



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: January 9, 2003
TO: Division of Economic Regulatory (Clapp)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 020945-SU; **Company Name:** Creola, Inc.;
Audit Purpose: Establish rate base for transfer of utility;
Audit Control No. 02-260-3-1

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 (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Orlando District Office

CREOLA, INCORPORATED

ESTABLISH RATE BASE AT TRANSFER

AS OF JUNE 15, 2001

**DOCKET NO. 020945-SU
AUDIT CONTROL NO. 02-260-3-1**

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, Audit Supervisor

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

DECEMBER 30, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedule of Rate Base as of June 15, 2001, for Creola, Inc. The attached schedule was prepared by the audit staff as part of our work in the company's application for a Certificate of Transfer in Docket No. 020945-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 are not in compliance with NARUC and the Commission Rules.

Total wastewater UPIS was overstated by \$48,759.52 as of June 15, 2001.

Accumulated depreciation as of June 15, 2001, was understated by \$17,369.33.

Accumulated amortization of CIAC was understated by \$2,776.82 as of June 15, 2001.

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 the financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

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

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

RATE BASE: Prepared Creola, Inc.'s wastewater rate base as of June 15, 2001. Compiled all plant additions acquired from January 1, 1997 through June 15, 2001. Verified and traced plant additions to supporting documentation provided by the utility. Reconciled beginning utility rate base balances as of December 31, 1996, to those established per FPSC compliance audit, dated April 4, 1997, AC #97-037-3-1. Recomputed accumulated depreciation and amortization as of June 15, 2001.

Exception No. 1

Subject: Books and Records

Statement of Fact: Rule 25-30.145(1), Florida Administrative Code, (F.A.C.), requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction 2.A., states,

The books of accounts of all water and wastewater utilities shall be kept by the double entry method on an accrual basis.

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.

Rule 25-30.145, F.A.C., and Florida Statute 367.156 provide Commission staff with reasonable access to the utility's books and records.

Recommendation: Creola, Inc. was not in compliance with the aforementioned Rules, Instructions, and Statute. The utility did not provide the auditor with books of account as prescribed by the NARUC requirements. The only records submitted by the utility were various invoices and/or checks in support of plant acquired from January 1, 1997 through June 15, 2001.

The utility should be required to conform with all directives cited.

Exception No. 2

Subject: Utility-Plant-in-Service

Statement of Fact: Creola, Inc., in its application for transfer filing, reflected \$45,832 of wastewater utility plant-in-service additions acquired from January 1, 1997 through June 15, 2001.

Recommendation: The utility provided appropriate supporting documentation (invoices and checks) for \$8,679.09 of the total \$45,832.

\$7,895.47 of the \$8,679.09 additions were replacement items for equipment not retired by the utility. The audit staff estimated the retired amount at 75 percent of replacement cost in accordance with Order PSC-01-1574-PAA-WS, issued July 30, 2001.

In addition, \$29,053.00 of transportation equipment (truck) was retired in 1998.

The summarized adjustment and plant accounts affected are as follows:

UPIS balance (excluding land) as of 12/31/96, per audit staff compliance investigation (Audit Control #97-037-3-1)	\$438,626.00	
Supportable portion of \$45,832 UPIS additions reflected by utility from 1/01/97 - 6/15/01	8,679.09	
Retired cost of assets replaced based on 75% of replacement cost in accordance with Order PSC-01-1574-PAA-WS, issued 07/30/01	(5,921.61)	
Transportation equipment retired	<u>(29,053.00)</u>	
UPIS per staff as of 6/15/01		\$412,330.48
UPIS per utility as of 6/15/01		<u>461,090.00</u>
Audit staff adjustment		<u>(\$48,759.52)</u>

Exception No. 2, continued

Account No.	Description	UPIS As of 6/15/01 Per Audit Staff	UPIS As of 6/15/01 Per Utility	Difference
351	Organization	\$2,786.00	\$2,787.00	(\$1.00)
354	Structures & Improvements	8,579.00	47,831.00	(39,252.00)
360	Collection - Forced Sewer	101,205.00	101,765.00	(560.00) -
361	Collection - Gravity Sewer	178,572.00	1,912.00	176,660.00
362	Special Collecting Structures	0.00	178,572.00	(178,572.00)
363	Services	293.00	0.00	293.00
365	Flow Measuring Installs	0.00	293.00	(293.00)
370	Receiving Wells	1,623.00	5,932.00	(4,309.00)
371	Pumping Equipment	523.55	0.00	523.55
380	Transmission & Distribution Equipment	112,435.93	79,196.00	33,239.93
381	Plant Sewers	436.00	436.00	0.00
382	Outfall Sewer Lines	90.00	0.00	90.00
389	Other Plant & Misc. Equipment	2,479.00	2,479.00	0.00
390	Office Furniture & Equipment	2,457.00	2,457.00	0.00
391	Transportation Equipment	0.00	36,579.00	(36,579.00)
395	Power Operated Equipment	851.00	851.00	0.00
	UPIS Excluding Land	\$412,330.48	\$461,090.00	(\$48,759.52)

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: Creola, Inc. reflected wastewater accumulated depreciation of \$288,153.00 as of June 15, 2001.

Recommendation: The audit staff recomputed accumulated depreciation as of June 15, 2001, to reflect the adjustments per Audit Exception No. 2.

It is recommended that the accounts on the following page be adjusted by a total of \$17,369.33 to reflect a reserve balance of \$305,522.33.

Exception No. 3, continued

Account No.	Description	Acc. Dep. As of 12/31/96 per FPSC Control #97-037-3-1	Additions to Acc. Dep. As of 6/15/01 on UPIS Balances As of 12/31/96	Acc. Dep. As of 6/15/01 on UPIS Additions Acquired From 1/01/97 - 6/15/01	Retired UPIS	Acc. Dep. As of 6/15/01 per Audit Staff	Acc. Dep. As of 6/15/01 per Utility	Difference
108-351	Organization	\$439.00	\$428.31	\$0.00	\$0.00	\$867.31	\$2,787.00	(\$1,919.69)
108-354	Structures & Improvements	773.00	1,738.55	0.00	0.00	2,511.55	25,573.00	(23,061.45)
108-360	Collection - Forced Sewer	40,462.00	16,711.18	0.00	0.00	57,173.18	65,217.00	(8,043.82)
108-361	Collection - Gravity Sewer	102,447.00	29,486.18	0.00	0.00	131,933.18	359.00	131,574.18
108-363	Services	33.00	37.32	0.00	0.00	70.32	120,938.00	(120,867.68)
108-365	Flow Measuring Equipment	0.00	0.00	0.00	0.00	0.00	293.00	(293.00)
108-370	Receiving Wells	372.00	482.39	0.00	0.00	854.39	744.00	110.39
108-371	Pumping Equipment	0.00	0.00	45.43	(1,570.67)	(1,525.24)	0.00	(1,525.24)
108-380	Transmission & Distribution Equipment	59,958.00	27,295.42	183.50	(4,350.94)	83,085.98	57,440.00	25,645.98
108-381	Plant Sewers	85.00	60.74	0.00	0.00	145.74	111.00	34.74
108-382	Outfall Sewer Lines	61.00	13.37	0.00	0.00	74.37	0.00	74.37
108-389	Other Plant & Misc. Equipment	207.00	614.01	0.00	0.00	821.01	891.00	(69.99)
108-390	Office Furniture & Equipment	284.00	730.27	0.00	0.00	1,014.27	1,099.00	(84.73)
108-391	Transportation Equipment	6,154.00	21,587.87	0.00	0.00	27,741.87	11,939.00	15,802.87
108-395	Power Operated Equipment	375.00	379.40	0.00	0.00	754.40	762.00	(7.60)
		\$211,650.00	\$99,565.01	\$228.93	(\$5,921.61)	\$305,522.33	\$288,153.00	\$17,369.33

Exception No. 4

Subject: Accumulated Amortization of CIAC

Statement of Fact: Creola, Inc. reflected a contributions-in-aid-of-construction (CIAC) balance of \$271,039.00 as of December 31, 1996. The utility distributed the amount between the following accounts. There were no additions to CIAC since December 31, 1996.

Acct. 360 - Collecting Sewers - Force	\$92,467.00
Acct. 362 - Special Collecting Structures	<u>178,572.00</u>
Total CIAC per utility as of 12/31/96 & 6/15/01	\$271,039.00

Recommendation: The CIAC amount reconciles with that established per the prior compliance investigation (AC #97-037-3-1). However, the utility balance per the UPIS accounts differed from that of the audit staff as of December 31, 1996, as follows:

	Per Audit Staff	Per Utility	Difference
Acct. 360 - Collecting Sewers - Force	\$101,205.00	\$101,765.00	(\$560.00)
Acct. 362 - Special Collecting Structures	<u>0.00</u>	<u>178,572.00</u>	<u>(178,572.00)</u>
Total	101,205.00	\$280,337.00	(\$179,132.00)

For amortization purposes, the audit staff applied 3.1 percent per annum, consistent with Commission policy when the contributions could not be directly related to a particular asset.

The adjustment is computed as follows:

Accumulated amortization - CIAC balance per audit staff as of 12/31/96, (AC #97-037-3-1)	\$148,880.00	
Amortization from 1/01/97 through 6/15/01 (\$271,039*.031*4.45833 yrs.)	<u>37,459.82</u>	
Accumulated amortization - CIAC balance per audit staff as of 6/15/01		\$186,339.82
Accumulated amortization - CIAC balance per utility as of 6/15/01		<u>183,563.00</u>
Difference		<u>\$2,776.82</u>

The audit staff recommends that accumulated amortization of CIAC be increased by \$2,776.82 to reflect a balance of \$186,339.82 as of June 15, 2001.

EXHIBIT

**CREOLA, INCORPORATED
WASTEWATER RATE BASE
DOCKET NO. 020945-SU
ESTABLISH RATE BASE AT TRANSFER
AS OF JUNE 15, 2001**

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$461,090.00	(\$48,759.52)	AE 2	\$412,330.48
LAND	1,768.00	0.00		1,768.00
ACCUMULATED DEPRECIATION	(288,153.00)	(17,369.33)	AE 3	(305,522.33)
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	(271,039.00)	0.00		(271,039.00)
ACCUMULATED AMORTIZATION OF CIAC	183,563.00	2,776.82	AE 4	186,339.82
TOTAL	\$87,229.00	(\$63,352.03)		\$23,876.97