

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: January 16, 2002
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: Docket No. 010852-WS ; Sandy Creek Utilities; Audit Purpose: To establish a current rate base for transfer; Audit Control No. 01-281-1-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Competitive Markets and Enforcement (Harvey)
General Counsel

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Tallahassee District Office

SANDY CREEK UTILITIES, INC.

TRANSFER OF CERTIFICATE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2000

DOCKET NO. 010852-WS

AUDIT CONTROL NO. 01-218-1-1


Lynn M. Deamer, Audit Supervisor


Michael Buckley, Professional Accountant Specialist

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
1.	UNIFORM SYSTEM OF ACCOUNTS.	3
2.	UTILITY PLANT IN SERVICE	4
3.	RETIREMENTS OF WASTEWATER PUMPS	5
4.	RETIREMENTS OF WATER METERS	6
5.	WATER PUMP	7
III.	DISCLOSURES	
1.	ACCUMULATED DEPRECIATION OF PLANT IN SERVICE	8
2.	ACCUMULATED AMORTIZATION OF CIAC.	9
IV.	EXHIBITS	
	RATE BASE - WATER.	10
	RATE BASE - WASTEWATER	11

**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

January 15, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, for the historical year ended December 31, 2000, for Sandy Creek Utilities, Inc. The attached rate base schedules were prepared by the audit staff as part of the utility's petition for a Certificate of Transfer in Docket No. 010852-WS.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's books and records do not reflect the NARUC Uniform System of Accounts. The Water and Wastewater Plant in Service amounts are overstated. The utility's books and records do not reflect retirements. The Water and Wastewater Accumulated Depreciation and Accumulated Amortization of Contributions in Aid of Construction are understated.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verify - The item was tested for accuracy and compared to the substantiating documentation.

RATE BASE: Verified the Utility's Plant in Service additions for the Water and Wastewater systems from the last staff assisted rate case (Docket 900505-WS) through December 31, 2000. Calculated Accumulated Depreciation for the Water and Wastewater systems of the Utility for the same time period. Compiled Contributions in Aid of Construction (CIAC) for the same time period. Calculated Accumulated Amortization of CIAC for the same time period.

EXCEPTIONS

Exception No. 1

Subject: Uniform System of Accounts

Statement of Fact: Commission Rule 25-30.115(1), F.A.C. states, "Water and Wastewater utilities shall, effective January 1, 1998, maintain its accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners." The Utility's books and records do not reflect proper use of the NARUC USOA account numbers.

NARUC, Class C, Accounting Instruction 2. B. states, "All books of account, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries." The Utility does not maintain a General Ledger, Balance Sheet, or Income Statement in accordance with the NARUC Uniform System of Accounts.

Recommendation: The Utility should maintain its books and records in conformity with NARUC USOA per Commission Rule 25-30.115 F.A.C.

Exception No. 2

Subject: Utility Plant In Service

Statement of Fact: Audit staff accumulated and scheduled all invoices that could be located to support plant additions to both the Water plant and the Wastewater plant for the years 1990-2000. Audit balances differ from the utility's balances as reported in the Annual Reports filed with the Commission. These differences are related to the removal of items incorrectly capitalized, the capitalization of items incorrectly expensed by the utility, and the supporting documentation (primarily invoices) not located for several plant additions booked by the utility.

NARUC, Class C, Accounting Instruction 2. B. states, "All books of account, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries." The Utility does not maintain a General Ledger, Balance Sheet, or Income Statement in accordance with the NARUC Uniform System of Accounts.

Recommendation: The following table reflects the audited Plant In Service balances for Water and Wastewater for the period ended December 31, 2000.

PLANT IN SERVICE	WATER	WASTEWATER
Utility Balance at 12/31/2000	\$455,149	\$705,757
Audit Balance at 12/31/2000	422,834	632,183
Audit Adjustment	(\$32,315)	(\$73,574)

Exception No. 3

Subject: Retirements of Wastewater Pumps

Statement of Fact: Commission Rule 25-30.140(1)(o), F.A.C. states, "Property Retired - As applied to utility plant, property that has been removed, sold, abandoned, destroyed or which has been withdrawn from service for any cause" and Commission Rule 25-30.140(1)(t), F.A.C. states, "Those items of utility plant which, when retired with or without replacement, are accounted for by crediting the book cost to the utility plant account in which it is included."

There are no retirements of wastewater pumps reported on the utility's annual reports filed with the Commission for the years 1990 through 2000. The utility's wastewater system requires that there be a 1/2 hp or 1 hp pump located at each customer site. The number of pumps purchased in some years exceeds the number of new connections that year. The seller of the utility states that pumps purchased in excess of the number of new connections were to replace old pumps that were worn out or broken. The seller also states that an inventory of these pumps was not maintained. These replaced pumps are not being retired from the books and records of the utility. Audit staff was not able to determine which pumps and at what original cost the pumps should be retired.

Recommendation: The utility should begin accounting for retirements in accordance with Commission Rule 25-30.140(1), F.A.C. This information is provided for use by the FPSC analyst and to note that in a future staff assisted rate proceeding, this issue should be addressed.

Exception No. 4

Subject: Retirements of Water Meters

Statement of Fact: Commission Rule 25-30.140(1)(o), F.A.C. states, "Property Retired - As applied to utility plant, property that has been removed, sold, abandoned, destroyed or which has been withdrawn from service for any cause" and Commission Rule 25-30.140(1)(t), F.A.C. states, "Those items of utility plant which, when retired with or without replacement, are accounted for by crediting the book cost to the utility plant account in which it is included."

There are no retirements of water meters reported on the utility's annual reports filed with the Commission for the years 1990 through 2000. The number of meters purchased in some years exceeds the number of new connections that year. The seller of the utility states that these meters were used to replace old meters that were worn out or broken. The seller states that an inventory of meters was not maintained. The replaced meters are not being retired from the books and records of the utility. Audit staff was not able to determine which meters and at what original cost the meters should be retired.

Recommendation: The utility should begin accounting for retirements in accordance with Commission Rule 25-30.140(1), F.A.C. This information is provided for use by FPSC analyst and to note that in a future staff assisted rate proceeding, this issue should be addressed.

Exception No. 5

Subject: Water Pump

Statement of Fact: Commission Rule 25-30.140(1)(o), F.A.C. states, “Property Retired - As applied to utility plant, property that has been removed, sold, abandoned, destroyed or which has been withdrawn from service for any cause” and Commission Rule 25-30.140(1)(t), F.A.C. states, “Those items of utility plant which, when retired with or without replacement, are accounted for by crediting the book cost to the utility plant account in which it is included.”

In 1993, the utility incurred \$3,565 to replace a 7-1/2 hp water well pump and other repair work. The utility increased Plant In Service by this amount. The utility made no corresponding entry to retire the original cost of the pump and corresponding adjustment to Accumulated Depreciation. The correct accounting treatment would be to remove the original cost of the pump from Plant In Service with the corresponding adjustment to Accumulated Depreciation.

In 2000, the utility paid \$1,970 to replace the pump because it was rendered inoperable by a lightning strike. Audit staff reduced Plant In Service by \$3,565 and increased Plant in Service by \$1,970. These adjustments are included in the audit adjustment in Exception 2. No adjustment was made to reduce Plant in Service by the original cost of the pump nor was an adjustment made to Accumulated Depreciation because audit staff could not determine the original cost of the pump when the plant was constructed.

Recommendation: The utility should begin accounting for retirements in accordance with Commission Rule 25-30.140(1), F.A.C. This information is provided for use by the FPSC analyst and to note that in a future staff assisted rate proceeding, this issue should be addressed.

DISCLOSURES

Disclosure 1

Subject: Accumulated Depreciation of Plant In Service

Statement of Facts: Based on the audit balance of Plant In Service for the Water and Wastewater systems, the Accumulated Depreciation balance as of December 31, 2000 was calculated using the rates in accordance with Commission Rule 25-30.140 F.A.C for Class C Water and Wastewater utilities.

Recommendation: The following table reflects the audited Plant In Service balances for Water and Wastewater for the period ended December 31, 2000.

ACCUMULATED DEPRECIATION	WATER	WASTEWATER
Utility Balance at 12/31/2000	\$233,705	\$421,576
Audit Balance at 12/31/2000	237,189	430,055
Audit Adjustment	\$3,484	\$8,479

Disclosure 2

Subject: Accumulated Amortization of Contributions in Aid of Construction

Statement of Facts: NARUC, Class C, Account 272, Accumulated Amortization of Contributions in Aid of Construction, Item B, states “A group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset.”

Based on the audit balance of Contributions in Aid of Construction (CIAC) for the Water and Wastewater systems, the Accumulated Amortization of CIAC balance as of December 31, 2000 was calculated using a composite rate for each year.

Recommendation: The following table reflects the audited Accumulated Amortization of CIAC balances for Water and Wastewater for the period ended December 31, 2000.

ACCUMULATED AMORTIZATION OF CIAC	WATER	WASTEWATER
Utility Balance at 12/31/2000	\$39,682	\$99,833
Audit Balance at 12/31/2000	43,664	105,706
Audit Adjustment	\$3,982	\$5,873

**Sandy Creek Utilities, Inc.
Certificate of Transfer Audit
Test Year Ended 12/31/2000
Docket 010852 ACN 01-218-1-1
Rate Base Schedule-Water**

Description:	BALANCE PER UTILITY @ TYE 12/31/2000	AUDIT ADJUSTMENT	BALANCE PER AUDIT @ TYE 12/31/2000
Plant In Service	455,149	(32,315)	422,834
Land/Non depreciable Plant	1,300	0	1,300
Plant Held for future use	0	0	0
Acquisition Adjustment	0	0	0
CWIP	0	0	0
CIAC	(87,151)	0	(87,151)
Accumulated Depreciation	(233,705)	(3,484)	(237,189)
Amortization of Acquisition Adjustment	0	0	0
Accumulated Amortization of CIAC	39,682	3,982	43,664
TOTAL RATE BASE	175,275	(31,817)	143,458

Sandy Creek Utilities, Inc.
Certificate of Transfer Audit
Test Year Ended 12/31/2000
Docket 010852 ACN 01-218-1-1
Rate Base Schedule-Wastewater

Description:	BALANCE PER UTILITY @ TYE 12/31/2000	AUDIT ADJUSTMENT	BALANCE PER AUDIT @ TYE 12/31/2000
Plant In Service	705,757	(73,574)	632,183
Land/Non depreciable Plant	3,000	0	3,000
Plant Held for future use	0	0	0
Acquisition Adjustment	0	0	0
CWIP	0	0	0
CIAC	(154,500)	0	(154,500)
Accumulated Depreciation	(421,576)	(8,479)	(430,055)
Amortization of Acquisition Adjustment	0	0	0
Accumulated Amortization of CIAC	99,833	5,873	105,706
TOTAL RATE BASE	232,514	(76,180)	156,334