

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 24, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 160144-WU
Company Name: Orangeland Water Supply
Company Code: WU179
Audit Purpose: B1c - Certificate Transfer
Audit Control No.: 16-174-1-1

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 a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

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

Auditor's Report

Orangeland Water Supply/Orange Land Utilities, LLC
Transfer of Certificate

As of May 1, 2016

Docket No. 160144-WU
Audit Control No. 16-174-1-1
August 19, 2016

A handwritten signature in blue ink, reading "Iliana H. Piedra".

Iliana H. Piedra
Audit Manager

A handwritten signature in blue ink, reading "Marisa N. Glover".

Marisa N. Glover
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Books and Records	5
2: Utility Plant in Service and Accumulated Depreciation.....	6
3: Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC..	8
Exhibits	
1: Net Book Value – Water.....	9

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated June 14, 2016. We have applied these procedures to the attached schedules prepared by audit staff in support of Orangeland Water Supply/Orange Land Utilities, LLC request for a Transfer of Certificate in Docket No. 160144-WU.

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

Objectives and Procedures

Background

Definitions

Buyer/Utility refers to Orange Land Utilities, LLC.

Seller refers to Orangeland Water Supply.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115-Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

Utility Information

Orangeland Water Supply is a Class “C” Utility that provides water service to approximately 74 customers in Pasco County. The Original Certificate was granted in Docket No. 760763-W.

Rate base was established as of June 30, 2007 in Order No. PSC 08-0309-PAA-WU, issued May 13, 2008, in Docket No. 070601-WU.

General

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

Procedures: The audit staff reviewed the utility’s accounting system and found it to be not in compliance with the NARUC USOA. Finding 1 discusses utility books and records.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility’s last rate proceeding were recorded in its books and records.

Procedures: We obtained the beginning balances for UPIS as of June 30, 2007, established in Docket No. 070601-WU, Order No. PSC-08-0309-PAA-WU. We traced asset additions to supporting documentation. We ensured retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of May 1, 2016. Finding 2 discusses UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined the land value established in Order No. PSC-08-0309-PAA-WU and obtained the warranty deed dated May 6, 2016 which transferred ownership to the buyer. We searched the property records for Pasco County and determined that no other pertinent changes to the land occurred.

Accumulated Depreciation

Objectives: The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We obtained the beginning balances for accumulated depreciation as of June 30, 2007, established in Docket No. 070601-WU, Order No. PSC-08-0309-PAA-WU. We computed depreciation accruals for all UPIS accounts using the correct depreciation rates from the Rule. We determined the accumulated depreciation transfer balance as of May 1, 2016. Finding 2 discusses accumulated depreciation.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We obtained the beginning balances for CIAC as of June 30, 2007, established in Docket No. 070601-WU, Order No. PSC-08-0309-PAA-WU. We determined the increase in number of customers and the service availability policy from the tariff. We determined the CIAC transfer balance as of May 1, 2016. Finding 3 discusses CIAC.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We obtained the beginning balances for accumulated amortization as of June 30, 2007, established in Docket No. 070601-WU, Order No. PSC-08-0309-PAA-WU. We computed amortization accruals for CIAC amounts using the correct composite depreciation rates from the Rule. We determined the Accumulated Amortization transfer balance as of May 1, 2016. Finding 3 discusses accumulated amortization.

Acquisition Adjustment

Objectives: The objective was to determine the acquisition adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371 (1), F.A.C.

Procedures: The Utility did not request an acquisition adjustment in its filing. Audit staff did not determine the acquisition adjustment. No further work was done.

OTHER

Customer Deposits

Objectives: The objective was to determine the disposition of customer deposits

Procedures: Audit staff requested a listing of customer deposits, if any, included in the sale. We determined that there were no customer deposits included in the sale and that the seller did not have a tariff for customer deposits. No further work was performed.

Billing

Objectives: The objective was to determine that the buyer is billing the customers the correct rates per the las approved tariff.

Procedures: We obtained the billing records for May and June 2016. We recalculated the customers' bills for June 2016 using the approved tariffs. No exceptions were noted.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Orangeland Water Supply did not provide its books and records to the buyer. We were not able to determine if the records are maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). Orangeland Water Supply was not in compliance when rate base was last established in Docket No. 070601-WU.

NARUC, Class C, Accounting Instructions, states:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction.

Commission Rule 25-30.115, Florida Administrative Code (F.A.C.), requires utilities to maintain their books and records in conformity with the NARUC USOA.

The buyer did provide a general ledger for Orange Land Utilities, LLC as of June 30, 2016. The audit staff noted that the buyer did not record the rate base components in the general ledger. The buyer should record the ordered balances in the general ledger when the final amounts are reflected in the Commission Order at the end of this Docket. The general ledger provided by the buyer shows account numbers for rate base components that appear to be in compliance with NARUC USOA. Operating revenues and expenses have been recorded and appear to also be in compliance. The buyer owns other systems that are under the Commission's jurisdiction that are in compliance with NARUC USOA.

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

Effect on the Filing: This is provided for informational purposes.

Finding 2: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: We compiled a schedule of UPIS balances from June 30, 2007 which included the beginning balances as set in the last Commission Order No. PSC-08-0309-PAA-WU. The buyer provided one invoice dated 2/11/2010 totaling \$5,417 including purchase of a submersible pump and the labor to pull pump and install pump in well. We have included this amount and the associated retirement of \$4,063 (75% of invoice amount) in the audit adjustment column below.

Table 1-1

Plant In Service Description	Acct.	Balance per last Order 6/30/2007	Audit Adjustment	Balance per Audit as of 05/01/16
Structures & Improvements	304	\$ 651		\$ 651
Wells & Springs	307	\$ 1,613		\$ 1,613
Supply Mains	309	\$ 340		\$ 340
Pumping Equip.	311	\$ 401		\$ 401
Pumping Equip.	311	\$ 1,971		\$ 1,971
Pumping Equip.	311		\$ 1,354	\$ 1,354
Water Treatment Equip.	320	\$ 69		\$ 69
Water Treatment Equip.	320	\$ 183		\$ 183
Storage Tank	330	\$ 3,182		\$ 3,182
Transmission and Distribution	331	\$ 30,276		\$ 30,276
Services	333	\$ 4,765		\$ 4,765
Meters and Meter Install.	334	\$ 2,817		\$ 2,817
Meters and Meter Install.	334	\$ 317		\$ 317
		\$ 46,585	\$ 1,354	\$ 47,939

We compiled a schedule of accumulated depreciation balances from June 30, 2007 which included the beginning balances as set in the last Commission Order No. PSC 08-0309-PAA-WU. We calculated yearly depreciation expense until May 1, 2016 using the rates from Rule 25-30.140 – Depreciation, (F.A.C.), 2) and the UPIS balances discussed in this finding.

Table 1-2

Accumulated Depreciation Description	Acct.	Balance per last		Balance per Audit as of
		Order 6/30/2007	Audit Adjustment	
Structures & Improvements	304	\$ (620)	\$ (31)	\$ (651)
Wells & Springs	307	\$ (1,553)	\$ (60)	\$ (1,613)
Supply Mains	309	\$ (21)	\$ (94)	\$ (115)
Pumping Equip.	311	\$ (376)	\$ (25)	\$ (401)
Pumping Equip.	311	\$ (116)	\$ (1,024)	\$ (1,140)
Pumping Equip.	311		\$ 3,599	\$ 3,599
Water Treatment Equip.	320	\$ (65)	\$ (4)	\$ (69)
Water Treatment Equip.	320	\$ (11)	\$ (95)	\$ (106)
Storage Tank	330	\$ (2,025)	\$ (852)	\$ (2,877)
Transmission and Distribution	331	\$ (27,951)	\$ (2,325)	\$ (30,276)
Services	333	\$ (4,527)	\$ (238)	\$ (4,765)
Meters and Meter Install.	334	\$ (2,641)	\$ (176)	\$ (2,817)
Meters and Meter Install.	334	\$ (19)	\$ (165)	\$ (184)
		\$ (39,925)	\$ (1,490)	\$ (41,415)

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: The UPIS balance should be \$47,939 and Accumulated Depreciation balance should be \$41,415 as of May 1, 2016.

Finding 3: Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC

Audit Analysis: We compiled a schedule of CIAC balances from June 30, 2007 which included the beginning balances as set in the last Commission Order No. PSC 08-0309-PAA-WU. We reviewed the last approved tariff to determine the service availability policy. In reviewing the last audit Docket No. 070601-WU it was determined that the last new hook up took place during the last audit period. Per conversations with the buyer, we also determined that there are no new customers added.

Table 1-1

Description	Acct.	Balance per last Order 6/30/2007	Audit Adjustment	Balance per Audit as of 05/01/16
CIAC	271	\$ (7,350)	\$ -	\$ (7,350)

We compiled a schedule of accumulated amortization balances from June 30, 2007 which included the beginning balances as set in the last Commission Order No. PSC 08-0309-PAA-WU. We calculated yearly amortization expense until May 1, 2016 using the composite rates from Rule 25-30.140 – Depreciation, (F.A.C.), 2) and the CIAC balance discussed in this finding.

Table 1-2

Description	Acct.	Balance per last Order 6/30/2007	Audit Adjustment	Balance per Audit as of 05/01/16
Accumulated Amortization - CIAC	272	\$ 5,071	\$ 865	\$ 5,936

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: The CIAC balance should be \$7,350 and the Accumulated Amortization balance should be \$5,936 as of May 1, 2016.

Exhibits

Exhibit 1: Net Book Value – Water

**Orangeland Water Supply
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 160144-WU; ACN 16-174-1-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF MAY 1, 2016**

Water				
Description	Balance per Utility 05/01/16	Audit Adjustments	Audit Finding	Balance per Audit 05/01/16
Utility Plant in Service	\$ -	\$ 47,939	2	\$ 47,939
Land	\$ -	\$ 1,000		\$ 1,000
Accumulated Depreciation	\$ -	\$ (41,415)	2	\$ (41,415)
Contributions in Aid of Construction	\$ -	\$ (7,350)	3	\$ (7,350)
Accumulated Amortization of CIAC	\$ -	\$ 5,936	3	\$ 5,936
NET BOOK VALUE	\$ -	\$ 6,110		\$ 6,110

See Finding No. 1 - No books and records provided by seller

The Land value is based on the value established in PSC Order 08-0309-PAA-WU

The buyer paid \$8,500 for the Utility, however, no acquisition adjustment is requested.