

ORIGINAL

MEMORANDUM

August 18, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 980242-SU -- LINDRICK SERVICE CORPORATION  
AUDIT REPORT - LIMITED PROCEEDING AUDIT OF ACCOUNTS  
PERIOD ENDED 12/31/97  
AUDIT CONTROL NO. 98-069-2-1

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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, 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:

Helen L. McNeil  
Lindrick Service Corporation  
P. O. Box 1176  
New Port Richey, FL 34656-1176

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/Gausseaux/  
File Folder)  
Division of Water and Wastewater (Chu)  
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

09003 AUG 20 88

FPSC-RECORDS/REPORTING

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  
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## Public Service Commission

August 21, 1998

Helen L. McNeil  
Lindrick Service Corporation  
Post Office Box 1176  
New Port Richey, Florida 34656-1176

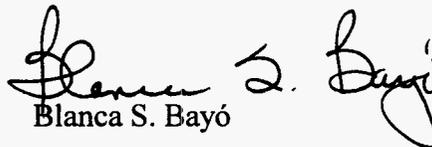
Re: Docket No. 980242 - SU - Lindrick Service Corporation  
Audit Report - Limited Proceeding Audit of Accounts - Period Ended 12/31/97  
Audit Control # 98-069-2-1

Dear Ms. McNeil:

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/abf  
Enclosure  
cc: Public Counsel  
Division of Audit and Financial Analysis  
Kenneth A. Hoffman, Esquire



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
BUREAU OF AUDITING

Orlando District Office

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COMMISSION

LINDRICK SERVICE CORPORATION

LIMITED PROCEEDING AUDIT OF ACCOUNTS

PERIOD ENDED DECEMBER 31, 1997

DOCKET NO. 980242-SU

AUDIT CONTROL NO. 98-069-2-1

*Robert F. Dodrill Sr.*

Robert F. Dodrill, Sr., Audit Manager

*Simon O. Ojada*

Simon O. Ojada, Audit Staff

*Ian J. Forbes*

Ian J. Forbes, Audit Supervisor

DOCUMENT NUMBER-DATE

09003 AUG 20 88

FPSQ-RECORDS/REPORTING

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

**MAY 22, 1998**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the test year ended December 31, 1997, for Lindrick Service Corporation pursuant to Docket No. 980242-SU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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.

In our opinion, with the exceptions noted below, the accompanying schedules present fairly, in all material respects, the utility's books and records, which were not 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**

The utility purchased the water system for \$155,000 and booked it directly to one plant account. It included one month's revenue in the test year. The utility booked non-utility payments, unsupported charges, and plant additions totaling \$167,000 and \$161,000, respectively, into water and wastewater operation and maintenance expenses for the test year. The utility is proposing a \$1.96 million chloride reduction program in a filing before the Florida Public Service Commission which made no mention of independent bidding.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by comparing, on a test basis, certain transactions and account balances which we believe are significant 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.

**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.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

**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:** Examined plant additions since the last Commission Order No. PSC-97-1501-FOF-WS, issued November 25, 1997. Read expense documentation for misclassified plant additions. Located billing records which indicated that plant additions were billed back to the customers. Scanned contributions-in-aid-of-construction. Compiled adjusted operation and maintenance accounts for working capital allowance computation.

**NET OPERATING INCOME:** Recalculated selected purchased power bills. Confirmed the details of material and supplies invoices in an interview with the owner of Pasco Pipe Corporation. Scheduled Pasco Pipe and Rental Service Corporation's invoices for analysis. Reviewed the operation and maintenance general ledger activity for 1997. Scheduled account balances for three years looking for trends which impact the audit. Traced related party checks into the general ledger to determine accounts debited. Scheduled revenue accounts from the general ledger to locate trends and fluctuations. Scanned vendors' invoices for professional services to understand the utility nature of work performed.

**CAPITAL STRUCTURE:** Verified long-term debt for the purchase of S & H Utilities, Inc. Scheduled advance accounts from trial balance.

**OTHER:** Read the Board of Directors' Minutes. Reconciled the annual report with the general ledger account balances. Toured utility plant and service area on different occasions with utility personnel and the Commission engineer.

## **EXCEPTIONS**

### **Exception No. 1**

#### **Subject: Construction Records and Failure to Request Bids**

**Statement of Fact:** The 1996 NARUC Uniform System of Accounts for Class B for both Water and Wastewater Utilities requires that utilities must maintain work order systems for construction projects. It states that Account 105, Construction Work in Progress “. . . shall include the total of balances of work orders for utility plant in process of construction but not ready for service at the date of the balance sheet.”

The utility does not maintain a CWIP account nor does its plant accounting system include repair or construction work orders.

The NARUC Uniform System of Accounts also states that “Plant Material and Supplies . . . shall include the cost of fuel on hand and unapplied material and supplies (except meters) purchased primarily for use in the utility business for construction, operation and maintenance purposes.”

The utility charged water meters to Account 151, Material and Supplies Inventory. The utility added to and withdrew non-utility meters from inventory. Invoices for the purchase of 100 3/4" water meters through the utility checking account were specified “Boot Ranch.” Boot Ranch is an apartment construction project also owned by Mr. Joe Borda, utility president, in Pinellas County. (See Disclosure No. 1 concerning related parties.) The meters were charged to Material and Supplies Inventory.

The utility’s limited proceeding filing in Docket No. 980242-SU gave no indications of an attempt to bid out its \$1.96 million chloride reduction program.

**Recommendation:** It is recommended that the utility initiate a construction and repair work order system in order to track and classify the costs of its various construction and rehabilitation projects. This would allow more accurate records for the utility and a more timely review by the Commission staff.

The Commission should order the utility to follow the NARUC Uniform System of Accounts and end its practice of accounting for meters through the Material and Supplies Inventory account. The use of inventory for utility meters makes it difficult to verify the purchase - installation flow.

The utility should have let-out bids for the cost estimate of a construction project as large as the current chloride reduction program. The actual construction costs of this project would be more supportable with an open bid process rather than to automatically award the project to a related party. (H2O Utility Services - See Disclosure No. 1.)

## **Exception No. 2**

### **Subject: Plant Misclassification**

#### **Statement of Fact:**

##### **Pump**

The utility purchased a new ABS pump for \$4,202.69 in November 1996. The utility capitalized the cost of the ABS pump to Account No. 320, Equipment - Water Treatment. The ABS pump is used for one of the lift stations.

The utility stated that the cost of the replaced pump was \$1,046.59.

##### **Meters**

The utility's books contained a \$15,690 beginning balance for meters, which it could not support.

The utility made 1996 and 1997 inventory adjustments for meters out of Material and Supplies in the respective amounts of \$20,452 and \$17,765 which it could not support.

##### **Repairs**

There were two repairs charged to plant Accounts Nos. 371 and 380, Pumping and Treatment Equipment, respectively, in the amounts of \$453 and \$1,023.

##### **Sludge Hauling**

One May 1996 addition into Account No. 380, Treatment Equipment for \$6,000 was for a deposit on a sludge hauling contract.

**Blower Filters** - Marolf blower filter silencers were replaced in the test year. The deposit of \$850 was charged to expense and the balance of \$1,520 charged to plant Account No. 380, Treatment Equipment.

#### **Recommendations:**

##### **Pump**

The Commission should record the \$4,202.69 purchase of the ABS pump to wastewater plant Account No. 370, Receiving Wells as the cost represents a lift station pump. The water plant Account No. 320 should also be reduced by \$4,202.69.

**Exception No. 2, contd.**

Also, the Commission should remove the \$1,046.59 cost of the old lift station pump that was retired from its system and remove the same cost from accumulated depreciation.

**Meters**

The Commission should reduce the water meters account by a total of \$53,907 which represents the total of the meters account beginning balance (\$15,690) and the two inventory adjustments (\$20,452 and \$17,765) which it could not support.

**Repairs**

The Commission should remove \$453 and \$1,023 from plant Accounts Nos. 371 and 380, respectively.

**Sludge Hauling**

The Commission should remove \$6,000 from Account No. 380, Treatment Equipment.

**Blower Filters**

Remove the \$1,520 blower filter charged to Account No. 380 and move it to a deferred debit account.

In addition, the \$850 deposit charged to expense should also be charged to the deferred debit account to be reviewed by the Division of Water and Wastewater engineer.

The recommendations are reflected below.

**Exception No. 2, contd.**

	<u>Description</u>	<u>Account</u>	<u>Water</u>	<u>Wastewater</u>
Pump	Reclass pump	320	(\$4,203)	\$0
	Reclass pump	370	0	4,203
	Retire pump	370	0	(1,047)
Meters	Reduce meters	334	(53,907)	0
Repairs	Reduce plant	371	0	(453)
	Reduce plant	370	0	(1,023)
Sludge hauling	Reduce plant	380	0	(6,000)
Blower	Reduce plant	380	<u>0</u>	<u>(1,520)</u>
			(\$58,110)	(\$5,840)

**Exception No. 3**

**Subject: Future Use Plant**

**Facts:** The utility has an amount of \$2,000 in Account No. 103, Future Use Plant which the company claimed to be an "obvious error" and would be corrected in its books.

**Recommendation:** The Commission should reduce the future use account by the \$2,000 company error.

**Exception No. 4**

**Subject: Contributions-in-Aid-of-Construction Analysis**

**Statement of Fact:** The NARUC Uniform System of Accounts states in part, the CIAC account shall include "Any amount . . . of money . . . provided at no cost to the utility which . . . is utilized to offset the . . . construction costs of the utility's property . . . used to provide utility services to the public."

The utility booked \$9,566 (\$4,348 water and \$5,218 wastewater) in miscellaneous income during 1997. Of these funds, \$3,330 and \$4,200 were for water and wastewater hook-up fees, respectively. The remaining \$2,036 (\$1,018 each for water and wastewater) was for refunds of various operation and maintenance expenses.

The utility received \$4,850 in funds from its customers during 1996 (currently in retained earnings) which represented \$2,400 and \$2,450 of water and wastewater hook-up fees, respectively.

The utility billed three customers for backflow prevention devices which it added to its water distribution system. The three plant additions total \$6,239. An analysis of material and labor costs of these backflow prevention devices indicated that they were charged to water and wastewater expenses in the amounts of \$2,647 and \$3,592, respectively.

**Recommendation:** The three items described above should be corrected with the following journal entries.

**Exception No. 4, contd.**

	<u>DR</u>	<u>CR</u>
Miscellaneous revenue water	\$4,348	
Miscellaneous revenue wastewater	5,218	
Water CIAC		\$3,330
Wastewater CIAC		4,200
Water O&M		1,018
Wastewater O&M		1,018
To correct 1997 miscellaneous revenue		
Retained earnings	4,850	
Water CIAC		2,400
Wastewater CIAC		2,450
To correct 1996 miscellaneous revenue		
Backflow prevention devices	6,239	
Miscellaneous revenue water	6,239	
Water O&M		2,647
Wastewater O&M		3,592
Water CIAC		6,239
To properly account for backflow preventers charged to expense and billed to customers.		

NOTE: Of the wastewater expense reductions above, \$3,592 will be removed from wastewater operation and maintenance expense in Exception No. 5 with \$1,018 to be reduced in this exception.

## **Exception No. 5**

### **Subject: Operation and Maintenance Expenses**

**Statement of Fact:** The audit staff addressed the following items in which the utility made charges to the operation and maintenance accounts.

**Salaries** - The utility's general ledger included an unsupported 1997 year-end accrual for a salary increase of \$15,000 for Mr. Borda. The salary increase was divided equally between water and wastewater. (\$7,500 to each utility) The ledger also included 100 percent of the \$31,200 salary of the operations manager who works one half of her time on non-utility business. This non-utility salary portion was charged \$7,800 (one-fourth of \$31,200) each to water and wastewater. The total expense reduction for each utility is \$15,300 (\$7,500 + \$7,800).

**Employee Benefits** - All payroll benefits for the president and the operations manager were charged to the utility including the 50 percent non-utility portion which was split 50/50 to the water and wastewater operations at \$2,983 each. The water and wastewater utilities were also charged with \$1,000 of Mr. Borda's IRA which was accrued on December 31, 1997. The total benefit reduction for each of the water and wastewater utilities is \$3,983 (\$2,983 + \$1,000).

**Purchased Power** - The utility allocated purchased power equally between water and wastewater. An analysis of the power bills indicated that the water utility was overcharged by \$20,885.

**Sludge Hauling** - Out-of-period expenses of \$1,715 were charged to the test period.

**Bad Debts** - The utility wrote off 1994, 1995, and 1996 bad debts in the 1997 test year. The amounts of \$6,573.51 and \$7,997.19 for water and wastewater, respectively, were charged to bad debt expense. There were no 1997 bad debts charged during the test period. Since the expense per year data was not available, an average of one-third of each amount, which represents a normalized expense, requires a two-thirds reduction of \$4,382 (2/3 of \$6,573) and \$5,332 (2/3 of \$7,997) for water and wastewater, respectively.

**Engineering Services** - The utility charged the test year with Hartman and Associates' engineering expenses of \$3,282 for 1996 services. In a separate issue, Hartman performed a \$6,000 valuation study for the utility pursuant to a possible sale to the city of New Port Richey. The total \$9,282 was charged equally to the water and the wastewater utilities at \$4,641 each.

**Borda Engineering Services** - Checks drawn by the utility to Borda Engineering were not supported by invoices or coding notes. These checks were charged into the Engineering, Accounting, and Management Services accounts of both the water and the wastewater utilities in the following amounts: Engineering \$5,140 and \$45,371, respectively; Accounting \$27,662 and \$46,253, respectively; and Management Services \$6,917 and \$11,563, respectively.

**Exception No. 5, contd.**

**Legal Expenses Non-Utility** - The utility paid legal fees in the 1997 test period which were non-utility (\$1,527.75) and out-of-period (\$2,842.94). The total water and wastewater reduction of \$4,370.69 is divided equally into \$2,185 for each utility.

**Accounting Expenses** - The utility's documentation for its contract accounting expense did not indicate any utility benefit for the total of \$12,555. This amount was charged to water and wastewater in the amounts of \$6,278 and \$6,277, respectively.

**Transportation Expenses** - The utility incurred \$16,221 in expenses in the 1997 test year associated with the leasing of a Lexus which had no utility identification. These costs were charged to the water and wastewater utilities at \$8,118 and \$8,103, respectively.

**Rate Case Expense** - The utility charged rate case expense to operation and maintenance expense categories in the amount of \$5,401 each for water and wastewater. Chapter 367.0816, Florida Statutes states in part "Rate Case Expense . . . shall be apportioned for recovery over a period of 4 years." These expenses are addressed in Disclosure No. 4.

**DEP Double Payment** - The utility charged both the 1997 and the 1998 wastewater annual DEP fees to 1997 wastewater expenses at \$6,000 each.

**Balancing Cash to Expense** - The utility made a general ledger entry to Account No. 675.8, Water Miscellaneous Expense in the amount of \$4,428.12 which it described as "Bal diff book/tax." This amount was actually an entry to correct the opening balance in the cash account.

**Pasco Pipe Reclassifications** - The utility expensed materials for capital items such as backflow prevention devices and new meter installations per an analysis by the field audit staff. The utility also expensed materials to major replacements and relocations. These capital amounts are \$9,468 and \$5,286 for water and wastewater, respectively.

**No Utility Benefit on Rental Invoices** - The utility did not indicate utility purpose, project number, or service location on Rental Service Corporation's equipment rental invoices. These invoices totaling \$16,643 were all charged to the water utility.

**Other Reclassifications** - The utility expensed a golf course meter replacement, a blower deposit, rehabilitations, and lift station improvements, totaling \$6,161 and \$5,523 for water and wastewater, respectively.

**Recommendation:** The following recap represents the operation and maintenance reductions described above.

**Exception No. 5, contd.**

<u>Description</u>	<u>W/Acct No.</u>	<u>Amount</u>	<u>S/Acct No.</u>	<u>Amount</u>
Salaries	#603	(\$15,300)	#703	\$(15,300)
Employee Benefits	#604	(3,983)	#704	(3,983)
Purchased Power	#615	(20,885)	#715	20,885
Sludge Removal		0	#711	(1,715)
Bad Debts	#670	(4,382)	#770	(5,332)
Engineering Expenses	#631	(4,641)	#731	(4,641)
Unsupported Borda- Eng	#635	(5,140)	#735	(45,371)
Unsupported Borda-Acct	#632	(27,662)	#732	(46,253)
Unsupported Borda-Mgt	#634	(6,917)	#734	(11,563)
Legal Expenses Nonutility	#633	(2,185)	#733	(2,185)
Accounting Expenses	#635	(6,278)	#735	(6,277)
Transportation Expenses	#650	(8,118)	#750	(8,103)
Rate Case Expense	#635	(5,401)	#735	(5,401)
DEP Double Payment		0	#767	(6,000)
Bal Cash to Expense	#675	(4,428)		0
Pasco Pipe Reclassifications	#620	(9,468)	#720	(5,286)
Unsupported Rental Expenses	#635	(16,643)		0
Other Reclassifications	#635	<u>(6,161)</u>	#735	<u>(5,523)</u>
<b>Totals</b>		<b>(\$147,592)</b>		<b>(\$152,048)</b>

## **Audit Exception No. 6**

### **Subject: Taxes Other Than Income**

**Statement of Fact:** The utility recorded \$64,267.57 and \$50,525.31 in taxes other than income for water and wastewater, respectively, for the period ending December 31, 1997.

Included in the above amounts are \$2,020.23 and \$2,047.80 in tax penalties for water and wastewater, respectively. The utility also recorded a 1996 federal payroll tax payment in the amount of \$356.98 for water taxes other than income during 1997. The company purchased an investor-owned utility and incurred a \$750 transfer filing fee which was recorded in water taxes other than income during 1997.

The audit staff recalculated payroll taxes to be \$4,260.67 and \$7,969.72 for water and wastewater, respectively. The utility recorded \$13,423.67 in payroll taxes for water only.

The utility properly paid regulatory assessment fees of \$30,371 and \$29,534 for water and wastewater, respectively. The utility recorded \$27,600 and \$27,960 in regulatory assessment fees for water and wastewater, respectively.

**Recommendation:** The ratepayers of this utility should not have to pay for its imprudent actions. The utility's rate structure which is set by the Commission allows the company to pay its obligations in a timely fashion. Therefore, the audit staff makes the following recommendations.

Taxes other than income should be reduced by \$2,020.23 and \$2,047.80 for water and wastewater, respectively, to remove the tax penalties.

The \$356.98 payment made by the utility is out of the period examined. Therefore, water taxes other than income should be reduced by \$356.98.

Taxes other than income should be reduced by \$9,163 (\$13,423.67-\$4,261.00), and wastewater increased by \$7,969.72 to reflect the proper allocation of the payroll taxes.

The \$750 filing fee paid by the utility is non-recurring and should not be included in taxes other than income. Furthermore, the ratepayers do not benefit from this expenditure, and the payment should be removed from water taxes other than income.

Taxes other than income should be increased by \$2,771 (\$30,371-\$27,600) and \$1,574 (\$29,534-\$27,960) for water and wastewater, respectively, to reflect the regulatory assessment fees actually paid.

**Exception No. 6 (contd.)**

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
Remove penalties	(\$2,020)	(\$2,048)
S and H transfer fee	(750)	
Payroll taxes (per company)	(13,424)	
Payroll taxes (per audit)	4,261	7,970
RAFs (per company)	(27,600)	(27,960)
RAFs (per audit)	<u>30,371</u>	<u>29,534</u>
Total	(\$9,162)	\$7,496

It is recommended that the Commission reduce water taxes other by \$9,162 and increase wastewater taxes other by \$7,496.

**Audit Exception No. 7**

**Subject: Purchase of Water System**

**Statement of Fact:** The NARUC Uniform System of Accounts, Account No. 104, Utility Plant Purchased or Sold states "This account shall be charged with the cost of utility plant acquired as an operating unit or system by purchase . . . ."

The utility purchased S & H Utilities, Inc. on December 31, 1997, as authorized by the Board of Directors in its February 3, 1997 meeting. The purchase price was \$150,000 plus \$5,775 customer accounts receivable as of December 30, 1997.

The utility booked the purchase directly into plant Account No. 331.4, Mains: Distribution as of December 31, 1997.

The utility booked \$5,775 (one month's revenue) from S & H Utilities into the current year's income account. Expenses of operating S & H Utilities are commingled with those of Lindrick Service Corporation during 1997.

Lindrick booked a note payable for \$100,000 to be paid off at 8 percent interest.

**Recommendation:** The cost of the purchased plant should be removed from Account No. 331 and recorded pursuant to Commission Order No. PSC- 97-1613-FOF-WU which approved the transfer. Because Exhibit 1 reflects an average rate base for the year ended December 31, 1997, the cost of the purchased plant has been removed from rate base in order to reflect an average rate base for the Lindrick operating system.

The matching concept would require that the related revenues and expenses also be removed to allow for consistent comparisons. However, the operating expenses are comingled with Lindrick expenses and would be difficult to identify and remove. Therefore, these expenses and the related revenues are included in the attached NOI schedule.

**Exception No. 8**

**Subject: Plant Additions and Improvements**

**Statement of Fact:** Rule 25-30.140(g), FAC, states

- ... 1. The addition of any retirement unit, or
- 2. Any replacement with a retirement unit that materially enhances the value, use, life expectancy, strength or capacity of the asset prior to replacement shall be capitalized. ...

The utility contract operator, H2O Utility Services, sent the utility two invoices totaling \$4,673 for improving the functionality of its Lift Station No. 2.

A backflow prevention device and a four-inch meter were added to the water system at Gulf Harbors Condominium by H2O Utility Services. These cost \$1,985 each.

The above items were charged to the current year's expense.

**Recommendation:** The lift station improvements should be added to plant Account No. 370, Receiving Wells at costs totaling \$4,673. The water additions should be added to the backflow prevention device account and the meters account at \$1,985 each.

**Exception No. 9**

**Subject: Working Capital Allowance**

**Facts:** The working capital allowance has been computed based on the 1/8 formula method to comply with Commission Rule 25-30.433(2), Florida Administrative Code.

The respective water and working capital allowances were computed as \$75,412 and \$46,792 based on staff-adjusted operation and maintenance expenses of \$603,295 and \$374,332.

**Recommendation:** Staff recommends that water and wastewater rate base be increased by \$75,412 and \$46,792, respectively.

## **DISCLOSURES**

### **Disclosure No. 1**

**Subject: Related Parties Transactions**

#### **Statement of Fact:**

**Annual Report** - The utility's 1997 Annual Report lists \$185,134 in transactions with related parties. These transactions are with two entities. The first is Borda Engineering & Energy Consultants for Management, Accounting, and Engineering Services for \$150,936. The second is Gulf Landings Development Corporation for \$34,198. Both entities are owned by Mr. Borda.

**General Ledger** - The utility's general ledger includes advances to and from ten companies all owned by Mr. Borda. These include a \$350,200 advance to Gulf Landings Development and a \$47,600 advance from Borda Engineering, along with advances from and to real estate sales companies, construction companies, and homeowners' associations netting a payable of \$22,828.

**Borda Engineering** - The utility has a services agreement with Borda Engineering and wrote checks totaling \$142,910. These checks were unsupported by invoices and are addressed in Exception No. 5. The checks were charged to water in the amount of \$39,723 and to wastewater in the amount of \$103,187.

**Boot Ranch Partnership** - Mr. Borda is also an owner of Boot Ranch West Apartments near Clearwater, Florida. Invoices for purchased meters were noted as being for "Boot Ranch" and charged to the company Account No. 1490, Material and Supplies Inventory.

According to the utility's inventory records, there were 316 3/4" meters valued at \$9,700 transferred out of Material and Supplies to Boot Ranch during 1997.

Legal services charged to the utility in the amount of \$1,527.75 were for "Purchase of Vacant Land / Boot Ranch Partnership" and included "Conferences regarding sign variance, easement vacations and construction status." This invoice was charged 50 percent (\$763.87) to water and wastewater. This adjustment was made in Exception No. 5.

During the fieldwork which was conducted at Boot Ranch, two meetings were held concerning the apartment complex.

**Disclosure No. 1, contd.**

**H2O Utility Service - Lindrick Service Corporation Relationship** - A Secretary of State corporate search showed that Mr. Borda, president of Lindrick, and the owner of H2O Utility Service were officers of another company, West Pasco Utilities. Mr. Borda stated that West Pasco Utilities was a utility holding company.

An interview with Mr. Ron Kramer, a public works director for New Port Richey, indicated that West Pasco Utilities was formed to buy Lindrick using public improvement bond money. This issue was verified with legal invoices in the utility's files with the following line item descriptions.

- (1) . . . its attempt to form and sell its assets to a non-profit corporation. . . .
- (2) . . . formation of West Pasco Utilities and sale of Lindrick Services . . .
- (3) . . . preliminary financial feasibility of bonding capacity of client's system . . .

During the 1997 test year under audit, more contract services for Lindrick were performed by H2O during the last half of the year than the first half. At the end of 1997, H2O was performing customer billing which was performed by another company at the beginning of 1997. H2O was providing operator, engineering, and lab services for the utility as well as operations and maintenance services. It was also providing consulting services performed on a retainer basis with deferred hours being accumulated and billed later during slow months.

**Recommendation:** Transactions with its affiliates should continue to be closely scrutinized to ensure "arm's length" dealings and customer benefits. The bidding discussed in Exception No. 1 would help provide fairness to the ratepayer.

## **Disclosure No. 2**

### **Subject: Books and Records**

**Statement of Fact:** The utility had different general ledger systems at the beginning and at the end of the test period. Each system had a different method of accruing payables.

The first system, January 1 through July 31, 1997, began with reversals which were not identified with specific invoices but rather with amounts only which required individual matching of items.

The second system, August 1 through December 31, 1997, made monthly accruals and reversals as the checks were cut and could be identified with individual invoices. This was consistent except for the year-end when checks were drawn covering multiple invoices.

This second general ledger made no references to invoices or check numbers.

**Recommendation:** The utility's books made verification of account classification difficult. In an interview with the FPSC auditor who worked on the previous utility rate case, Undocketed, AFA Control No. 95-029-2-1, it was disclosed that in that case, the company also utilized multiple general ledgers.

The Commission should order the utility to maintain only one accounting system for the next test period.

**Disclosure No. 3**

**Subject: Additional Backflow Prevention Devices Per Company**

**Statement of Fact:** The utility provided a list of water system backflow prevention devices (BPDs). The cost of three of these ten were addressed in this audit as CIAC. (See Exception No. 4.)

The backflow prevention devices on the company-provided list that have not been previously capitalized are listed below.

<u>Address</u>	<u>Device</u>	<u>Size</u>
WWTP New Port Richey	WATTS 909	1"
Green Key Road.	FEBCO 805YD	3"
Biscayne Ct.	HERSHEY#2	6"
Barefoot Ct.	CONBRAC 40208A2	2"
4522 Seagull Dr.	CONBRAC 4025A2	1"
Sea Forest Dr.	FEBCO 805Y05	4"
5567 Heather Cove	FEBCO 825Y	2"

Materials were found which related to these backflow prevention devices in the Pasco Pipe invoice analysis. These amounts totaled \$1,398 and were taken out of expense in Exception No. 5 but were not capitalized.

**Recommendation:** Audit staff defers to the Division of Water and Wastewater engineer to determine if an amount for these BPDs should be included in plant.

#### **Disclosure No. 4**

**Subject:        Miscellaneous Deferred Debits**

**Statement of Fact:** The 1996 Uniform System of Accounts for Class B Utilities states in part that this account “. . . shall include the following classes of items: . . . (6) Balances representing the deferred portion of rate case expense . . . . (7) Regulatory created assets . . . for purposes of developing the rates that the utility is authorized to charge. . . .”

**Rate Case Expense -** The utility charged \$5,401 each for rate making expenses to water and wastewater operations and maintenance expenses in the current test year.

**Air Diffuser -** A major rehabilitation of the wastewater treatment plant air diffuser system was charged to the current year's operations expense. The company stated in response to Document Request No. 46 about the expected life of the diffuser that “under regular cleaning (the diffuser) should last ten years.”

**Bridge Crossing -** The utility had to relocate a water main which crossed the Flormar Bridge in its service area and charged 100 percent of the costs to recurring operating expenses for the test year. This was a Pasco County project which took several months. The utility had to tie in its customers' service during the bridge replacement. The project cost the utility \$8,703 and was charged to water operations and maintenance.

**Golf Course Valve Replacement -** The utility rehabilitated a golf course meter pit and charged the entire \$7,776 project to current operating expenses. The expenses were reduced in Exception No. 5. This meter cost \$4,454.97.

**Blower Filters -** Marolf blower filter silencers were purchased in the test year at a cost of \$2,370. (See Exception No. 2.)

**Recommendation:** The above projects should be examined by the Division of Water and Wastewater engineer associated with this docket and amortized over some appropriate period of time as they benefit more than one year.

**EXHIBIT I**

**LINDRICK SERVICE CORPORATION  
LIMITED PROCEEDING INVESTIGATION  
DOCKET NO. 980242-SU  
RATE BASE - WATER  
PERIOD ENDED DECEMBER 31, 1997**

(a) DESCRIPTION	(b) PER COMPANY	(c) AUDIT EXCEPTION(1)	(d) REFER TO(2)	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$1,394,680	(\$199,467)	(4)	\$1,195,213
LAND	\$2,911	\$0		\$2,911
PLANT HELD FOR FUTURE USE	\$2,000	(\$2,000)	E3	\$0
CIAC	(\$917,848)	(\$11,969)	E4	(\$929,817)
ACQUISITION ADJUSTMENT	(\$11,715)	\$0		(\$11,715)
ACCUMULATED DEPRECIATION	(\$611,722)	\$0		(\$611,722)
AMORTIZATION OF CIAC	\$431,433	\$0		\$431,433
ACCUM AMORT OF ACQ ADJ	\$8,052	\$0		\$8,052
WORKING CAPITAL(3)	\$0	\$75,412	E9	\$75,412
TOTAL	\$297,792	(\$138,025)		\$159,767

**REQUIRED FOOTNOTES:**

- (1) Small differences are due to rounding.
- (2) Audit adjustments do not include audit disclosures.
- (3) Working Capital was calculated at 1/8 O&M expense per Commission policy.
- (4) See Exception Nos. 2, 7, and 8. (Exception No. 5 reflects expense impact.)

**EXHIBIT II****LINDRICK SERVICE CORPORATION  
LIMITED PROCEEDING INVESTIGATION  
DOCKET NO. 980242-SU  
RATE BASE - WASTEWATER  
PERIOD ENDED DECEMBER 31, 1997**

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER COMPANY	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$2,713,247	(\$5,840)	(4)	\$2,707,407
LAND	\$19,353	\$0		\$19,353
PLANT HELD FOR FUTURE USE	\$0	\$0		\$0
CIAC	(\$2,455,018)	(\$6,650)	E4	(\$2,461,668)
ACQUISITION ADJUSTMENT	(\$24,905)	\$0		(\$24,905)
ACCUMULATED DEPRECIATION	(\$1,282,793)	\$1,047	E2	(\$1,281,746)
AMORTIZATION OF CIAC	\$1,225,302	\$0		\$1,225,302
ACCUM AMORT OF ACQ ADJ	\$17,126	\$0		\$17,126
WORKING CAPITAL (3)	\$0	\$46,792	E9	\$46,792
TOTAL	\$212,312	\$35,349		\$247,661

**REQUIRED FOOTNOTES:**

- (1) Small differences are due to rounding.
- (2) Audit adjustments do not include audit disclosures.
- (3) Working Capital was calculated at 1/8 O&M expense per Commission policy.
- (4) See Exceptions Nos. 2, 7, and 8. (Exception No. 5 reflects expense impact.)

**EXHIBIT III**

**LINDRICK SERVICE CORPORATION  
LIMITED PROCEEDING INVESTIGATION  
DOCKET NO. 980242-SU  
NET OPERATING INCOME - WATER  
PERIOD ENDED DECEMBER 31, 1997**

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER COMPANY	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT
OPERATING REVENUES	\$674,500	(\$10,587)	E4	\$663,913
	-----	-----		-----
OPERATING EXPENSES:				
O&M EXPENSE	\$754,552	(\$151,257)	(3)	\$603,295
DEPRECIATION EXPENSE	\$24,156	\$0		\$24,156
TAXES OTHER THAN INCOME	\$64,268	(\$9,162)	E6	\$55,106
INCOME TAX EXPENSE	\$0	\$0		\$0
AMORTIZATION EXPENSE	(\$14,303)	\$0		(\$14,303)
	-----	-----		-----
TOTAL OPERATING EXPENSE	\$828,673	(\$160,419)		\$668,254
	=====	=====		=====
NET OPERATING INCOME(LOSS)	(\$154,173)	\$149,832		(\$4,341)

**REQUIRED FOOTNOTES:**

- (1) Small differences are due to rounding.
- (2) Audit adjustments do not include audit disclosures.
- (3) See Exceptions Nos. 4 and 5.
- (4) Company had negative ordinary income for 1997.

**EXHIBIT IV**

**LINDRICK SERVICE CORPORATION  
LIMITED PROCEEDING INVESTIGATION  
DOCKET NO. 980242-SU  
NET OPERATING INCOME - WASTEWATER  
PERIOD ENDED DECEMBER 31, 1997**

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER COMPANY	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT
OPERATING REVENUES	\$656,313	(\$5,218)	E4	\$651,095
	-----	-----		-----
OPERATING EXPENSES:				
O&M EXPENSE	\$531,840	(\$157,508)	(3)	\$374,332
DEPRECIATION EXPENSE	\$60,613	\$0		\$60,613
TAXES OTHER THAN INCOME	\$50,525	\$7,496	E6	\$58,021
INCOME TAX EXPENSE	\$0	\$0		\$0
AMORTIZATION EXPENSE	(\$47,611)	\$0		(\$47,611)
	-----	-----		-----
TOTAL OPERATING EXPENSE	\$595,367	(\$150,012)		\$445,355
	=====	=====		=====
NET OPERATING INCOME(LOSS)	\$60,946	\$144,794		\$205,740

**REQUIRED FOOTNOTES:**

- (1) Small differences are due to rounding.
- (2) Audit adjustments do not include audit disclosures.
- (3) See Exceptions Nos. 2, 4, and 5.
- (4) Company had negative ordinary income for 1997.

**EXHIBIT V**

**LINDRICK SERVICE CORPORATION  
LIMITED PROCEEDING INVESTIGATION  
DOCKET NO. 980242-SU  
CAPITAL STRUCTURE  
PERIOD ENDED DECEMBER 31, 1997**

DESCRIPTION	PER COMPANY	AUDIT EXCEPTION	REFER TO	PER AUDIT	RATIO	COST RATE	WEIGHTED COST OF CAPITAL
COMMON EQUITY	\$5,000	\$0		\$5,000	0.71%	0%	0.00%
OTHER PAID-IN-CAPITAL	\$520,071	\$0		\$520,071	73.46%	0%	0.00%
RETAINED EARNINGS	(\$196,835)	\$0		(\$196,835)	(27.80)%	0%	0.00%
ADVANCES FROM AFFILIATES	\$279,759	\$0		\$279,759	39.51%	0%	0.00%
S&H UTILITY LOAN	\$100,000	\$0		\$100,000	14.12%	8%	1.12%
CUSTOMER DEPOSITS	\$0	\$0		\$0	0.00%	0%	0.00%
	=====	=====		=====	=====		=====
TOTAL	\$707,995	\$0		\$707,995	100.00%		1.12%

**REQUIRED FOOTNOTES:**

- (1) Cost of capital based on utility's debt.
- (2) Audit adjustments do not include audit disclosures.