

State of Florida



Public Service Commission

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

DATE: March 13, 2002
TO: Division of Economic Regulation (Clapp)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: Docket # 011379-SU; Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant; Audit Purpose: establish rate base for transfer of utility; Audit Control No. 01-320-1-1

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
Office of Public Counsel

Mr. Frank J. Seifert, Chief Financial Officer
Gulf Aire Wastewater Treatment Plant
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Mr. Ike Duren, Manager
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Tallahassee District Office

GULF AIRE PROPERTIES, INC.
d/b/a GULF AIRE WASTEWATER TREATMENT PLANT

CERTIFICATE OF TRANSFER AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2000

DOCKET NO. 011379-SU
AUDIT CONTROL NO. 01-320-1-1

Handwritten signature of Edward D. Bass II in cursive script.

Edward D. Bass II, Audit Manager

Handwritten signature of Barry Davis in cursive script.

Barry Davis, Audit Staff

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer, Audit Supervisor

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

March 4, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedule of Rate Base, for the historical 12-month period ended December 31, 2000, for Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant. The attached schedule was prepared by the audit staff as part of our work in Docket No. 011379-SU.

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 National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts. The utility (seller) does not maintain customer records. Plant in Service is overstated. The utility does not own or lease the land on which its lift station is located. Contributions in Aid of Construction (CIAC) is understated. Allowance for Funds Prudently Invested (AFPI) treatment facilities charge should no longer be collected. Accumulated depreciation is overstated. Accumulated amortization of CIAC is understated.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining 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.

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

RATE BASE: Verified supporting documentation of additions to plant in service for the period January 1, 1986 through December 31, 2000. Verified land ownership in the name of the current owner (buyer). Calculated CIAC through the period ended December 31, 2000. Calculated accumulated depreciation using rates in accordance with Commission Rule 25-30.140, F.A.C. Calculated accumulated amortization of CIAC using rates in accordance with Commission Rule 25-30.140, F.A.C.

OTHER: Obtained a detailed customer listing. Verified that the utility's existing rates and charges are in accordance with its tariff. Obtained operational data of wastewater gallons treated.

EXCEPTIONS

Exception No. 1

Subject: NARUC Uniform System of Accounts

Statement of Fact: Commission Rule 25-30.115, F.A.C. requires wastewater utilities to maintain its books and records in conformity with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts.

NARUC, Class C, Accounting Instruction 2. A. states, “the books of accounts of all wastewater utilities shall be kept by the double entry method, on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.”

NARUC, Class C, Accounting Instruction 2. B. states, “all books of accounts, 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 (seller) does not maintain its books and records using the account numbers and instructions in accordance with the NARUC Uniform System of Accounts.

Recommendation: The utility should maintain its books and records in accordance with Commission Rule 25-30.115, F.A.C., Uniform System of Accounts for Water and Wastewater Utilities.

Exception No. 2

Subject: Customer Records

Statement of Fact: Commission Rule 25-30.335 (7), F.A.C. states, “the utility shall maintain a record of each customer’s account for the most current 2 years so as to permit reproduction of the customer’s bills during the time that the utility provided service to that customer.”

The utility (seller) does not maintain a record of each customer’s account. The utility (buyer) is maintaining a record of each customer’s account.

Recommendation: The utility should maintain a record of each customer’s account in accordance with Commission Rule 25-30.335 (7), F.A.C., Customer Billing.

Exception No. 3

Subject: Plant in Service

Statement of Fact: The utility's annual report filed with the Commission for the year ended December 31, 2000 reflects a total depreciable plant in service balance of \$512,250.

NARUC, Class C, Accounting Instruction 2. B. states, "all books of accounts, 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."

Recommendation: The audit staff accumulated and scheduled all invoices that could be located to support plant additions for the years ended 1987 through 2000. The following table reflects the difference between the utility's plant in service amount and the audit staff's plant in service amount for the period ended December 31, 2000. This difference is related to the lack of supporting documentation for several plant additions booked by the utility. The utility (buyer) is maintaining supporting documentation for future plant additions.

Depreciable Plant In Service - Wastewater	Amount
Utility Balance as of December 31, 2000	\$512,250
Audit Balance as of December 31, 2000	\$320,568
Audit Adjustment	(\$191,682)

Exception No. 4

Subject: Land

Statement of Fact: Commission Rule 25-30.037 (2) (q), F.A.C. requires a utility to provide evidence that the utility owns the land upon which the utility treatment facilities are located, or a copy of an agreement which provides for the continued use of the land, such as a 99-year lease. The Commission may consider a written easement or other cost-effective alternative.”

One of the utility’s lift stations is located on land which it does not own or have an agreement for continued use of the land. The utility’s annual report does not reflect this land.

On July 25, 2001 the owner of the land on which the utility’s lift station is located filed a consumer complaint with the Commission. In response to the customer’s complaint a letter dated October 2, 2001 by Tim Devlin, Director of the Division of Economic Regulation states that the Commission does not have the authority to resolve property disputes. The utility (buyer) is currently in the process of trying to come to an agreement with the owner of the land. At this time the audit staff has no knowledge of any legal action taken to resolve this matter.

Recommendation: In accordance with Commission Rule 25-30.037 (2) (q), F.A.C. the utility should provide evidence that it owns or has an agreement for continued use of the land upon which the lift station is located.

Exception No. 5

Subject: Contributions In Aid of Construction (CIAC)

Statement of Fact: The utility's annual report filed with the Commission for the year ended December 31, 2000 reflects CIAC of \$212,054.

Commission Rule 25-30.140 (8) (a), F.A.C. requires utilities to maintain adequate records to account for CIAC.

NARUC, Class C, Accounting Instruction 2. B. states, "all books of accounts, 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 (seller) does not maintain a record of CIAC collections. There was no supporting documentation for the utility's CIAC amount filed in its annual report. Just prior to the sale of the utility a list of customers was prepared for the buyer. The customer list reflects 306 total customers, of which 249 are full service customers and 57 are guaranteed revenue customers.

Recommendation: The following table reflects the audit staff's calculation of CIAC as if all 306 customers paid the applicable connection fees. Due to the lack of customer records the audit staff calculated CIAC as though the customers were connected on a pro rata basis between the years 1987 through 2000 and submitted the charges in accordance with the utility's tariff.

Year(s)	Number of Customers	Tariff Amount	Total
1986 - Per Analyst Workpapers in Docket No. 861569-SU	46	N/A	\$81,050
1987	115	\$800	\$92,000
1988 through 2000	145	\$500	\$72,500
Totals	306		\$245,550

The following table reflects the difference between the utility's CIAC amount and the audit staff's CIAC calculation referred to above for the period ended December 31, 2000.

Contributions in Aid of Construction - Wastewater	Amount
Utility Balance as of December 31, 2000	\$212,054
Audit Balance as of December 31, 2000	\$245,550
Audit Adjustment	\$33,496

Exception No. 6

Subject: Allowance for Funds Prudently Invested (AFPI)

Statement of Fact: The utility's tariff reflects an AFPI treatment facilities charge. The utility's tariff states that, "these charges will be applicable until Gulf Aire extends service to 78 additional equivalent residential connections (ERCs) (beginning April 1, 1989). Once Gulf Aire extends service to those 78 additional ERCs, the AFPI charges will no longer apply."

The utility's annual reports reflect total ERCs of 130 and 217 for the years ended December 31, 1989 and December 31, 2000, respectively. The difference in number of ERCs from 1989 and 2000 is 87 (130 - 217), which exceeds the 78 ERCs as reflected in the utility's tariff. The utility (buyer) is currently collecting AFPI for treatment facilities.

Recommendation: In accordance with the utility's tariff, the utility (buyer) should no longer be charging AFPI for treatment facilities since the 78 additional ERCs have been connected. Due to the lack of customer records by the utility (seller), the audit staff was not able to determine which customers paid AFPI charges. The utility (buyer) has a record of AFPI collections, but it is subsequent to the date of transfer. The utility (buyer) should maintain separate supporting documentation for CIAC collections and AFPI collections.

DISCLOSURES

Disclosure No. 1

Subject: Accumulated Depreciation

Statement of Fact: The utility's annual report filed with the Commission for the year ended December 31, 2000 reflects accumulated depreciation of \$278,147. The utility's annual report reflects accumulated depreciation calculated using depreciation rates prescribed in Commission Rule 25-30.140, F.A.C.

Recommendation: Based on the audit staff's calculation of Plant In Service in Exception No. 3, 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 wastewater utilities. The following table reflects the difference between the utility's accumulated depreciation balance calculated on the utility's determined Plant in Service balance and the audit staff's accumulated depreciation balance calculated on the audit staff's determined Plant in Service balance for the period ended December 31, 2000. The audit adjustment is the difference between the audit staff's calculated accumulated depreciation amount and the utility's annual report accumulated depreciation amount.

Accumulated Depreciation - Wastewater	Amount
Utility Balance as of December 31, 2000	\$278,147
Audit Balance as of December 31, 2000	\$212,055
Audit Adjustment	(\$66,092)

Disclosure No. 2

Subject: Accumulated Amortization of CIAC

Statement of Fact: The utility's annual report filed with the Commission for the year ended December 31, 2000 reflects accumulated amortization of CIAC of \$93,730.

Recommendation: The audit staff calculated accumulated amortization of CIAC using the CIAC balance as determined by the audit staff and the rates in accordance with Commission Rule 25-30.140, F.A.C. for Class C wastewater utilities for the period ended December 31, 2000. The following table reflects the difference between the utility's accumulated amortization of CIAC as reflected in its annual report and the audit staff's accumulated amortization of CIAC for the period ended December 31, 2000. Due to the lack of customer records the audit staff calculated CIAC as though the customers were connected on a pro rata basis between the years 1987 through 2000 and submitted the charges in accordance with the utility's tariff (See Exception No. 5). The audit adjustment is the difference between the audit staff's calculated accumulated amortization of CIAC and the utility's annual report accumulated amortization of CIAC.

Accumulated Amortization of CIAC - Wastewater	Amount
Utility Balance as of December 31, 2000	\$93,730
Audit Balance as of December 31, 2000	\$128,909
Audit Adjustment	\$35,179

Gulf Aire Properties, Inc. d/b/a Gulf Aire Wastewater Treatment Plant
Certificate of Transfer Audit
Historical Year Ended 12/31/2000
Docket No. 011379-SU Audit Control No. 01-320-1-1
Rate Base Schedule - Wastewater

Description:	BALANCE PER UTILITY AS OF 12/31/2000	AUDIT ADJUSTMENT	AUDIT REFERENCE	BALANCE PER AUDIT AS OF 12/31/2000
Plant In Service	\$512,250	(\$191,682)	E-3	\$320,568
Land/Non Depreciable Plant	14,364	0		14,364
Plant Held for Future Use	0	0		0
Acquisition Adjustment	0	0		0
CWIP	0	0		0
Contributions in Aid of Construction (CIAC)	(212,054)	(33,496)	E-5	(245,550)
Accumulated Depreciation	(278,147)	66,092	D-1	(212,055)
Amortization of Acquisition Adjustment	0	0		0
Accumulated Amortization of CIAC	93,730	35,179	D-2	128,909
TOTAL RATE BASE	\$130,143	(\$123,907)		\$6,236

E - Exception

D - Disclosure