

Florida Public Service Commission

Audit Report

As of December 31, 1995

Field Work Completed

September 18, 1996

Haines Creek Mobile Homesites Waterworks

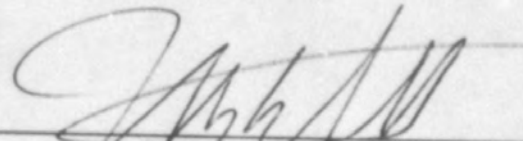
Leesburg, Florida

Lake County


Certificate of Transfer Audit

Docket No. 960793-WU

Audit Control Number 96-219-3-1



Jeffery A. Small
Audit Manager



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Orlando District Office

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

Audit Purpose: We have applied the procedures described in Section II of this report and have prepared the appended Water Rate Base exhibits for Haines Creek Mobile Homesites Waterworks pursuant to Transfer Certificate, Docket Number 960793-WU, as of December 31, 1995.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: Subject to the procedures described in Section II of this report, the attached Rate Base Exhibit represents the utility's books and records as of December 31, 1996, which have not been maintained in substantial compliance with Commission directives.

Summary Findings:

Exceptions

The utility's books and records are not maintained in compliance with NARUC USoA per Commission directives.

The utility overstated pumping equipment by \$1,883, as it failed to properly record additions and retirements as such.

The utility understated supply mains by \$800, because it failed to transfer \$823 in CWIP from the prior order, and it did not properly record additions and retirements as such.

The utility understated distribution reservoirs and standpipes by \$2,225, for it misclassified \$2,625 in additions to this account, and it did not properly record additions and retirements as such.

The utility overstated meters and meter installations by \$4,140, by including amounts that should have been expensed, and it included two misclassified assets discussed in Audit Exceptions 3 and 4.

The utility overstated account balances for land, structures and improvements, and tools by \$822, \$977, and \$1,695, respectively, as it included items that will not be transferred to the buyer at time of closing.

The utility overstated accumulated depreciation by \$5,484, because it did not use the composite rate from the previous rate proceeding to calculate depreciation and in consideration of the effects of the previously mentioned exceptions.

The utility understated CIAC by \$221 and overstated amortization of CIAC by \$146. It failed to record the addition of new customers properly, and it did not use the composite CIAC amortization rate as established in the prior order to amortize CIAC ending balances.

II. AUDIT SCOPE

This report is based on the audit work described below. When used in this section of the report, **REVIEWED** describes completed audit work as:

REVIEWED: Means that the audit staff reconciled exhibit amounts with the general ledger; traced general account balances to subsidiary ledgers; applied selective analytical review procedures; and disclosed any unresolved error, irregularity or inconsistency observed.

RATE BASE: Reconciled beginning utility plant-in-service amounts from its annual reports with prior order (No. 18000). Reviewed 100% of total dollar additions/retirements of utility plant-in-service, testing for proper amount, authorization, timing, and account classifications. Reviewed additions/retirements to accumulated depreciation for proper amount, authorization and account classification per Commission rules. Land balances were traced to the general ledger and ownership was verified with company-supplied documentation.

OTHER: Judgementally reviewed a sample of customer bills for the month of September 1995 from the utility's billing records to verify the company's existing rates at period-end December 31, 1995.

AUDIT EXCEPTION NUMBER ONE

SUBJECT: NONCOMPLIANCE WITH THE NARUC USoA

FACTS: Rule 25-30.115(1), F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the 1984 NARUC Uniform System of Accounts (USoA).

OPINION: The utility does not maintain its books per the Commission rule cited above.

The utility's records consist of two journals.

- 1) A cash receipts' journal where all revenues and other cash receivables are recorded
- 2) A cash disbursements' journal where all cash expenditures such as operation and maintenance expenses and capital purchases are recorded

The only consolidated information available is the utility's annual reports as filed with the Commission.

RECOMMENDATION: Because this engagement is a certificate of transfer, no action is recommended against the seller at this time.

AUDIT EXCEPTION NUMBER TWO

SUBJECT: ADJUSTMENTS TO UTILITY PUMPING EQUIPMENT

FACTS: FPSC Order 18000, issued August 14, 1987, established a balance of \$2,955 in Account 311, Pumping Equipment. Included in this amount were materials and supplies for a new pump that totaled \$1,323.

In 1988 the utility was required to replace the above-mentioned pump at a cost of \$830. The utility additionally incurred labor cost of \$150 for this pump replacement.

In 1991 the utility was required to replace the same pump again at a cost of \$896. The utility additionally incurred labor cost of \$120 for this pump replacement.

Per NARUC, Class C, Accounting Instruction 4, utilities are required to record retirements to utility plant-in-service when such items are replaced or discontinued from service.

OPINION: Considering the findings of Audit Exception One of this report and accepting the facts as stated above, auditor asserts the following:

- 1) The utility did not record a retirement of pumping equipment when either pump was replaced in 1988 or 1991.
- 2) The utility did not record additions to pumping equipment for the labor components of \$150 and \$120 in 1988 and 1991 for either pump replacement.

RECOMMENDATION: The Commission should require the utility to make the following adjustments to the indicated accounts to properly record the additions and retirements of utility pumping equipment as discussed above. See the attached schedule for details.

Reduce Acc. No. 108	Accumulated Depreciation	\$1,375
Reduce Acc. No. 311	Pumping Equipment	\$1,883

SCHEDULE FOR AUDIT EXCEPTION TWO

<u>EVENT</u>	<u>ACC 108</u>	<u>ACC 311</u>
Add labor for 1988 pump replacement		\$ 150
Retire pump replaced in 1988	\$ 1,108	(\$ 1,323)
Add labor for 1991 pump replacement		\$ 120
Retire pump replaced in 1991	<u>\$ 267</u>	<u>(\$ 830)</u>
Net Adjustments	\$ 1,375	(\$ 1,883)

Per NARUC, Class C, Accounting Instruction 4, the difference of \$778 (\$1,883 less \$1,375) is the result of retirement amounts in excess of the reserve account balances for pumping equipment. This balance would normally be carried to an income account or deferred debit account in a rate case proceeding. The effect is ignored in this certificate of transfer.

AUDIT EXCEPTION NUMBER THREE

SUBJECT: ADJUSTMENTS TO UTILITY SUPPLY MAINS

FACTS: FPSC Order 18000, issued August 14, 1987, established a balance of \$823 in Account 105, Construction Work in Progress. This amount represented the installation cost for a two-inch master flow meter at the utility's water plant. Of the \$823 cost allowed, \$333 represented the invoiced cost of the two-inch master meter.

In 1987 the utility replaced the two-inch master meter at a cost of \$310.

NARUC, Class C, Water Utility Plant Accounts, Account No. 309, Supply Mains, specifically identifies master meters as an included plant asset.

Per NARUC, Class C, Accounting Instruction 4, utilities are required to record retirements to utility plant-in-service when such items are replaced or discontinued from service.

OPINION: Considering the findings of Audit Exception One of this report and accepting the facts as stated above, auditor asserts the following:

- 1) The utility did not transfer the \$823 in CWIP to a UPIS account. The \$823 should have been transferred to Account 309, Supply Mains.
- 2) In 1987 the utility recorded the \$310 addition for a new two-inch master meter to Account 334, Meters & Meter Installations. The \$310 should have been recorded in Account 309, Supply Mains.
- 3) The utility did not record a retirement of \$333 for the original master meter identified in the prior order cited above when it was replaced in 1987.

RECOMMENDATION: The Commission should require the utility to make the following adjustments to the indicated accounts to properly record the above-mentioned events per the NARUC rules cited above. See the attached schedule for details.

Reduce	Acc. No. 105	CWIP	\$823
Increase	Acc. No. 309	Supply Mains	\$800
Reduce	Acc. No. 334	Meters & Meter Installations	\$310

SCHEDULE FOR AUDIT EXCEPTION THREE

<u>EVENT</u>	<u>ACC 105</u>	<u>ACC 309</u>	<u>ACC 334</u>
Transfer CWIP to UPIS account	(\$ 823)	\$ 823	
Reclassify 2" meter added in 1987		\$ 310	(\$ 310)
Retire 2" meter replaced in 1987	<u> </u>	<u>(\$ 333)</u>	<u> </u>
Net Adjustments	(\$ 823)	\$ 800	(\$ 310)

Per NARUC, Class C, Accounting Instruction 4, there would normally be a retirement to the reserve account for the \$333 meter retirement above. However, there is no adjustment to accumulated depreciation in this instance. The utility, by leaving the balance in CWIP, never recorded depreciation expense or a corresponding reserve balance for the original two-inch meter.

AUDIT EXCEPTION NUMBER FOUR

SUBJECT: ADJUSTMENTS TO UTILITY DISTRIBUTIONS AND RESERVOIRS

FACTS: FPSC Order 18000, issued August 14, 1987, established a balance of \$877 in Account 330, Distribution Reservoirs and Standpipes. This amount represented the original cost of the utility's 15,000-gallon hydropneumatic tank.

In 1990 the utility replaced the hydropneumatic tank at a cost of \$2,625.

Additionally, in 1990 the utility recorded additional cost of \$477 for pipe fittings and other supplies to install the above-mentioned water tank.

NARUC, Class C, Water Utility Plant Accounts, Account No. 330, Supply Mains, specifically identifies water tanks as an included plant asset.

Per NARUC, Class C, Accounting Instruction 4, utilities are required to record retirements to utility plant-in-service when such items are replaced or discontinued from service.

OPINION: Considering the findings of Audit Exception One of this report and accepting the facts as stated above, auditor asserts the following:

- 1) In 1990 the utility recorded the \$2,625 cost of the water tank in Account No. 331, Transmission and Distribution. The \$2,625 should have been recorded in Account No. 330, Distribution Reservoirs and Standpipes.
- 2) In 1990 the utility recorded the additional cost of \$477 to Account No. 334, Meters and Meter Installations. The \$477 should have been recorded in Account No. 330, Distribution Reservoirs and Standpipes.
- 3) The utility did not record a retirement of \$877 for the original water tank identified in the prior order cited above when it was replaced in 1990.

RECOMMENDATION: The Commission should require the utility to make the following adjustments to the indicated accounts to properly record the above-mentioned events per the NARUC rules cited above. See the attached schedule for details.

Reduce	Acc. No. 108	Accumulated Depreciation	\$ 685
Increase	Acc. No. 330	Distribution Reservoirs	\$2,225
Reduce	Acc. No. 331	Transmission & Distribution	\$2,625
Reduce	Acc. No. 334	Meters & Meter Installations	\$ 477

SCHEDULE FOR AUDIT EXCEPTION FOUR

<u>EVENT</u>	<u>ACC 108</u>	<u>ACC 330</u>	<u>ACC 331</u>	<u>ACC 334</u>
Reclassify tank added in 1990		\$2,625	(\$2,625)	
Retire tank replaced in 1990	\$ 685	(\$ 877)		
Reclassify tank fittings added in 1990	<u> </u>	<u>\$ 477</u>	<u> </u>	<u>(\$ 477)</u>
Net Adjustments	\$ 685	\$2,225	(\$2,625)	(\$ 477)

Per NARUC, Class C, Accounting Instruction 4, the difference of \$192 (\$877 less \$685) is the result of a retirement amount in excess of the reserve account balance for water tanks. This balance would normally be booked to an income account or deferred debit account in a rate case proceeding. The effect is ignored in this certificate of transfer.

AUDIT EXCEPTION NUMBER FIVE

SUBJECT: ADJUSTMENTS TO METERS AND METER INSTALLATIONS

FACTS: FPSC Order 18000, issued August 14, 1987, recognized the need for a water meter replacement program. The Commission allowed \$550 to be included in the utility's annual operations and maintenance expense to fund this program.

In the period of January 1, 1987 through December 31, 1995, the utility purchased and installed 81 new water meters of which 35 meters can be attributed to new customer connections.

For the same time period mentioned above, the utility's books indicate additions of \$8,078 to its water meter account.

OPINION: The utility should have recorded the cost of the 46 replacement meters (81 total less 35 new customers) to an O&M expense account.

The utility's records do not provide the detail necessary for an actual distinction between cost for replacement and new meter installations.

Audit staff, taken into consideration the adjustments to Account No. 334 discussed in Audit Exceptions 3 and 4 of this report, has calculated an average cost of \$90 for each meter replaced or installed during the time period mentioned above.

Audit staff believes that \$4,140 of the cost recorded to Account 334 should have been expensed per the meter replacement program cited above. (\$90 times 46 replaced meters)

RECOMMENDATION: The Commission should require the utility to reduce Account No. 334 by \$4,140 to remove those meter costs that should have been expensed to O&M as part of its recognized meter replacement program. See attached schedule for details.

SCHEDULE FOR AUDIT EXCEPTION FIVE

Balance of Acc 334 at 12/31/95		\$ 11,300
Balance of Acc 334 at 12/31/86	less	<u>3,222</u>
Company additions to Acc 344	equals	\$ 8,078
Staff adjustments per		
Audit Exception 3	less	310
Audit Exception 4	less	<u>477</u>
Adjusted additions to Acc 344	equals	\$ 7,291
Number of meters purchased from 12/31/86 to 12/31/95	divided by	<u>81</u>
Average cost per meter installed or replaced	equals	\$ 90
Cost of new meters installed	35 times \$90 =	\$ 3,151
Cost of old meters replaced	46 times \$90 =	\$ 4,140
Cost of all meters	81 times \$90 =	\$ 7,291

Auditor's calculations have been rounded to the nearest dollar.

AUDIT EXCEPTION NUMBER SIX

SUBJECT: ADJUSTMENTS FOR UTILITY PROPERTY NOT TRANSFERRED

FACTS: FPSC Order 18000, issued August 14, 1987, established balances of \$882 and \$977 for Account Nos. 303, Land, and 304, Structures and Improvements, respectively.

The order further established a net balance of \$156 for Account No. 103, Plant Held for Future Use, which represented a 50 percent used and useful adjustment, to the \$977 balance in Account No. 304 mentioned above.

In years 1994 and 1995 the utility capitalized \$1,792 of tool purchases to Account No. 343, Tools, Shop, and Garage Equipment.

OPINION: The seller makes the following assertions in a signed statement given to staff auditors:

- 1) The land will not be transferred to the buyer. The buyers will be given an easement to access utility property.
- 2) The building which houses the utility plant will not be transferred to the buyer. The seller will partition the building and grant access to the area that houses the utility plant at no cost to the buyers.
- 3) Of the \$1,792 in tools recorded on the seller's books, only two items, with a total cost of \$98, will be transferred to the buyer. The remaining \$1,695 in tools will remain the personal property of the seller at closing.

RECOMMENDATION: The Commission should require the utility to make the following adjustments to the indicated accounts to remove those plant assets that will not be transferred to the buyer at time of closing.

Reduce Acc. No. 104	Plant Held For Future Use	\$ 156
Reduce Acc. No. 108	Accumulated Depreciation	\$1,267
Reduce Acc. No. 303	Land	\$ 882
Reduce Acc. No. 304	Structures & Improvements	\$ 977
Reduce Acc. No. 343	Tools, Shop, and Garage	\$1,695

Per NARUC, Class C, Accounting Instruction 4 the accumulated depreciation adjustment of \$1,267 is limited to the sum of the reserve account balances for Account Nos. 304 and 343 of \$977 and \$290, respectively.

AUDIT EXCEPTION NUMBER SEVEN

SUBJECT: ADJUSTMENTS TO ACCUMULATED DEPRECIATION

FACTS: FPSC Order 18000, issued August 14, 1987, used a composite depreciation rate of 3.8 percent to calculate test year depreciation expense and accumulated depreciation balances.

Rule 25-30.140(4)(b), F.A.C., requires all utilities to maintain depreciation rates as prescribed by the Commission.

For period-end 1995 the utility's annual report indicated a balance of \$25,675 in Account No. 108, Accumulated Depreciation.

OPINION: Considering the findings of Audit Exception One of this report and accepting the facts as stated above, auditor asserts the following:

- 1) The utility did not use the composite depreciation rate established by the prior order mentioned above. The utility used nine separate depreciation rates to calculate depreciation expense and accumulated depreciation balances in its annual reports.
- 2) As discussed in Audit Exceptions 2, 4, and 6 of this report, the utility failed to properly account for retirements of UPIS which would affect the associated ending accumulated depreciation balances at December 31, 1995.
- 3) As discussed in Audit Exceptions 2, 3, and 5 of this report, the utility failed to include capital additions or erroneously capitalized items that should have been expensed to O&M, all of which would affect the associated ending accumulated depreciation balances at December 31, 1995.

Together with the findings of the above information and using the available utility records for UPIS, audit staff recalculated the utility's December 31, 1995 ending balance as \$20,191.

RECOMMENDATION: The Commission should require the utility to reduce Account No. 108, Accumulated Depreciation, by \$5,484 to a balance of \$20,191 as calculated by audit staff for period-end December 31, 1995. See attached schedule for details.

SCHEDULE FOR AUDIT EXCEPTION SEVEN

Accumulated Depreciation @ 12/31/95				
<u>Acc#</u>	<u>Description</u>	<u>Per Company</u>	<u>Adjust</u>	<u>Per Audit</u>
304	Structures & Imp.	\$ 977	(\$ 977)	\$ 0
307	Wells & Springs	1,857	20	1,877
309	Supply Mains	0	274	274
311	Pumping Equipment	3,766	(3,069)	697
320	Water Treatment Equip.	536	(25)	511
330	Reservoirs & Standpipes	877	(212)	665
331	Transmission & Dist.	11,169	1,461	12,630
334	Meters	6,098	(2,623)	3,475
343	Tools, Shop Equipment	290	(290)	0
347	Miscellaneous Equipment	<u>105</u>	<u>(43)</u>	<u>62</u>
	Totals	\$ 25,625	(\$5,484)	\$ 20,191

AUDIT EXCEPTION NUMBER EIGHT

SUBJECT: ADJUSTMENTS TO CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION

FACTS: FPSC Order 18000, issued August 14, 1987, established a composite amortization rate of 2.6 percent to calculate the amount of CIAC amortization from March 1984 on a going forward basis.

The above-mentioned order established a service availability charge of \$90 for all new customer connections.

Rule 25-30.140(8), F.A.C., requires all utilities to maintain CIAC balances and amortization rates as prescribed by the Commission.

The utility used rates of 3 to 5 percent to calculate amortization of CIAC since the last rate proceeding.

In 1987 the utility added four customers and recorded \$319 in service availability charges.

In 1994 and 1995 the utility added one customer for each year and did not record any additional service availability charges.

OPINION: The utility should have recorded \$540 (six times \$90) in additions to CIAC for the six-customer additions discussed above.

The utility should have used the 2.6 percent composite rate established in the prior order to calculate amortization of CIAC and related year-end CIAC balances.

Audit staff, taken into consideration the adjustments to CIAC mentioned in this exception, has recalculated the December 31, 1995 ending balance for Account No. 272, Accumulated Amortization of CIAC, to be \$10,944 using a 2.6 percent composite rate as established in the prior order.

RECOMMENDATION: The Commission should require the utility to increase Account No. 271, CIAC, by \$221 (\$540 less \$319) to properly record the correct amount of service availability charges as prescribed by the prior order cited above.

The Commission should require the utility to decrease Account No. 272, Accumulated Amortization of CIAC, by \$146 (\$11,090 less \$10,944) as expressed in audit staff's opinion above.

Exhibit for Certificate of Transfer
Haines Creek Mobile Homesites Waterworks
FPSC Docket No. 960793-WU
Water Rate Base
Period End December 31, 1995

Description	FPSC Order No. 18000 @12/31/86	Per Company @12/31/95	Audit Exceptions	Refer to	Per Audit @12/31/95
Utility Plant in Service	\$22,101	\$46,588	(\$9,081)	E - 2,3,4,5,6	\$37,507
Land	882	882	(882)	E - 6	0
Plant Held for Future Use	(156)	(156)	156	E - 6	0
CWIP	823	823	(823)	E - 3	0
CIAC	(11,157)	(23,292)	(221)	E - 8	(23,513)
Amortization of CIAC	6,318	11,090	(146)	E - 8	10,944
Accumulated Depreciation	(12,229)	(25,675)	5,484	E - 2,4,6,7	(20,191)
Working Capital	1,763	0	0		0
	=====	=====	=====		=====
Totals	\$8,345	\$10,260	(\$5,513)		\$4,747

Footnotes

- 1) Working Capital calculations were not requested for this engagement.
- 2) See Audit Exception No. 1 for discussion of per company representations.

State of Florida



Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA

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Public Service Commission

December 9, 1996

Mr. Bob Gruno
Haines Creek Mobile Homesites Waterworks
34834 Haines Creek Road
Leesburg, Florida 34788-8532

RE: Docket No. 960793-WU -- Haines Creek Mobile Homesites Waterworks
Certificate Transfer Audit Report - Period Ended December 31, 1995
Audit Control # 96-219-3-1

Dear Mr. Gruno:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn, Chief
Bureau of Records

KF/cl
Enclosure
cc: Public Counsel
Crystal River Utilities, Inc.