

MEMORANDUM

June 16, 1997

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NUMBERS ~~970209~~-WS/970210-WS -- SUNRAY UTILITIES  
RATE BASE AUDIT REPORT  
AUDIT CONTROL NO. 97-076-1-2

-----

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit working papers are available for review on request. There are no confidential working papers associated with this audit.

Please forward a complete copy of the audit report to:

Sunray Utilities  
Kelli L. Adkins  
P. O. Box 1708  
Fernandina Beach, FL 32035-1708

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Kiesling  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Water and Wastewater (Walker)  
Tallahassee District Office (Hicks)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE  
06040 JUN 16 97  
FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION  
AUDIT REPORT  
RATE BASE ENDING DECEMBER 31, 1996

Field Work Completed  
May 9, 1997

SUNRAY UTILITIES (ST. JOHNS and NASSAU)

Fernandina Beach, Florida

St. Johns County  
and  
Nassau County

Rate Base Audit

Docket Number 970209-WS

Docket Number 970210-WS

Audit Control Number 97-076-1-2

Mark Caruth

Mark Caruth  
Audit Manager

Rhonda L. Hicks

Rhonda Hicks  
Regulatory Analyst Supervisor  
Tallahassee District Office

DOCUMENT NUMBER-DATE

06040 JUN 16 97

FPSC RECORDS/REPORTING

INDEX

	Page
I	Executive Summary
	Audit Purpose..... 3
	Disclaim Public Use..... 3
	Opinion..... 3
	Summary Findings..... 3
II	Audit Scope
	Scope of Work Performed..... 4
III	Audit Disclosures
	Missing Documentation to support Plant..... 5
	Land Purchased for future expansion of Water Plant..... 6
	Water Plant overstated and Sewer Plant understated..... 7
	Plant Nonused and Useful..... 8
IV	Exhibits
	Schedule of Rate Base Sunray St. Johns Sewer..... 9
	Schedule of Rate Base Sunray St. Johns Water..... 10
	Schedule of Rate Base Sunray Nassau Sewer..... 11
	Schedule of Rate Base Sunray Nassau Water..... 12

**I. EXECUTIVE SUMMARY:**

**AUDIT PURPOSE:**

We have applied the procedures described in Section II of this report in order to audit the Rate Base of Sunray Utilities (St. Johns and Nassau) for the period ending December 31, 1996.

**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 Audit Exceptions and Disclosures contained in this report, the schedules of Rate Base as of December 31, 1996 represent company books and records maintained in substantial compliance with Commission directives. The expressed opinions extend only to the scope of the work described in Section II of this report.

**SUMMARY DISCLOSURES:**

For Sunray-Nassau, the utility was unable to provide documentation to support \$26,860 of Water Plant and \$14,000 of Sewer Plant.

For Sunray-Nassau (Water), the utility has \$36,000 of Land purchased in anticipation of an expansion in Water Plant operations; however, this construction of additional Water Plant has not occurred.

For Sunray-St. Johns, the Water Plant is overstated by \$7,500 and the Sewer Plant is understated by \$7,500.

For Sunray-St. Johns, the utility filed a 1995 Annual Report with the St. Johns Water and Sewer Authority and listed the existence of Nonused and Useful Plant; however, the utility desires that those amounts listed as Nonused and Useful be declared void for the purpose of establishing the Sunray-St. Johns Rate Base for the acquisition by United Water.

## II. AUDIT SCOPE:

The opinions contained in this report are based on the audit work which is described below. When used in this report Compiled means that audit work includes:

Compiled: Means that the audit staff reconciled exhibit amounts with the General Ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted, performed no other audit work.

## RATE BASE:

Compiled Rate Base for the period ending December 31, 1996; established schedules of Plant accounts from January 1, 1988 to December 31, 1996; traced Plant account balances to the General Ledgers and/or the Audit Trail Reports (the Audit Trail Report is a company specific document providing greater details per transaction than that contained in the utility's General Ledger) from January 1, 1988 to December 31, 1996; traced Plant Account Summary Ledger to the General Ledger as of December 31, 1995; utilized auditor judgement to select transactions within the Plant accounts for verification of transactions from ledger to invoice to check and/or to other documentation; identified Plant items not to be sold by the utility [Sunray-Nassau Water] as exclusions from the rate base per United Water acquisition; identified Sunray general Plant items to be sold by the utility as inclusions into the rate base per United Water acquisition; compared (for each category of Plant) the asset life used for depreciation purposes by the utility to the F.P.S.C. asset life guidelines within the Commission rule; traced Contributions in Aid of Construction (C.I.A.C.) balances to the General Ledger and/or Audit Trail Report from January 1, 1988 to December 31, 1996; traced Accumulated Amortization of C.I.A.C. balances to the General Ledger and/or the Audit Trail Report from January 1, 1988 to December 31, 1996.

III. AUDIT DISCLOSURES:

AUDIT DISCLOSURE No. 1

SUBJECT: MISSING DOCUMENTATION TO SUPPORT PLANT.

STATEMENT OF FACT: The utility was unable to provide documentation to support \$26,860 of Water Plant at Sunray Nassau and \$14,960 of Sewer Plant at Sunray Nassau.

**AUDIT DISCLOSURE No. 2**

**SUBJECT: LAND PURCHASED FOR FUTURE EXPANSION OF WATER PLANT.**

**STATEMENT OF FACT:** The utility has Land Held for Future Use of \$36,000 at Sunray Nassau (Water). In August 1988, the utility purchased \$36,000 of Land (per JV08-07 for Rayland parcel 85-1-2). The utility states that it had purchased the land in anticipation of an expansion/construction of additional Water Plant. However, the expansion of the additional Water Plant has not yet occurred. The utility considers that Land as being a site for the future expansion of Water operations.

**AUDIT DISCLOSURE No. 3**

**SUBJECT: WATER PLANT OVERSTATED AND SEWER PLANT UNDERSTATED.**

**STATEMENT OF FACT:** The utility at Sunray St. Johns has overstated Water plant and understated Sewer Plant. The amount is \$7,500. In April 1992, a check (Number 020844) was paid to JAX Utilities Management Inc. in the amount of \$9,236 for three invoices: Invoice# 000274 (\$440), Invoice# 001826 (\$1,296), and Invoice# 001827 (\$7,500). A review of Invoice# 001827 (\$7,500) shows that it was for the Sewer Treatment plant; however the \$7,500 cost was allocated into the Water Treatment plant account. Therefore, Water plant is currently overstated by \$7,500 and Sewer plant is currently understated by \$7,500.



AUDIT DISCLOSURE No. 4

SUBJECT: PLANT NONUSED AND USEFUL.

STATEMENT OF FACT: The auditor reviewed the utility's Annual Report for Sunray Utilities --- St. Johns, Inc. for the Calendar Year Ending 1995 (filing date July 1, 1996) as filed before the St. John's County Water and Sewer Authority. On page F-4 of their report, the St. John's County Water and Sewer Authority requests identification of Nonused and Useful Plant (with a footnote that states "Estimated if not known"). The auditor observed that the utility had entered the following information on that line of page F-4:

	Water Utility	Sewer Utility
Nonused and Useful Plant	\$390,873.24	\$625,804.50

The auditor made an inquiry (via Document Request) to the Accounting Manager of Sunray Utilities requesting a detailed explanation of these amounts, the estimation methodology utilized, and an indication as to whether United Water (the acquiring entity) had knowledge of the situation. The Accounting Manager of Sunray Utilities responded and indicated (1) that when she had entered the amounts onto the Annual Report, she did not have the engineering data to accurately determine any amount of Nonused and Useful Plant and (2) that she had utilized an estimation procedure which appears to have led to an overstatement of Nonused and Useful Plant.

The Accounting Manager of Sunray Utilities desires that her numbers entered for Nonused and Useful Plant be declared void for the purpose of establishing the Sunray-St.Johns Rate Base for the acquisition by United Water. A detailed letter from her regarding this matter (the circumstances of the St. Johns Authority filing, the estimation procedure that she utilized, etc.) is included within the Work Papers of the auditor. According to the Accounting Manager of Sunray Utilities verbal statements: "To the best of my knowledge, all plant/land (other than the \$36,000 Sunray Nassau Land held for future Water use), is currently completely useful, is being used, and is fully operational at the St. Johns Utility for Water & for Sewer and at the Nassau Utility for Water & for Sewer."

RATE BASE (AS OF DECEMBER 31, 1996):  
 SUNRAY --- ST JOHNS

PREPARED BY: MARK CARUTTI

SUNRAY  
 ST JOHNS  
 SEWER  
 Dec. 31, 1996

Schedule #  
 "S"  
 Adjustments  
 BALANCE  
 SEWER

SUNRAY ST JOHNS  
 ADJUSTED  
 BALANCE  
 SEWER  
 Sunny St Johns  
 Sewer  
 Disclosure

PLANT (INCLUDING LAND):

Re-allocate from Water to Sewer  
 General plant/equip also to be sold to United Water  
 General plant/equip also to be sold to United Water

\$1,891,679.00		\$1,900,565.00	D4
----------------	--	----------------	----

ALLOWANCE FOR DEPRECIATION:

Allowance for General plant/equip sold to United Water  
 Allowance for General plant/equip sold to United Water

(\$321,658.00)		(\$322,689.00)	
----------------	--	----------------	--

CLAC:

ACCUM. AMORTIZ. OF CLAC:

(\$236,382.00)		(\$236,382.00)	
----------------	--	----------------	--

\$13,595.00		\$13,595.00	
-------------	--	-------------	--

RATE BASE:

\$1,347,034.00	\$8,025.00	\$1,355,059.00	
----------------	------------	----------------	--

D1 = Invoice of \$7,500 for Sewer Treatment Plant was allocated by the utility into Water Plant  
 D4 = Plant Nonused & Useful per filing with St. Johns Authority included in Sewer Rate Base

RATE BASE (AS OF DECEMBER 31, 1996):  
 SUNRAY --- ST. JOHNS

PREPARED BY: MARK CARUTH

SUNRAY  
 ST. JOHNS  
 WATER  
 Dec. 31, 1996

Schedule #  
 "S"

Adjustments

SUNRAY ST. JOHNS  
 ADJUSTED  
 BALANCE  
 WATER

Sunny St. Johns  
 Water  
 Disclosure

PLANT (INCLUDING LAND):

Re-allocate from Water to Sewer  
 General plant/equip also to be sold to United Water  
 General plant/equip also to be sold to United Water

\$1,109,044.00		\$1,102,980.00	D4
----------------	--	----------------	----

ALLOWANCE FOR DEPRECIATION:

Allowance for General plant/equip sold to United Water  
 Allowance for General plant/equip sold to United Water

(\$25,199.00)	\$10-65	(\$20.00)	(\$286,000.00)
	\$10-65	(\$81.00)	

CIAC:

(\$76,360.00)		(\$76,360.00)
---------------	--	---------------

ACCUM. AMORTIZ. OF CIAC:

\$13,840.00		\$13,840.00
-------------	--	-------------

RATE BASE:

\$791,325.00	(\$8,945.00)	\$784,380.00
--------------	--------------	--------------

D3 = Invoice of \$7,500 for Sewer Treatment Plant was allocated by the utility into Water Plant  
 D4 = Plant Nonused & Useful per Filing with St. Johns Authority included in Water Rate Base.

RATE BASE (AS OF DECEMBER 31, 1996):  
 SUNRAY --- NASSAU

PREPARED BY: MARK CARUTTI

SUNRAY  
 NASSAU  
 SEWER  
 Dec. 31, 1996

Schedule #  
 "S"

Adjustments

SUNRAY NASSAU  
 ADJUSTED  
 BALANCE  
 SEWER

Sunny Nassau  
 Sewer  
 Discharge

PLANT (INCLUDING LAND):

\$1,781,784.00	\$1,781,784.00	D1
----------------	----------------	----

ALLOWANCE FOR DEPRECIATION:

(\$319,695.00)	(\$319,695.00)
----------------	----------------

CLAC:

(\$313,570.00)	(\$313,570.00)
----------------	----------------

ACCUM. AMORTIZ. OF CLAC:

\$64,973.00	\$64,973.00
-------------	-------------

RATE BASE:

\$975,492.00	\$0.00	\$975,492.00
--------------	--------	--------------

D1 = Missing Documentation \$14,960 for Sewer Plant included in Sewer Rate Base

RATE BASE (AS OF DECEMBER 31, 1996):  
 SUNRAY - - - NASSAU

PREPARED BY: MARK CARUTH

SUNRAY  
 NASSAU  
 WATER  
 Dec. 31, 1996

SUNRAY NASSAU  
 ADJUSTED  
 BALANCE  
 WATER

Sunny Name  
 Water  
 Dickhouse

Schedule #  
 5  
 Adjustments

PLANT (INCLUDING LAND):

Plant not to be sold  
 Plant not to be sold

\$1,270,691.00	Site - w301	(\$4,055.00)	\$1,262,533.00	D1, D2
	Site - w301	(\$4,103.00)		

ALLOWANCE FOR DEPRECIATION:

Allowance for Plant not sold  
 Allowance for Plant not sold

(\$288,016.00)	S22a - w301	\$3,073.00	(\$280,881.00)
	S22a - w301	\$4,102.00	

CIAC:

(\$216,701.00)			(\$216,701.00)
----------------	--	--	----------------

ACCUM. AMORTIZ. OF CIAC:

\$30,419.00			\$30,419.00
-------------	--	--	-------------

RATE BASE:

\$796,393.00	(\$1,023.00)	\$795,370.00
--------------	--------------	--------------

D1 = Missing Documentation \$26,000 for Water Plant included in Water Rate Base.  
 D2 = Land held for future Water Plant expansion use \$6,000 included in Water Rate Base.

State of Florida

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



DIVISION OF RECORDS &  
REPORTING  
BLANCA S. BAYÓ  
DIRECTOR  
(904) 413-6770

**Public Service Commission**

June 16, 1997

Ms. Kelli L. Adkins  
Sunray Utilities Company  
Post Office Box 1708  
Fernandina Beach, Florida 32035-1708

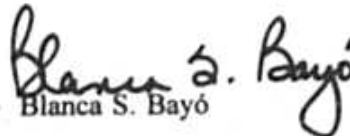
Re: Docket Numbers 970209-WS/970210-WS -- Sunray Utilities  
Rate Base Audit Report  
Audit Control # 97-076-1-2

Dear Ms. Adkins:

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,

  
Blanca S. Bayó

BSB/DNV/cls  
Enclosure  
cc: Public Counsel  
Martin Law Firm