

State of Florida



## Public Service Commission

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tampa District Office

### Auditor's Report

Four Points Utility Corporation  
Staff-Assisted Alternative Rate Case

**Twelve Months Ended May 31, 2013**

Docket No. 130161-WS  
Audit Control No. 13-190-2-1  
**August 5, 2013**

A blue ink signature of Simon O. Ojada, written over a horizontal line.

Simon O. Ojada  
Audit Manager

A blue ink signature of Tomer Kopelovich, written over a horizontal line.

Tomer Kopelovich  
Audit Staff

A blue ink signature of Linda Hill-Slaughter, written over a horizontal line.

Linda Hill-Slaughter  
Reviewer

## Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Operating Revenue.....	5
2: Contractual Services .....	7
3: Allocation Reclassifications.....	8
4: Salaries and Wages - Officers.....	9
5: Miscellaneous Expenses .....	10
6: Taxes Other than Income (TOTI) .....	11
7: Income Taxes .....	12
Exhibits	
1: Net Operating Income – Water.....	13
2: Net Operating Income - Wastewater.....	14
3: Capital Structure .....	15

## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated July 8, 2013. We have applied these procedures to the attached schedules prepared by the audit staff in support of Four Points Utility Corporation's request for a Staff-Assisted Alternative Rate Case in Docket No. 130161-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Utility refers to Four Points Utility Corporation.

Receiver refers to the court appointed manager for the Utility.

Test Year refers to the 12-months ended May 31, 2013.

#### Background

Four Points Utility Corporation is a Class C water and wastewater utility serving approximately 258 water and wastewater customers in the Island Club West Resort and Spa townhome development in Polk County. The service territory is located in the Southwest Florida Water Management District. The Utility was granted Certificate Nos. 634-W and 544-S in April 2007. Since certification, Four Points has experienced no territory amendments or transfers. On April 9, 2009, the Utility applied for a staff-assisted rate case. However, the Utility failed to pay the required filing fee and the application was denied in accordance with Rule 25-30.455(9), Florida Administrative Code (F.A.C.).

In November 2011, the Commission ordered Four Points to show cause why it should not be fined for violation of multiple Commission orders, rules, and statutes. On January 25, 2012, Four Points filed notice of its intent to abandon the water and wastewater systems effective March 23, 2012, citing insufficient cash flows to cover its operating costs. Polk County filed a Petition for Appointment of Receiver with the Circuit Court of the Tenth Judicial Circuit in and for Polk County (Circuit Court). By Order dated March 19, 2012, the Circuit Court appointed Receiver of Four Points effective March 23, 2012. On July 5, 2012, the Commission issued an order acknowledging the abandonment and appointment of a receiver for Four Points. On June 12, 2013, the Receiver filed an application for staff assistance in alternative rate setting for Four Points. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.), and Rule 25-30.456, F.A.C.

#### Utility Books and Records

**Objective:** Our objective was to determine whether the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

**Procedures:** We reviewed the general ledger account numbers and descriptions. We verified that the Utility uses the accrual method of accounting and maintain records on a calendar year basis. No exceptions were noted.

## **Net Operating Income**

### Operating Revenue

**Objectives:** The objectives were to determine whether the Utility's test year Revenues are recorded in compliance with Commission rules and calculated using Commission approved rates.

**Procedures:** We obtained the billing registers and tariff sheets for all customer classes. We recalculated revenues for the test year. We traced the recalculated revenue to the general ledger. We reviewed Miscellaneous Service revenues for compliance with the Utility's tariff. See Finding 1.

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether the: 1) Utility's Operation and Maintenance (O&M) Expense is properly recorded in compliance with the NARUC USOA and Commission Rules, 2) O&M Expense is classified in compliance with Commission rules and the USOA, 3) Utility has adequate support for any charges from an affiliate and that the affiliate uses a reasonable allocation methodology to charge costs to the Utility, and 4) O&M Expense is representative of ongoing utility operations.

**Procedures:** We verified water and wastewater O&M expenses for the test year by tracing a sample of invoices to the original source documentation. We reviewed invoices for the proper period, amount, classification, support, recurring, and utility related. We scheduled the cost of contracted services by type of service. We examined related party transactions with other utilities owned or managed by the Receiver for benefits received by the Utility but having no costs assigned. We determined the most recent costs that are common to all the Utilities and used the established allocation percentage based on number of customers. See Findings 2, 3, 4, and 5.

### Taxes Other than Income

**Objectives:** The objectives were to determine the proper amounts for Taxes Other Than Income (TOTI) and ensure that TOTI Expenses are properly recorded and representative of ongoing utility operations.

**Procedures:** We verified water and wastewater taxes other than income for the test year by tracing to original source documentation. We reviewed the 2012 Regulatory Assessment Fee returns. See Finding 6.

## **Income Tax**

### Income Taxes

**Objectives:** The objective was to determine the filing status of the Utility and whether the Utility had filed a 2012 Federal Income Tax Return

**Procedures:** We researched prior audit workpapers and utility annual reports to determine the Utility's filing status. We met with the Utility's Receiver to discuss his responsibility for the filing of 2012 Federal Income Tax for the Utility. See Finding 7.

## **Capital Structure**

**Objectives:** The objectives were to determine that the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission requirements.

**Procedures:** We reviewed the cost of capital components of the Utility. We recalculated the components and cost rates using averages. We prepared a weighted cost of capital structure schedule. No exceptions were noted.

## Audit Findings

### **Finding 1: Operating Revenue**

**Audit Analysis:** The Utility's Revenues for the test year were not recorded in the general ledger at the beginning of the review. Revenues for 2013 were recorded during the audit.

A review of the Utility's Revenue accounts indicates that a charge for \$280 was erroneously posted on January 2013 for the repair of a leak. This amount should have been posted to the Contractual Services - Other.

The Utility's Late Fee for the test year totaled \$13,530. A review of the Miscellaneous Revenue Accounts indicates that a \$10 late fee penalty is being assessed to the Utility's customers. The Tariff for Miscellaneous Service Charges specifies that only a \$5 Late Fee may be charged and is inclusive of water and wastewater. Table 1-1 indicates the amount of Late Fees collected. This amount should be halved to remove the effect of double collecting the late fees.

**Table 1-1**

<u>Month</u>	<u>Incorrectly Billed</u>	<u>Correct Late Fees Amt.</u>	<u>Water</u>	<u>Wastewater</u>
Jun-12	\$1,490	\$745	\$373	\$373
Jul-12	\$1,510	\$755	\$378	\$378
Aug-12	\$1,500	\$750	\$375	\$375
Sep-12	\$1,060	\$530	\$265	\$265
Oct-12	\$930	\$465	\$233	\$233
Nov-12	\$1,040	\$520	\$260	\$260
Dec-12	\$1,150	\$575	\$288	\$288
Jan-13	\$1,060	\$530	\$265	\$265
Feb-13	\$990	\$495	\$248	\$248
Mar-13	\$980	\$490	\$245	\$245
Apr-13	\$930	\$465	\$233	\$233
May-13	\$890	\$445	\$223	\$223
	<u>\$13,530</u>	<u>\$6,765</u>	<u>\$3,383</u>	<u>\$3,383</u>

**Effect on the General Ledger:** The following adjustment is needed to correct the general ledger as of May 31, 2013:

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$ 4,340	
474	Miscellaneous Revenues	\$ 2,425	
636	Contractual Services - Other	\$ 280	
474	Miscellaneous Revenues		\$280
231	Accounts Payable		\$6,765
	To establish an accounts payable for customers overcharged late fees.		

**Effect on the Filing:** Water Revenues should be reduced by \$3,103 (\$3,383 - \$280), Wastewater Revenues should be reduced by \$3,383 and O&M Expense should be increased by \$280.

**Finding 2: Contractual Services**

**Audit Analysis:** A review of Contractual Services-Wastewater expense for May 2013 revealed an erroneous posting of \$750. The expense should have been booked to Salaries and Wages Officer.

**Effect on the General Ledger:** The following adjustment is needed to correct the general ledger as of May 31, 2013.

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
703	Salaries and Wages - Officer	\$750	
736	Contractual Services - Other		\$750
	To reclassify Contractual Services-Wastewater to Officer's salaries.		

**Effect on the Filing:** None.

### Finding 3: Allocation Reclassifications

**Audit Analysis:** FUS allocated expenses to Four Points Utility Corporation for Contractual Services. All amounts were classified and recorded as water expenses. The allocation should have been split between water and wastewater. Table 3-1 summarizes the effect of the split.

**Table 3-1**

<b>Account No.</b>	<b>Invoice No.</b>	<b>Date</b>	<b>Invoice Amount</b>	<b>Credit Water</b>	<b>Debit Wastewater</b>
630/730	1379.78	Jan-13	\$241	\$121	\$121
630/730	1379.88	Jan-13	\$570	\$285	\$285
630/730	1379.106	Jan-13	\$64	\$32	\$32
630/730	1379.146	Feb-13	\$205	\$103	\$103
630/730	1379.153	Feb-13	\$300	\$150	\$150
630/730	1379.159	Mar-13	\$621	\$311	\$311
			<u>\$2,002</u>	<u>\$1,001</u>	<u>\$1,001</u>
631/731	1379.108	Jan-13	\$348	\$174	\$174
635/735	1379.67	Dec-12	\$240	\$120	\$120
635/735	1379.68	Dec-12	\$125	\$62	\$62
635/735	1379.74	Jan-13	\$325	\$163	\$163
635/735	1979.313	Jan-13	\$325	\$163	\$163
635/735	1379.001	Jan-13	\$444	\$222	\$222
635/735	1379.147	Feb-13	\$363	\$182	\$182
635/735	1379.152	Feb-13	\$234	\$117	\$117
635/735	1379.154	Feb-13	\$367	\$183	\$183
			<u>\$2,422</u>	<u>\$1,211</u>	<u>\$1,211</u>
640/740	1379.85	Jan-13	\$283	\$141	\$141
640/740	1379.134	Feb-13	\$289	\$144	\$144
640/740	1379.190	Apr-13	\$709	\$354	\$354
			<u>\$1,280</u>	<u>\$640</u>	<u>\$640</u>
			<u>\$6,053</u>	<u>\$3,027</u>	<u>\$3,027</u>

**Effect on the General Ledger:** The entry in Table 3-1 is needed to correct the general ledger as of May 31, 2013.

**Effect on the Filing:** Water O&M should be reduced by \$3,027 and Wastewater O&M should be increased by \$3,027.

#### **Finding 4: Salaries and Wages - Officers**

**Audit Analysis:** The Utility booked \$11,250 in general ledger Accounts 603 and 703 Salaries and Wages – Officers for a total of \$22,500. According to the Utility’s Receiver, a monthly salary of \$750 for the Water and \$750 for the Wastewater systems is taken.

**Effect on the General Ledger:** No effect.

**Effect on the Filing:** Staff defers to the Analyst as to the treatment of officer’s salaries.

## Finding 5: Miscellaneous Expenses

**Audit Analysis:** The Utility recorded \$5,280 in account 675/775 – Miscellaneous. Staff’s audit disclosed that a number of expense entries on the general ledger did not have sufficient documentation to substantiate charges of \$1,580. Table 5-1 summarizes these expenses as follow.

**Table 5-1**

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Water</u>	<u>W W</u>	<u>Comments</u>
2012				
675.5	Miscellaneous Other - Water	\$122		6/18/12 Office Depot
775	Miscellaneous Other - Wastewater		\$120	7/3/12 postage; 8/15/12 credit card chgs.
675.3	Office Supplies - Water	\$24		7/9-7/12/12 Wendy's and S Myers for supplies
775.03	Misc Wastewater		\$10	7/9/12 Wendys
775.3	Office Supplies - Wastewater		\$14	7/12/12 S. Myers
775.2	Postage - Wastewater		\$3	8/28/12 Postage
675.2	Postage - Water	\$3		8/28/12 postage
775.4	Credit Card Expense - Wastewater		\$15	11/13/12 credit card charges
675.4	Credit Card Expense - Water	\$15		11/13/12 credit card charges
675.1	Bank Charges- Water	\$27		12/17/12 credit card charges
775.1	Bank Charges- Wastewater		\$27	12/17/12 credit card charges
	Subtotal	<u>\$191</u>	<u>\$189</u>	
2013				
775.4	Credit Card Expense - Wastewater		\$78	3/11/13 credit card charges
675.1	Bank Charges- Water	\$110		4/12/13 bank charges
675.4	Credit Card Expense - Water	\$923		1/1/13-5/10/13 credit card charges
775.03	Misc Wastewater		\$89	5/22/13 H. Marcos
	Subtotal	<u>\$1,033</u>	<u>\$167</u>	
	Total	<u>\$1,224</u>	<u>\$356</u>	

**Effect on the General Ledger:** This adjustment does not affect rate base components. An adjustment is not necessary.

**Effect on the Filing:** Miscellaneous Expense should be reduced by \$1,224 and \$356 for Water and Wastewater, respectively.

## **Finding 6: Taxes Other than Income (TOTI)**

**Audit Analysis:** The Utility reported total Revenues of \$33,718 for water and \$70,981 for wastewater on its 2012 Regulatory Assessment Fee filing. The RAF payments associated with these amounts are \$1,517, and \$3,154 for water and wastewater, respectively.

The general ledger reflects total Revenues for 2012 of \$55,945 and \$78,635 for water and wastewater, respectively. These amounts reflect Revenues recorded for a ten month period, March – December 2012 which is when the Utility was taken over by the Receiver. The difference in RAF payments are \$1,000 for Water and \$384 for Wastewater.

Revenues for the 12-months ended May 31, 2013, are \$81,021 and \$114,592 for Water and Wastewater, respectively. Staff's calculation of RAFs for the test year is \$3,646 and \$5,157 for Water and Wastewater, respectively.

**Effect on the General Ledger:** This is for informational purposes only.

**Effect on the Rate Case:** TOTI should include \$3,646 and \$5,157 for Water and Wastewater, respectively.

## **Finding 7: Income Taxes**

**Audit Analysis:** Four Points Utility Corporation is a Sub Chapter S Corporation. Prior to going into receivership the Utility filed an 1120S Federal Tax Return. A federal income tax return has not been filed since 2011 by the current Receiver for the Utility.

**Effect on the General Ledger:** None.

**Effect on the Filing:** For Information purposes only.

## Exhibits

### **Exhibit 1: Net Operating Income – Water**

<u>Description</u>	<u>Test Year Per Book</u>	<u>Audit Adjustment</u>	<u>Balance Per Audit</u>
Operating Revenues	\$84,404	(\$3,383)	\$81,021
Operating Expenses			
Operation and Maintenance Expense	\$108,127	(\$3,971)	\$104,156
Depreciaton Expense	\$0	\$0	\$0
Amortization Expense	\$0	\$0	\$0
Taxes Other Than Income	\$2,131	\$2,129	\$4,260
Income Taxes	\$0	\$0	\$0
 Total Operating Expenses	 \$110,258	 (\$1,842)	 \$108,416
 Net Operating Income/Loss	 (\$25,854)	 (\$1,541)	 (\$27,395)

Note: Depreciation Expense and Amortization Expense are to be calculated by the Analyst.

**Exhibit 2: Net Operating Income - Wastewater**

<u>Description</u>	<u>Test Year Per Book</u>	<u>Audit Adjustment</u>	<u>Balance Per Audit</u>
Operating Revenues	\$117,695	(\$3,103)	\$114,592
<hr/>			
Operating Expenses			
Operation and Maintenance Expense	\$161,369	\$2,671	\$164,040
Depreciaton Expense	\$0	\$0	\$0
Amortization Expense	\$0	\$0	\$0
Taxes Other Than Income	\$4,078	\$1,963	\$6,041
Income Taxes	\$0	\$0	\$0
<hr/>			
Total Operating Expenses	\$165,447	\$4,634	\$170,081
<hr/>			
Net Operating Income/Loss	(\$47,752)	(\$7,737)	(\$55,489)
<hr/>			

Note: Depreciation Expense and Amortization Expense are to be calculated by the analyst.

### Exhibit 3: Capital Structure

DESCRIPTION	BALANCE PER T/B @05/31/12	BALANCE PER T/B @05/31/13	SIMPLE AVERAGE PER T/B	AUDIT ADJUST- MENTS	BALANCE PER AUDIT @05/31/13	SIMPLE AVERAGE PER AUDIT	RATIO	COST RATE	WEIGHTED COST OF CAPITAL
COMMON EQUITY (1)	392,746	392,746	392,746	0	392,746	392,746	99.07%	7.88%	7.81%
CUSTOMER DEPOSITS	4,091	3,309	3,700		3,309	3,700	0.93%	2.00%	0.02%
TOTAL	396,837	396,055	396,446	0	396,055	396,446	100.00%		7.83%

Note: Equity cost rate derived from PSC Order No. PSC-13-0241-PAA-WS.