our staff people made a trip to Cynthiana, Kentucky to attempt to secure what information might be available on the premises of Accounting Data Corporation which is the organization which does the recordkeeping for the District. Very little data of value was available from this visit.

We then compiled a more complete list from that in our August 20, 1985 communication and in a letter of September 9, 1985 to Mr. Harry Asher, copy to yourself, we stipulated a more complete list of data which would be required in order for us to proceed with the engagement.

On September 9, 1985, we met with the personnel of the PSC and of the District, and submitted the letter of September 9, 1985 mentioned above. At that meeting, it was assured that every effort would be made in order for the additional data to be furnished to us by September 20, 1985.

We subsequently have had various contacts by yourself and Angela Schweickart that the accumulation of the necessary data was not proceeding on schedule, and as of this date, we have not yet received any of the additional data.

While the final contract as approved extended the contract expiration date to October 31, 1985; our problem simply put is that the period in which we had anticipated performing this engagement has now passed. Personnel which have been involved with the work done to date now have been rescheduled on other engagements and are unavailable to complete work now which we had anticipated to be accomplished in the months of July and August.

Consequently, we find ourselves in a position that even if the documentation does become available, it would be extremely difficult for us at this time to rearrange scheduling in order to complete the engagement as originally anticipated.

You have now asked that the deadline for the submission by the District of the additional data be extended to October 11, 1985. With difficulty, we may be able to alter our scheduling in order to complete the engagement. To do so, however, we would need an extension of the contract to allow for final reporting no earlier than January 31, 1986. This would enable us to work on the engagement as time permits over the next several months. However, should the latest deadline of October 11, 1985 for the full submission of all the data requested from the District not be met, we feel we have no recourse other than to withdraw from the engagement and submit a billing for the work performed to that point in time.

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While we have never experienced a situation where we have found ourselves unable to complete an engagement as contracted, we feel that the deviations from the original time table and the unavailability of records are matters beyond our control. Had the contract been approved by July 1 as anticipated and had the records of the District been complete, there is no doubt that we would have been able to perform the engagement as stipulated in our proposal letter. Even with the delays that have occurred, had the September 20 deadline been met for the submission of the documentation and data requested, we felt that we still could have performed the engagement in a satisfactory manner. If the October 5, 1985 deadline is met, we feel we will be able to complete the engagement, but with less efficiency, and only with an extension of the completion date to January 31, 1986.

We look forward to hearing from you as to the resolution of this matter.

Very truly yours,

COTTON AND ALLEN
Certified Public Accountants


David L. Chervenak, CPA

DLC:rel65

APPENDIX B



COTTON AND ALLEN
Certified Public Accountants

100 East Liberty Street, Suite 600
Louisville, KY 40202 502/589-6050

Nolan C. Allen, CPA
David L. Chervenak, CPA
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Lawrence J. Mehler, CPA
Michael J. Mueller, CPA
W. Allen Priest, CPA

September 9, 1985

Mr. Harry Asher
Pendleton County Water District
400 Main Street
Farmouth, Kentucky 41040

Dear Mr. Asher:

In addition to our previous letter dated August 20, 1985, in regard to our audit of the Pendleton County Water District's Water and Gas Divisions for the year ended December 31, 1984 and for the four months ended April 30, 1985, we will need to obtain the following documents and records. Those items indicated with an asterisk (*) were requested on the August 20 letter.

Below is the listing of all items needed in order to complete the audits of both divisions at December 31, 1984, and April 30, 1985:

WATER DIVISION

- *1. Bank statement, account #0017723, Farmer's Bank, January through April, 1985, G/L #1310-12.
- *2. Bank statements for the Depreciation fund for December, 1984 and April, 1985, and related bank statements, G/L #1310-15.
- 3. Bank reconciliation, extension account, December 31, 1984 and April, 1985, G/L #1310-15.
- *4. Bank statements, Bond and interest deposit account, April, 1985 and bank reconciliations for December, 1984 and April, 1985, G/L #1340.
- 5. Explanations for journal entries to customer accounts receivable, G/L #1420-100.
- *6. Inventory (material and supplies) support/detail for 1984 and 1985, G/L #1500.
- *7. Fixed asset and depreciation schedules, 1984 and 1985.
- *8. Supporting schedules for unamortized debt discount earned, 1984 and 1985, G/L #1810.
- *9. Schedule of notes payable at December, 1984 and April, 1985, plus listing of additions and deletions during the years requested, G/L #2310.

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- *10. Schedule of accounts payable at December 31, 1984 and April 30, 1985, G/L #2320.
- 11. Listing of customer deposits held at December 31, 1984 and April 30, 1985, G/L #2350.
- 12. Schedule of accrued taxes at December 31, 1984 and April 30, 1985, G/L #2360.
- *13. Schedules/support for contribution in aid accounts - taps and grants - 1984 and 1985, G/L #'s 2710-100 and 2710-200.
- *14. Copies of leases between the water division and supplies for materials or services, i.e., rental of buildings and equipment.
- *15. Copies of contracts between the water division and supplies such as, Utility Services, Inc., Accounting Data Corp., and other related companies who provide services on a regular basis.
- *16. Support for journal entries made during 1984 and 1985, all G/L accounts.
- *17. 1985 invoices and vouchers.
- *18. Telephone bills for 1984 and 1985.
- 19. Post closing trial balances for 1983, 1984, and April, 1985.

GAS DIVISION

- *1. Bank statements - Payroll Account #0002374-7 for January 1, 1984 and September 30, 1984. G/L a/c #1310-11.
- *2. Revenue and Bond Interest Fund, Account #0009551-3, March 31, 1985. G/L a/c #1348 and 1350.
- *3. Bank reconciliations - Gas Division - 1984 and January through April, 1985.
- *4. Inventory (material and supplies) support/detail for 1984 and 1985 - G/L a/c #1500.
- *5. Fixed asset and depreciation schedules - 1984 and 1985.
- *6. Back-up schedules for unamortized debt discount earned account - 1984 and 1985 - G/L a/c #1810.
- *7. Accounts payable lists - 1984 and 1985. G/L a/c 2320.

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24. Schedule of Other Deferred Credits G/L #2530 at December 31, 1984 and April 30, 1985.
25. Analysis of G/L a/c #4150 - Income-Materials, Jobbing, Contracts for the year 1984 and four (4) months ended April 30, 1985.
26. Post closing trial balance at December 31, 1983, December 31, 1984, and April 30, 1985.
27. General ledger for January through April, 1985.

In addition to the above listed items, there are numerous invoices which lack supporting documentation for both divisions. Adequate support will be needed for items selected during the audit.

Your prompt reply would be appreciated. Please send the requested items as soon as possible to:

Cotton and Allen
100 East Liberty Street, Suite 600
Louisville, Kentucky 40202

Thank you for your help.

Very truly yours,

COTTON AND ALLEN
Certified Public Accountants


Mike Hogan, CPA

ME:rc1L105

cc: Gary Forman
Pamela Johnson

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September 9, 1985
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- *8. Schedules/support for contribution in aid accounts - taps and grants - 1984 and 1985. G/L a/c 2710.
- *9. Notes payable support - 1984 and 1985 - G/L a/c 2310.
- *10. Schedules supporting budget payments deferred account - 1984 and 1985. G/L a/c 2531.
- *11. Invoices and vouchers - April 1985 - Gas Division.
- *12. Journal entry support - 1984 and 1985.
- *13. Telephone bills - 1984 and 1985.
- *14. Copies of any leases between the Gas Division and suppliers for such things as rental of space and equipment.
- *15. Copies of any contracts between the Gas Division and various suppliers, including Utility Service, Inc., Accounting Data Corp., and any other companies who provide services on a regular basis.
- *16. Accounts/receivable listing for the Gas Division for the months August, 1984 through April, 1985.
- 17. Bank statements and reconciliations for G/L #1310-12 Cash - Farmer Butler for 1983 and 1984, and January through April, 1985.
- 18. Bank statements and reconciliations for G/L # 1330 at December 31, 1984 - Customer Deposits Savings or other detail available. Also, at April 30, 1985.
- 19. Detail Listing of G/L #1430 - Other Accounts Receivable at December 31, 1984 and April 30, 1985.
- 20. Detail of G/L #1650 Prepayments at December 31, 1984 and April 30, 1985.
- 21. Listing of all customer deposits on hand at December 31, 1984 and April 30, 1985 - reconciliation for G/L #2350.
- 22. Schedule of accrued taxes - December 31, 1984 and April 30, 1985.
- 23. Reconciliation of G/L #2390 - Refunds Payable to Customers at December 31, 1984 and April 30, 1985.