

MEMORANDUM

May 1, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 971670-WU -- VENTURE ASSOCIATES UTILITIES CORP.
AUDIT REPORT - TRANSFER
AUDIT CONTROL NO. 98-034-3-1

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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 two diskettes. The diskettes 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:

Venture Associates Utilities Corp.
Arthur F. Tait
8888 S. W. Highway 200
Ocala, Florida 34481-7705

DNV/sp

Attachment

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

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

04932 MAY-18

FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING***

Orlando District Office

VENTURE ASSOCIATES UTILITIES CORPORATION

CERTIFICATE OF TRANSFER AUDIT

PERIOD ENDED JANUARY 31, 1998

**DOCKET NO. 971670-WU
AUDIT CONTROL NO. 98-034-3-1**

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Ian J. Forbes".

Ian J. Forbes, District Audit Supervisor

DOCUMENT NUMBER-DATE

04932 MAY-18

FPSC-RECORDS/REPORTING

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

APRIL 21, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare a schedule of Rate Base as of January 31, 1998, for Venture Associates Utilities Corporation. These schedules were prepared by audit staff as part of the company's application for Certificate of Transfer in Docket No. 971670-WU. There is no confidential information associated with this audit.

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.

In our opinion, the schedules referred to above present fairly, in all material respects, the company's books and records, which were maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

FPSC staff who conducted the prior audit of the utility, an undocketed Overearnings Investigation, recommended that CIAC be increased and utility plant decreased by \$33,535.75 and \$9,682.95, respectively. Staff additionally recommended that land be reduced by \$77,575.68, based on their valuation disclosed via Audit Disclosure No. 1, per the March 12, 1993 audit report.

Staff concluded, based on the Certificate of Transfer examination, that accumulated depreciation be increased by \$29,612.14, and accumulated amortization and utility plant be reduced by \$7,973.79 and \$1,500.00, respectively.

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.

Confirmed - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Prepared Venture Associates Utilities Corporation's water rate base at January 31, 1998. Compiled all plant additions acquired from January 1, 1993 through January 31, 1998, and traced all to supporting documentation. Confirmed that all retirements were recorded at appropriate cost. Compiled all additions to CIAC from January 1, 1993 through January 31, 1998, and verified the source. Recomputed the depreciation reserve and accumulated amortization through January 31, 1998.

OTHER: Scanned the 1993 through 1996 federal income tax returns. Ascertained that water revenues were collected in accordance with the utility's tariff.

Audit Exception No. 1

Subject: Prior FPSC Audit Exceptions

Facts: An undocketed Overearnings Investigation audit, in which no Commission Order was issued, (Audit Control No. 92-223-3-2) was conducted by the Orlando District Office for the twelve-month period ended December 31, 1992.

The audit report, which was issued March 12, 1993, contained three exceptions and one disclosure (Audit Exceptions Nos. 1-3 and Audit Disclosure No. 1) that are relevant to the current transfer examination.

Audit Exception No. 1: The utility capitalized \$33,535.75 of organizational costs that were expensed for federal tax purposes. Field staff recommended that CIAC be increased by \$33,535.75 to offset the capitalized costs and accumulated amortization increased by \$6,187.35.

Audit Exception No. 2: The utility was unable to support \$2,100.00 of plant additions recorded on December 31, 1989. Field staff recommended that plant-in-service be reduced by \$2,100.

Audit Exception No. 3: The utility capitalized interest of \$7,582.95, in violation of Rule 25-30.116(5), F.A.C., which mandates prior Commission approval for application of an AFUDC rate. Field staff recommended the utility plant-in-service and accumulated depreciation be reduced by \$7,582.95 and \$445.88, respectively.

Audit Disclosure No. 1: The utility reflected \$103,021 in plant Account 101-303, Land and Land Rights, at December 31, 1992. Field staff recommended that the land account be reduced by \$77,575.68 to exclude costs not associated with utility service. (examples - roads, signs, and entrance costs)

Opinion/Recommendation: The aforementioned audit exceptions and audit disclosure are contained in the Certificate of Transfer audit work papers; however, a more comprehensive analysis of the issues is included in the prior audit work papers. The adjustments, per the exceptions, have been reflected in the Certificate of Transfer water rate base at January 31, 1998.

Audit Exception No. 2

Subject: Accumulated Depreciation

Facts: Staff recomputed depreciation and the related reserve at January 31, 1998, in accordance with Rule 25-30.140, F.A.C., rates.

Opinion/Recommendation: The utility's depreciation schedules covering the January 1, 1993 through January 31, 1998 period and supporting the accumulated balance, per the latter date, contained fluctuating rates, mathematical errors, and non-reconcilable ending to beginning accounting period balances.

Staff's balance at January 31, 1998, of \$240,191.26 was \$29,612.14 in excess of the \$210,579.22 reflected by the utility.

It is recommended that accumulated depreciation be increased by \$29,612.14 to reflect a balance of \$240,191.26 at January 31, 1998.

Audit Exception No. 3

Subject: Accumulated Amortization of CIAC

Facts: Staff recomputed amortization of contributions-in-aid-of-construction from January 1, 1993 through January 31, 1998, to reflect a weighted composite rate based on utility plant-in-service, excepting general facilities.

Opinion/Recommendation: Staff recalculated amortization in accordance with Rule 25-30.140(8), F.A.C., as the utility did not maintain records adequately supporting the separation of CIAC from utility investments nor did it apply consistent amortization rates between accounting periods.

Staff's balance for accumulated amortization at January 31, 1998, of \$185,887.75 was \$7,973.79 less than the \$193,861.54 reflected by the utility.

It is recommended that the accumulated amortization of CIAC at January 31, 1998, be reduced by \$7,973.79 to reflect a balance of \$185,887.75.

Audit Exception No. 4

Subject: FPSC Filing Fees

Facts: Venture Associates Utilities Corporation remitted \$1,500 on December 2, 1997, to the Florida Public Service Commission applicable to its Certificate of Transfer filing.

The corporation charged utility plant-in-service Account 101/301, Organization, for the filing fees.

In accordance with NARUC Water Class "B," Account 104, Utility Plant Purchased or Sold, all such amounts should be reflected therein.

Opinion/Recommendation: Field staff recommends that Account 104 be increased, and Account 101-301 be decreased by \$1,500.00.

EXHIBIT I

VENTURE ASSOCIATES UTILITIES CORPORATION DOCKET NO. 971670-WU WATER RATE BASE @ JANUARY 31, 1998				
(a)	(b)	(c)	(d)	(e)
DESCRIPTION	UTILITY PER BOOKS @ 1-31-98	STAFF ADJUSTMENTS (1)	REFER TO	STAFF ADJUSTED BALANCE @ 1-31-98
UTILITY PLANT-IN-SERVICE	\$733,300.05	(\$1,500.00)	AE4	\$722,117.10
		(9,682.95)	AE1	
LAND	103,021.40	0.00		103,021.40
ACCUMULATED DEPRECIATION	(210,579.22)	(29,612.14)	AE2	(239,745.48)
		445.88	AE1	
CIAC	(664,149.00)	(33,535.75)	AE1	(697,684.75)
ACCUMULATED AMORTIZATION OF CIAC	193,861.54	(7,973.79)	AE3	192,075.10
		6,187.35	AE1	
TOTAL	<u>\$155,454.77</u>	<u>(\$75,671.40)</u>		<u>\$79,783.37</u>

REQUIRED FOOTNOTES:

(1) Small differences are due to rounding.

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



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

Public Service Commission

May 4, 1998

Mr. Arthur F. Tait
Venture Associates Utilities Corp.
8888 S.W. Highway 200
Ocala, Florida 34481-7705

Re: Docket No. 971670 - WU - Ventures Associates Utilities Corp.
Audit Report - Transfer
Audit Control # 98-034-3-1

Dear Mr. Tait:

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

Thank you for your cooperation.

Sincerely,


Blanca S. Bayó

BSB/lcw
Enclosure
cc: Public Counsel
Division of Audit and Financial Analysis