

MEMORANDUM

October 6, 1997

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 970429-WS -- PLANTATION UTILITIES
(D/B/A RADNOR/PLANTATION CORPORATION)
CERTIFICATE TRANSFER AUDIT REPORT
AUDIT CONTROL NO. 97-129-3-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Plantation Utilities
Stephen H. Osburn
555 N. E. Ocean Blvd.
Stuart, FL 34996-1692

DNV/sp

Attachment

cc: Chairman Johnson
Commissioner Clark
Commissioner Deason
Commissioner Garcia
Commissioner Kiesling
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Golden)
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

10271 OCT-75

FPSC-RECORDS/REPORTING

**FLORIDA PUBLIC SERVICE COMMISSION
AUDIT REPORT
AS OF DECEMBER 31, 1996**

**FIELD WORK COMPLETED
SEPTEMBER 12, 1997**

**PLANTATION UTILITIES
STUART, FLORIDA
MARTIN COUNTY**

**CERTIFICATE OF TRANSFER AUDIT
DOCKET NO. 970429-WS
AUDIT CONTROL NUMBER 97-129-3-1**

Elbert E. Phillips

**ELBERT E. PHILLIPS
AUDIT MANAGER**

Ian J. Forbes

**IAN J. FORBES
DISTRICT AUDIT SUPERVISOR
ORLANDO**

DOCUMENT NUMBER-DATE

10271 OCT-76

FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

	<u>Page</u>
I. EXECUTIVE SUMMARY	
AUDIT PURPOSE	1
DISCLAIM PUBLIC USE	1
OPINION	1
SUMMARY FINDINGS	1
II. AUDIT SCOPE	
RATE BASE	3
GENERAL	3
III. AUDIT EXCEPTIONS	
1. NONRECONCILIATION TO PRIOR COMMISSION ORDER	4
2. CAPITALIZED O&M EXPENSES	5
3. DISCOUNTS NOT TAKEN	6
4. UNRECORDED RETIREMENT OF PLANT ASSET	7
5. NONUTILITY PROPERTY	8
6. UNSUPPORTED PLANT ADDITIONS	9
7. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	11
8. NON-RECURRING REPAIRS	12
9. UNRECORDED PRIOR COMMISSION ADJUSTMENTS ..	13
10. ACCUMULATED DEPRECIATION	14
11. CIAC AMORTIZATION	15
12. NONUTILITY EXPENSES	16
IV. AUDIT DISCLOSURE	
1. ACCUMULATED DEPRECIATION	17
V. EXHIBITS	
1. WATER RATE BASE	18
2. WASTEWATER RATE BASE	19

I. EXECUTIVE SUMMARY

Audit Purpose: We have applied the procedures described in Section II of this report and have prepared the appended Water and Wastewater Rate Base exhibits for Plantation Utilities, pursuant to Transfer Certificate, Docket No. 970429-WS as of December 31, 1996.

Disclaim Public Use: 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.

Opinion: The schedules of Rate Base at December 31, 1996, represent Plantation Utilities Company's books and records maintained in substantial compliance with Commission directives. The expressed opinions extend only to the scope of work described in Section II of this report.

Summary Findings:

Exceptions

The company did not record utility land and plant-in-service for water per Commission Order No. 14630, issued July 25, 1985.

The company incorrectly recorded capital additions of \$711 for water for items that should have been expensed to operations and maintenance expense in the year incurred.

The company failed to take discounts made available to them in the amount of \$80 for water and \$9 for wastewater.

The company failed to record the retirement of \$5,813 and \$3,457 in utility plant for water and wastewater, respectively.

The company incorrectly recorded \$8,548 and \$928 as utility plant-in-service instead of nonutility property.

The company recorded unsupported plant additions \$61,557 and \$6,927 for water and wastewater, respectively.

The company overstated AFUDC interest by \$6,696 due to noncompliance with Commission Order No. 20853, issued March 3, 1989.

The company recorded \$1,756 in wastewater capital additions that were non-recurring expenditures.

The company did not adjust its wastewater plant-in-service by \$15,803 as required by Commission Order No. 21415, issued June 20, 1989.

The audit staff recalculated accumulated depreciation for water and wastewater to be \$285,728 and \$449,100, respectively, at December 31, 1996.

The audit staff recalculated CIAC amortization for water and wastewater to be \$14,427 and \$69,820, respectively, at December 31, 1996.

The company recorded a \$1,060 imprudent expenditure as a capital addition.

Disclosures

The recalculated accumulated depreciation contains negative balances in various accounts that may require further accounting treatment.

II. AUDIT SCOPE

This report is based on the audit work described below. When used in this section of the report, **COMPILED** describes completed audit work as:

COMPILED: Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted, performed no other audit work.

RATE BASE: Reconciled beginning utility plant-in-service amounts with prior Commission Order No. 21415, issued June 20, 1989. Reviewed 100 percent of total dollar additions/retirements of utility plant-in-service, testing for proper amount, timing, and account classifications. Recomputed water accumulated depreciation balance from January 1, 1985, forward. Recomputed wastewater accumulated depreciation balance from January 1, 1989, forward. Compiled land balance. Recomputed water CIAC and related amortization balances from January 1, 1985, forward. Recomputed wastewater CIAC and related amortization balances from January 1, 1989, forward. Land ownership was verified with the Martin County Property Appraiser's office records.

OTHER: Reviewed and recalculated a sample of customer bills from the company's billing register to verify the Commission-approved rates at December 31, 1996.

AUDIT EXCEPTION NO. 1

SUBJECT: NONRECONCILIATION TO PRIOR COMMISSION ORDER

FACTS: The company recorded \$164,510 for utility land for water at December 31, 1984. The company also recorded \$560,485 for total water utility plant-in-service at December 31, 1984.

Per Commission Order No. 14630 issued July 25, 1985, utility land for water should have been recorded at \$162,868 at December 31, 1984. The above order also stated total water utility plant-in-service to be \$562,127.

OPINION/RECOMMENDATION: The company records do not agree with Commission Order No. 14630. The company inadvertently overstated water land by \$1,642 (\$164,510 - \$162,868) and understated utility plant-in-service (\$562,127 - \$560,485) by the same amount.

The audit staff recommends that the Commission order the company to comply with the above Commission directive to reduce water land and to increase utility plant-in-service by \$1,642.

AUDIT EXCEPTION NO. 2

SUBJECT: CAPITALIZED O & M EXPENSES

FACTS: The company recorded \$711 in capitalized repairs for water utility plant-in-service at December 31, 1996. The items recorded were for legal expenses, equipment repairs, and annual engineering services.

OPINION/RECOMMENDATION: Audit staff believes that these additions should have been charged to operations and maintenance expense accounts in the periods they were incurred.

The Commission should require the company to reduce its water utility plant-in-service balance by \$711. (Accumulated depreciation adjustment is discussed in Audit Exception No. 10.)

AUDIT EXCEPTION NO. 3

SUBJECT: DISCOUNTS NOT TAKEN

FACTS: The company recorded \$4,367 and \$442 for water and wastewater capital additions, respectively, at December 31, 1996.

Of these additions, \$80 and \$9 were for discounts not taken on the purchased items for water and wastewater, respectively.

OPINION/RECOMMENDATION: The costs of the above capital additions are \$4,287 (\$4,367-\$80) and \$433 (\$442-\$9) for water and wastewater, respectively. The ratepayers of this utility should not have to bear the additional cost incurred by the company for their decision not to take advantage of the purchase discounts made available to them.

As a result, the audit staff recommends to the Commission that the plant accounts for water and wastewater be reduced by the above respective amounts. (Accumulated depreciation adjustment is discussed in Audit Exception No. 10.)

AUDIT EXCEPTION NO. 4

SUBJECT: UNRECORDED RETIREMENT OF PLANT ASSET

FACTS: 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.

The company did not record the retirement of utility plant in the amount of \$5,813 and \$3,457 for water and wastewater, respectively, at December 31, 1996.

OPINION/RECOMMENDATION: The company is in violation of the above-referenced NARUC Accounting Instruction.

The audit staff recommends that the Commission order the company to reduce utility plant-in-service by \$5,813 and \$3,457 for water and wastewater, respectively. (Accumulated depreciation adjustment is discussed in Audit Exception No. 10.)

AUDIT EXCEPTION NO. 5

SUBJECT: NONUTILITY PROPERTY

FACTS: The company recorded \$8,548 and \$928 capital additions for water and wastewater, respectively, at December 31, 1990. The expenditures were related to a pump used for the irrigation of a golf course located inside the company's service area.

Per NARUC, Class B, Account Number 121, A., "This account shall include the book cost of land, structures, equipment or other tangible or intangible property owned by the utility, but not used in utility service"

OPINION/RECOMMENDATION: The company is in violation of the above NARUC directive. The audit staff recommends to the Commission that utility plant-in-service for water and wastewater be reduced by the above-referenced amounts.

AUDIT EXCEPTION NO. 6

SUBJECT: UNSUPPORTED PLANT ADDITIONS

FACTS: The company recorded \$56,883 and \$6,927 in capital additions for water and wastewater, respectively, at December 31, 1996.

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.

OPINION/RECOMMENDATION: The company did not have supporting documentation for the above additions. Therefore, the audit staff recommends to the Commission that utility plant-in-service be reduced by the above amounts for water and wastewater, respectively. See attached schedule.

AUDIT EXCEPTION NO. 6 - SCHEDULE

Date	Acct#	GL/Additional Description	Amount Per Company	Amount Per Audit	Difference	Description
12/31/88		Unclassified plant addition	3,831.00		(3,831.00)	No support found
12/88	301		780.00		(780.00)	No support found
01/88	304		138.50		(138.50)	No support found
02/88	304		100.00		(100.00)	No support found
02/88	304		2,372.50		(2,372.50)	No support found
04/30/82	304	PVR & Misc. Inter-Co.	488.00		(488.00)	No support found
04/88	304		5,053.06		(5,053.06)	No support found
05/88	304		(1,850.00)		1,850.00	No support found
05/88	304		180.38		(180.38)	No support found
06/87	304		808.80		(808.80)	No support found
06/87	304		(687.70)		687.70	No support found
06/88	304	Math/Calculation error	4,704.55		(4,704.55)	Calculation error by company
09/88	304		4,417.97		(4,417.97)	No support found
09/87	304		2,747.50		(2,747.50)	No support found
10/88	304		28.78		(28.78)	No support found
12/88	304		875.98		(875.98)	No support found
12/87	304		2,889.60		(2,889.60)	No support found
12/87	304	Petty cash	68.41		(68.41)	No support found
07/87	304.50	Rio Construction, Inc.	7,000.00		(7,000.00)	Recorded twice
08/87	304.50		4,800.00		(4,800.00)	No support found
12/31/88	307		7,750.00		(7,750.00)	No support found
08/30/88	311	Peerless Pump	3,418.38		(3,418.38)	No support found
12/31/87	311		1,533.00		(1,533.00)	No support found
09/29/88	320	Adetek	918.93		(918.93)	No support found
08/87	320	Hydropro	110,721.76	109,088.53	(1,633.23)	Plant Cons.-Double post retainage
12/31/85	320		(1,800.00)		1,800.00	No support found
08/30/88	334	USG Southwest	1,441.88		(1,441.88)	No support found
11/30/88	334	Davis Water & Waste	481.48		(481.48)	No support found
12/31/85	334		(249.00)		249.00	No support found
12/31/88	334		250.00		(250.00)	No support found
12/31/87	334		1,321.00		(1,321.00)	No support found
07/30/85	340	Transfer asset computer/Hotel	128.88		(128.88)	No support found
09/30/88	340	Treasure Coast Office Supply	203.39		(203.39)	No support found
09/30/88	340	Huston's Office Equipment	185.29		(185.29)	No support found
12/31/88	340		475.00		(475.00)	No support found
		Total Water adj.	185,971.08	109,088.53	(56,882.55)	

Date	Acct#	GL/Additional Description	Amount Per Company	Amount Per Audit	Difference	Description
02/1/88	380	Diets Electric Co.	706.00		(706.00)	No support found
03/31/88	381	Kimberly-Horn & Assoc.	510.81		(510.81)	No support found
11/30/88	371	Barnes's Pumps	742.80		(742.80)	No support found
09/29/88	380	Adetek	918.93		(918.93)	No support found
07/25/88	388	Hach Company	241.81		(241.81)	No support found
07/31/88	388	Radio Shack	602.03		(602.03)	No support found
08/14/88	388	Hydropro	515.90		(515.90)	No support found
08/8/88	388	P C systems	138.00		(138.00)	No support found
10/19/88	388	P C systems	31.80		(31.80)	No support found
12/31/88	388	Hach Company	721.74		(721.74)	No support found
12/31/88	388	Hach Company	(8.05)		8.05	No support found
12/31/88	388	Hach Company	1,847.51		(1,847.51)	No support found
12/31/88	388	To replace JE #13	(170.00)		170.00	No support found
07/30/85	390	Transfer asset computer/Hotel	128.88		(128.88)	No support found
		Total Wastewater Adj.	8,928.98	0.00	(8,928.98)	

AUDIT EXCEPTION NO. 7

SUBJECT: ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

FACTS: The company recorded \$27,546 as AFUDC interest for water utility plant-in-service at December 31, 1996.

Per Commission Order No. 20853 issued March 3, 1989, the AFUDC annual rate was set at 8.21 percent. The order also stipulated a reduced rate of 7.21 percent for the period of August 11, 1986 through July 31, 1988.

The company did not use the Commission-approved rates when calculating the amount of capitalized interest.

OPINION/RECOMMENDATION: The company is in violation of the above Commission order. The audit staff recalculated the amount of capitalized interest to be \$20,850.

The audit staff recommends to the Commission that water utility plant-in-service be reduced by \$6,696 (\$27,546 - \$20,850) to reflect the proper amount of capitalized interest.

AUDIT EXCEPTION NO. 8

SUBJECT: NON-RECURRING REPAIRS

FACTS: The company capitalized \$1,756 for wastewater utility plant-in-service repairs at December 31, 1996.

Per Rule 25-30.433, Florida Administrative Code, (8), "Non-recurring expenses shall be amortized over a 5-year period a shorter or longer period of time can be justified."

OPINION/RECOMMENDATION: The expenditure above is a repair, but of a non-recurring nature. The audit staff believes that the expense should be recorded as a deferred asset and amortized over a five-year period.

The audit staff recommends to the Commission that wastewater utility plant-in-service be reduced by \$1,756 to remove the recorded capital additions.

AUDIT EXCEPTION NUMBER 9

SUBJECT: UNRECORDED PRIOR COMMISSION ADJUSTMENTS

FACTS: Per Commission Order No. 21415 issued June 20, 1989, an adjustment to wastewater utility plant-in-service in the amount of \$15,803 was required to be made.

The company did not make this required adjustment to its books.

OPINION/RECOMMENDATION: The company is in violation of the above Commission order. The audit staff recommends to the Commission that the company be ordered to comply with the above directive and reduce wastewater plant-in-service by \$15,803.

AUDIT EXCEPTION NO. 10

SUBJECT: ACCUMULATED DEPRECIATION

FACTS: The company recorded the following amounts for accumulated depreciation at December 31, 1996:

Water	\$444,734
Wastewater	\$461,185

The audit staff recalculated the following amounts at December 31, 1996:

Water	\$285,728
Wastewater	\$449,100

Per Commission Order No. 14630 issued July 25, 1985, the approved depreciation rate was set at 2.5 percent for water. The company used the approved depreciation rates for water per Rule 25-30.140.

OPINION/RECOMMENDATION: Based on the above recalculation, the audit staff recommends to the Commission that water accumulated depreciation be reduced by \$159,006 (\$444,734-\$285,728) and wastewater accumulated depreciation be reduced by \$12,085 (\$461,185-\$449,100).

AUDIT EXCEPTION NO. 11

SUBJECT: CIAC AMORTIZATION

FACTS: The company recorded \$14,207 and \$60,964 in CIAC amortization for water and wastewater, respectively, at December 31, 1996.

OPINION/RECOMMENDATION: The audit staff recalculated the accumulated CIAC to be \$14,427 and \$69,820 for water and wastewater respectively, at December 31, 1996. The composite rates used in the above calculation reflect retirements that were not reflected in the company's calculation.

The audit staff recommends to the Commission that CIAC amortization be increased by \$220 (\$14,427-\$14,207) and \$8,856 (\$69,820-\$60,964) for water and wastewater, respectively.

AUDIT EXCEPTION NO. 12

SUBJECT: NONUTILITY EXPENSES

FACTS: The company recorded \$1,060 as water capital additions at December 31, 1996. The expenditure was for a deposit that was forfeited when the utility made the decision not to purchase four new permeators.

Per NARUC, Class B, Account No. -26, "This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are 5. Imprudent expenses"

OPINION/RECOMMENDATION: The audit staff believes that this is not a capital expenditure and is imprudent in nature. The audit staff further believes that the company was cognitive of the risk of losing the deposit if it chose not to purchase the equipment.

Therefore, the audit staff recommends to the Commission that it orders the company to reduce water plant-in-service by \$1,060 and record the amount as a miscellaneous nonutility expense.

AUDIT DISCLOSURE NO. 1

SUBJECT: ACCUMULATED DEPRECIATION

FACTS: The staff's recalculated amounts at December 31, 1996:

	Account #	Balance @12/31/96
Water	307	(\$3,811)
Water	340	(\$652)
Water	341	(\$6,197)
Wastewater	391	(\$571)

Per NARUC, Accounting Instruction, Number 22, G.,

In some instances the unexpected early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that prescribed in paragraph B above . . . Such accounting treatment shall be used only when specifically authorized or directed by the Commission.

OPINION/RECOMMENDATION: The audit staff's recalculation contains substantial retirements within the accounts listed above causing the negative balances as shown. The audit staff defers to the Commission as to what the proper accounting treatment should be as prescribed by the NARUC accounting instruction listed above.

If the Commission decides to increase the above balances to zero, the adjustment contained in Audit Exception No. 10 would be reduced by \$10,660 and \$571 for water and wastewater, respectively.

PLANTATION UTILITIES, INC
 CERTIFICATE OF TRANSFER
 RATE BASE BALANCES - WATER
 AT DECEMBER 31, 1996

EXHIBIT I

DESCRIPTION	BALANCE PER BOOKS @ 12/31/96	AUDIT EXCEPTIONS	Refer to	BALANCE PER AUDIT @ 12/31/96
UTILITY PLANT IN SERVICE	1,471,840	(78,149)	(3)	1,393,691
LAND	164,510	(1,642)	E-1	162,868
PLANT HELD FOR FUTURE USE	0	0		0
C. I. A. C.	(97,126)	0		(97,126)
C. W. I. P.	0	0		0
ACCUMULATED DEPRECIATION	(444,734)	159,006	E-10	(285,728)
AMORTIZATION - C. I. A. C.	14,207	220	E-11	14,427
WORKING CAPITAL (1)	0	0		0
TOTALS	\$1,108,697	\$79,435		\$1,188,132

FOOTNOTES:

1. Working capital calculation not required.
2. Audit adjustments do not include audit disclosures.
3. This adjustment refers to audit exceptions 1,2,3,4,5,6,7, and 12

**PLANTATION UTILITIES, INC
 CERTIFICATE OF TRANSFER
 RATE BASE BALANCES - WASTEWATER
 AT DECEMBER 31, 1996**

EXHIBIT II

DESCRIPTION	BALANCE PER BOOKS @ 12/31/96	AUDIT EXCEPTIONS	Refer to	BALANCE PER AUDIT @ 12/31/96
UTILITY PLANT IN SERVICE	1,217,716	(28,877)	(3)	1,188,840
LAND	165,091	0		165,091
PLANT HELD FOR FUTURE USE	0	0		0
C. I. A. C.	(322,955)	0		(322,955)
C. W. I. P.	0	0		0
ACCUMULATED DEPRECIATION	(461,185)	12,085	E-10	(449,100)
AMORTIZATION - C. I. A. C.	60,964	8,856	E-11	69,820
WORKING CAPITAL (1)	0	0		0
TOTALS	\$659,631	(\$7,936)		\$651,696

FOOTNOTES:

1. Working Capital Calculation not required.
2. Audit adjustments do not include audit disclosures.
3. This adjustment refers to audit exceptions 3,4,5,6,8, and 9.

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYO
DIRECTOR
(850) 413-6770

Public Service Commission

October 8, 1997

Stephen H. Osburn
Plantation Utilities
555 NE Ocean Boulevard
Stuart, Florida 34996-1692

Re: Docket No. 970429-WS -- Plantation Utilities
Certificate Transfer Audit Report
Audit Control # 97-129-3-1

Dear Mr. Osburn:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn
Chief, Bureau of Records

KF/mas
Enclosure
cc: Public Counsel
Rose Law Firm