

State of Florida



Public Service Commission

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

DATE: February 5, 2004
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030891-WS; **Company Name:** IHC Realty Partnership, L.P. d/b/a Plantation Utilities; **Audit Purpose:** Establish a current rate base as of the date of transfer; **Audit Control No.** 03-276-3-1

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)
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Division of Competitive Markets and Enforcement (Harvey)
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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

**IHC REALTY PARTNERSHIP, L.P.
D/B/A PLANTATION UTILITIES**

**CERTIFICATE OF TRANSFER AUDIT
AS OF APRIL 30, 2003**

**DOCKET NO. 030891-WS
AUDIT CONTROL NUMBER 03-276-3-1**

A handwritten signature in cursive script, appearing to read "Intesar Terkawi".

Intesar Terkawi, Audit Manager

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

Charleston J. Winston, District Audit Supervisor

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

January 16, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, as of April 30, 2003, for IHC Realty, L.P. d/b/a Plantation Utilities. The attached schedules were prepared by the auditor as part of our work in Docket No. 030891-WS, Certificate of Transfer.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's water plant is overstated by \$54,904. The utility's wastewater plant is overstated by \$40,277.

The utility did not adjust the land for water per Commission Order No. PSC-98-0994-FOF-WS, issued July 20, 1998.

The utility's water accumulated depreciation balance is overstated by \$239,305 as of April 30, 2003. The utility's wastewater accumulated depreciation balance is understated by \$473 as of April 30, 2003.

The utility's accumulated amortization balances are understated by \$2,520 and \$28,848 for water and wastewater, respectively, as of April 30, 2003.

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.

Verified - The items were tested for accuracy, and compared to the substantiating documentation.

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.

RATE BASE: Compiled utility plant-in-service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from December 31, 1996. Reconciled rate base balances authorized in Commission Order No. 98-0994-FOF-WS, issued on July 20, 1998, to the December 31, 1996 general ledger balance. Verified 100 percent of plant additions. Verified 100 percent of CIAC additions and agreed to the FPSC-approved tariff amounts. Tested additions to accumulated depreciation and accumulated amortization for proper rates and calculations.

OTHER: Reviewed and recalculated a sample of customer bills from the utility's billing register to verify the Commission-approved rates at April 30, 2003.

Exception No. 1

Subject: Water and Wastewater Plant

Statement of Fact: The utility recorded \$1,591,325 and \$1,378,519 for water and wastewater plant as of December 31, 2002.

Per Commission Order No. 98-0994, issued July 20, 1998, utility plant for water and wastewater should have been recorded at \$1,417,325 and \$1,200,077, respectively, as of December 31, 1996.

Per NARUC, Class B, Accounting Instruction No. 22B (2),

When a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property.

Per NARUC Accounting Instruction Number 2A,

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification of all the facts relevant thereto.

Recommendation: The utility did not make the required plant adjustments per the above Order. The audit staff recommends that the Commission should require the utility to decrease the water plant by \$54,904 and to decrease the wastewater plant by \$40,277, according to the schedule on the following page. The total adjustments for unsupported plant additions are \$390 and \$4,259 for water and for wastewater, respectively.

Exception No. 1, continued

Per Utility	Per Audit	Adjustment	Description
Water			
\$1,471,840	\$1,417,325	\$54,515	Failing to adjust to the Order No. PSC-98-0994-FOF-WS.
3,831	3,441	390	Unsupported invoices of 1998 water plant additions.
Total		54,905	
Wastewater			
1,217,716	1,200,077	17,639	Failing to adjust to the Order No. PSC-98-0994-FOF-WS.
114,727	111,330	3,397	Unsupported invoices of 1997 wastewater plant additions.
4,303	3,441	862	Unsupported invoices of 1998 wastewater plant additions.
41,773	23,394	18,379	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.
Total		\$40,277	

Exception No. 2

Subject: Land

Statement of Fact: For the water system, the utility recorded \$164,510 in land as of December 31, 2002.

Per Commission Order No. PSC-98-0994-FOF-WS, issued on July 20, 1998, the utility water land account should have been recorded at \$162,868.

Recommendation: The utility's records do not agree with the above-mentioned Commission Order. The utility overstated water land by \$1,642 (\$164,510 - \$162,868).

The audit staff recommends that the Commission order the utility to comply with the above-mentioned Commission directive to reduce water land by \$1,642.

Audit Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: The utility recorded the following amounts for accumulated depreciation as of December 31, 2002.

Water	\$773,445
Wastewater	\$783,135

The audit staff recalculated the following amounts as of April 30, 2003.

Water	\$534,140
Wastewater	\$783,608

Per Commission Order No. PSC-98-0994-FOF-WS, issued July 20, 1998, the approved depreciation rate was set at 2.5 percent for water, and the guideline rates for the wastewater system. The utility failed to use the approved depreciation rate for water and used the guideline rates for the water and wastewater systems.

Recommendation: The utility failed to adjust its books according to the accumulated depreciation balances recommended by the Commission in the above-mentioned Order for water and wastewater.

Based on the above recalculation, the audit staff recommends to the Commission that water accumulated depreciation be reduced by \$239,305 and wastewater accumulated depreciation be increased by \$473 as of April 30, 2003.

Exception No. 4

Subject: Accumulated Amortization of CIAC

Statement of Fact: The utility recorded \$40,018 and \$151,146 in accumulated amortization of CIAC for water and wastewater, respectively, as of December 31, 2002.

The utility did not make adjustments to the accumulated amortization of CIAC balances according to the Order No. PSC-98-0994-FOF-WS, issued July 20, 1998, in the amounts of \$220 (\$14,427 - \$14,207) and \$8,856 (\$69,820 - \$60,964) for water and wastewater, respectively.

Recommendation: The audit staff recalculated the accumulated amortization of CIAC to be \$42,538 and \$179,994 for water and wastewater, respectively, as of April 30, 2003. The composite rates used in the above calculation reflect plant additions, and plant retirements that were not reflected in the company's calculation, in addition to the utility's failing to make adjustments according to the above-mentioned Order.

The audit staff recommends to the Commission that the accumulated amortization of CIAC be increased by \$2,520 (\$42,219-\$40,018) and \$28,848 (\$180,149-\$151,146) for water and wastewater, respectively. These amounts include the adjustments per above-mentioned Order and the adjustments for using the correct composite rate.

Disclosure No. 1

Subject: General Ledger 2003

Statement of Fact: The utility failed to supply the general ledger for 2003. The audit staff brought forward all of the water and wastewater balances for plant, accumulated depreciation, CIAC, and CIAC amortization to April 30, 2003, the date of the transfer.

Disclosure No. 2

Subject: Hydropneumatic Tank Retirement

Statement of Fact: During the plant tour on January 15, 2004, the audit staff discovered the removal of a hydropneumatic tank. The plant operator/manager stated that the tank was installed in 1969 and was removed in 1999. The utility could not provide the original cost of the tank, and recorded no retirement of its removal. The audit staff reviewed the utility's records and could not determine the original cost of the hydropneumatic tank and made no adjustments of its removal.

Recommendation: The audit staff forwards the information to the analyst for consideration.

EXHIBIT I

IHC REALTY PARTNERSHIP, L.P.
d/b/a PLANTATION UTILITIES
WATER RATE BASE
DOCKET NO. 030891-WS
CERTIFICATE OF TRANSFER AUDIT
AS OF APRIL 30, 2003

DESCRIPTION	PER UTILITY AS OF 12/31/02 (1)	AUDIT EXCEPTION (1)	REFER TO	PER AUDIT AS OF 04/30/03
UTILITY PLANT-IN-SERVICE	\$1,591,325	(\$54,904)	AE1	\$1,536,421
LAND & LAND RIGHTS	164,510	(1,642)	AE2	162,868
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(187,549)	0		(187,549)
ACCUMULATED DEPRECIATION	(773,445)	239,305	AE3	(534,140)
ACCUMULATED AMORTIZATION OF CIAC	40,018	2,520	AE4	42,538
WORKING CAPITAL(2)	0			0
TOTAL	\$834,859	\$185,279		\$1,020,138

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Working capital calculations not required.

EXHIBIT II

IHC REALTY PARTNERSHIP, L.P.
d/b/a PLANTATION UTILITIES
WASTEWATER RATE BASE
DOCKET NO. 030891-WS
CERTIFICATE OF TRANSFER AUDIT
AS OF APRIL 30, 2003

DESCRIPTION	PER UTILITY AS OF 12/31/02 (1)	AUDIT EXCEPTION (1)	REFER TO	PER AUDIT AS OF 04/30/03
UTILITY PLANT-IN-SERVICE	\$1,378,519	(\$40,277)	AE1	\$1,338,242
LAND & LAND RIGHTS	165,091	0		165,091
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	(407,182)	0		(407,182)
ACCUMULATED DEPRECIATION	(783,135)	(473)	AE3	(783,608)
ACCUMULATED AMORTIZATION OF CIAC	151,146	28,848	AE4	179,994
WORKING CAPITAL(2)	0			0
TOTAL	\$504,439	(\$11,902)		\$492,537

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Working capital calculations not required.