

State of Florida



ORIGINAL

Public Service Commission

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COMMISSION
CLERK

DATE: January 5, 2004
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030991-WU; **Company Name:** Suwanne Valley Estates; **Audit Purpose:** Establish current rate base as of the date of transfer;
Audit Control No. 03-311-1-1

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

Mr. Jack Espenship, President
Suwanne Valley Estates
2915 Baxter Lane
Lake City, FL 32055

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Tallahassee District Office

SUWANNEE VALLEY ESTATES

TRANSFER RATE BASE AUDIT

RATE BASE AS OF DATE OF TRANSFER

DOCKET NO. 030991-WU

AUDIT CONTROL NO. 03-311-1-1

Michael Buckley
Michael Buckley, Audit Manager

Lynn M. Deamer
Lynn M. Deamer, Audit Supervisor

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

December 17, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the rate base of Suwannee Valley Estates to establish current rate base as of the date of transfer. This is part of Docket No. 030991-WU, Transfer of Ownership.

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

An original cost study must be done before Rate Base can be established. The Utility does not use NARUC accounts. There is no General Ledger or original costs. The land is not in the Utility's name. A co-owner of the Utility and land was not included in the offer to purchase.

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: Rate Base could not be calculated. The Utility could not provide original source documents for Plant-in-Service. The following schedules could not be prepared and are contingent on an original cost study : Rate Base, Plant-in-Service, Accumulated Depreciation, Contributions in Aid of Construction (CIAC), and Accumulated Amortization of CIAC.

Recomputed one months utility billing record to verify the existing rates charged by the Utility.

Verified ownership of land as being owned by Bud Espenship and Dave Mangrum.

Calculated implied CIAC through Service Availability Charge.

Scanned application for transfer.

Reconciled the Annual Reports for Suwannee Valley Estates and Gator Utilities to Gator Utilities Tax Returns.

EXCEPTIONS

Exception No. 1

Subject: Uniform System of Accounts

Statement of Fact: 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 (USOA) adopted by the National Association of Regulatory Utility Commissioners." The Utility does not use 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 or a Balance Sheet. The Annual Report filed with the Commission only contains the Income Statement Accounts. It does not contain Balance Sheet or Plant In Service Accounts.

Recommendation: The Utility should maintain its accounts and records in conformity with NARUC USOA and Commission rules cited above.

Exception No. 2

Subject: Land

Statement of Fact: Land is not recorded in the Annual Report filed with the Commission for Suwannee Valley Estates. There is no General Ledger. The water well is located on lot 13, Block C, in the development. The Deeds for Lot 13 shows that it is half owned by Bud Espenship and half owned by Dave Mangrum. The Annual Report also shows them as owners of the Utility. Rule 25-30.037(2)(q), Florida Administrative Code (F.A.C.) states, "each application for transfer shall include 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 request for transfer does not list Dave Mangrum as half owner of the land or of the Utility. The request only had a contract to buy the Utility and land from Bud Espenship. The original owner sold Suwannee Valley Estates (The Development) to Ray Cornett and Bud Espenship in 1980. On June 30, 1983, Ray Cornett sold an undivided one-half interest in Lot 13, Block C, to Dave Mangrum. This is the lot the Utility is on. Dave Mangrum told staff he was not aware of the sale.

Recommendation: The request must be revised and Dave Mangrum informed of any actions.

Exception No. 3

Subject: Customer Deposits

Statement of Fact: The Utility collects deposits from its customers consisting of two months water payments. This total for 16 customers at \$12 per month multiplied by two is \$384.00. This amount is not provided for in the offer to purchase nor has the deposits been refunded to the customer. Rule 25-30.311(4)(a), F.A.C. states, "Each utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6 percent per annum. The utility shall pay an interest rate of 7 percent per annum on deposits of nonresidential customers qualifying under subsection (5) when the utility elects not to refund such a deposit after 23 months." Subsection (5) states, " After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposits and shall, at its option, either refund or pay the higher rate of interest specified for nonresidential deposits."

Recommendation: The Utility needs to change its policy for customer deposits.

Exception No. 4

Subject: Plant-In-Service

Statement of Fact: The National Association of Regulatory Utility Commissioners (NARUC), Class C, Accounting Instruction 2. B, requires all water and wastewater utilities to maintain its books and records,

...so that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner to support fully the facts pertaining to such entries.

Rule 25-30.115(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).

The Utility could not provide original source documents for Plant-In-Service. The Annual Report to the Commission listed no Plant nor did the Tax Return. Staff found five invoices for plant replacements since 1996. A schedule of these replacements is shown on Exhibit I of this report.

Recommendation: The Commission should require the Utility to conform to the USOA and Commission rule cited above.

III. EXHIBITS

SUWANNEE VALLEY ESTATES PLANT REPLACEMENTS

EXHIBIT - 1

	<u>Description</u>	<u>Date Purchased</u>	<u>Amount</u>
1.	Meters	6/22/98	\$477.09
2.	Ball Curb Valve	3/18/98	\$337.29
3.	315 Gal Water Tank	6/26/96	\$673.94
4.	Myers Pump	4/20/98	\$580.31
5.	Chlorinator	8/01/97	\$290.60