

M E M O R A N D U M

November 9, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 980242-SU -- LINDRICK SERVICE CORPORATION
REVISED LIMITED PROCEEDING AUDIT REPORT OF ACCOUNTS
PERIOD ENDED 12/31/197 - AUDIT CONTROL NO. 98-069-2-1

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:

Lindrick Service Corporation
Helen L. McNeil
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/Causseaux/
File Folder)
Division of Water and Wastewater (Chu)
Tampa District Office (McPherson)
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

12588 NOV-98

FRSC-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

November 10, 1998

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

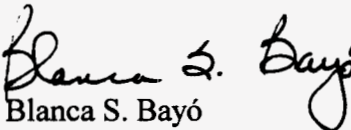
Re: Docket No. 980242 - SU - Lindrick Service Corporation
Revised Limited Proceeding Audit Report of Accounts - Period Ended 12/31/97
Audit Control # 98-069-2-1

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.

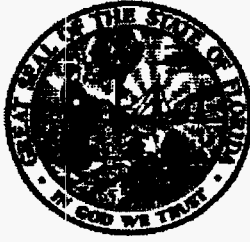
Thank you for your cooperation.

Sincerely,


Blanca S. Bayó

BSB/abf
Enclosure

cc: Division of Audit and Financial Analysis
Kenneth Hoffman, Esquire



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING

Orlando District Office

LINDRICK SERVICE CORPORATION
LIMITED PROCEEDING AUDIT OF ACCOUNTS

(REVISED)

PERIOD ENDED DECEMBER 31, 1997

DOCKET NO. 980242-SU

AUDIT CONTROL NO. 98-069-2-1

Robert F. Dodrill, Sr., Audit Manager

Simon Q. Ojada, Audit Staff

Ian J. Forbes, Audit Supervisor

DOCUMENT NUMBER-DATE

12588 NOV-98

FPSC-RECORDS/REPORTING

Revised 10/15/98

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Revised 10/15/98

AUDITOR'S REPORT

MAY 22, 1998

(REVISED REPORT OCTOBER 15, 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 \$150,000 and booked it directly to one plant account. It included one month's revenue in the test year. The utility had an unsupported meters and meter installations beginning balance of \$15,600. It also had beginning water and wastewater mains balances of \$31,800 and \$121,900 in excess of the prior Order No. PSC-97-1501-FOF-WS, issued November 25, 1997. The utility booked non-utility payments, unsupported charges, and plant additions totaling \$150,239 and \$155,640, 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. 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.

Two general ledgers with different reference systems were used during the 1997 test period. (See Disclosure No. 2.)

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: Incorrect Plant Account Balances

Statement of Fact:

Adjust to Order

The utility failed to adjust its plant accounts to Order No. PSC-97-1501-FOF-WS. These adjustments would have been \$1,306 and (\$3,710) for water and wastewater, respectively.

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.

Mains

The utility had unsupported mains subaccounts beginning balances in both the water and wastewater utilities in the amounts of \$31,880 and \$121,692, respectively.

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.

Exception No. 2, contd.

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:

Adjust to Order

In order to balance to Order No. PSC-97-1501-FOF-WS, the Commission should increase the water plant balance and decrease the wastewater plant balance by \$1,306 and (\$3,710), respectively.

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.

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.

Mains

The Commission should remove the unsupported beginning subaccount balances of \$31,880 and \$121,692 for the water and wastewater utilities, respectively.

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.

Exception No. 2, contd.

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.

Adjustment Summary

	<u>Description</u>	<u>Account</u>	<u>Water</u>	<u>Wastewater</u>
	Balance to Order	304	(\$9,490)	
	Balance to Order	307	503	
	Balance to Order	331	5,005	
	Balance to Order	334	<u>5,288</u>	
	Subtotal		1,306	
	Balance to Order	354	0	(\$14,764)
	Balance to Order	360	0	(5,987)
	Balance to Order	371	0	<u>17,041</u>
	Subtotal			(3,710)
Pump	Reclass pump	320	(4,203)	0
	Reclass pump	370	0	4,203
	Retire pump	370	0	(1,047)
Mains	Reduce mains	331	(31,880)	0
	Reduce mains	360	0	(121,961)
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>
			(\$88,684)	(\$131,511)

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

Statement of Fact: Lindrick Service Corporation failed to adjust its 1996 general ledger to the PSC Order No. 97-1501-FOF-WS. The required adjustments would have been (\$143,634) and (\$26,430), respectively for water and wastewater.

The utility booked \$480 and \$4,370 to its 1996 CIAC accounts, respectively to the water and wastewater accounts. The audited tap fee and impact fee records indicated that the correct amounts should have been \$2,400 and \$2,450, respectively.

During April 1997, the utility billed three customers for backflow prevention devices which it added to its water distribution system. The three plant additions total \$6,239, and the payments were credited to miscellaneous water revenue. The labor and materials for these reimbursed plant additions were charged to water and wastewater expenses in the amount of \$2,647 and \$3,592, respectively.

The utility made an unsupported credit adjustment (Entry No. 7) in the amount of \$252,597 to wastewater CIAC with an offsetting debit entry to accumulated amortization of water CIAC for the same amount. The description of this adjusting entry was "TO CORRECT OPENING BALANCE."

Recommendation: The Lindrick water and wastewater CIAC accounts should be increased by \$143,634 and \$26,430, respectively, to balance to PSC Order No. 97-1501-FOF-WS, dated November 25, 1997.

A 1996 increase of \$1,920 (\$480-\$2,400) should be made to the water CIAC account and a decrease of \$1,920 (\$4,370-\$2,450) should be made to the wastewater CIAC account.

The Commission should increase the water CIAC account by \$6,239 to reflect the addition of three reimbursed backflow prevention devices and reduce miscellaneous water revenue by the same amount. The Commission should reduce water and wastewater operation and maintenance expenses by \$2,647 and \$3,592, respectively.

The Commission should reverse the wastewater CIAC credit adjustment of \$252,597 with a debit of the same amount. The debit to accumulated amortization of the same amount should also be reversed. (See Exception No. 11.)

The above recommendations are reflected in the table on the following page.

Exception No. 4, contd.

	<u>Water</u>	<u>Wastewater</u>
CIAC Balance per books	(\$917,848)	(\$2,455,018)
Adj. to PSC Order	(143,634)	(26,430)
Reclass 1996	(1,920)	1,920
CIAC devices	(6,239)	0
Reverse adjustments	<u>0</u>	<u>252,597</u>
Total CIAC Exceptions	<u>(151,793)</u>	<u>228,087</u>
Audited CIAC balance	(\$1,069,641)	(\$2,226,931)

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, a new installation cost, 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>
Totals		(\$147,592)		(\$152,048)

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 commingled 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), F.A.C., 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.

An analysis of Pasco Pipe's invoices indicated that the utility purchased backflow prevention device materials totaling \$1,398.

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 backflow prevention device Account No. 336 should be increased by \$3,383 (\$1,985+\$1,398) and the meters Account No. 334 should be increased by \$1,985.

Exception No. 9

Subject: Working Capital Allowance

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

The respective water and working capital allowances were computed as \$75,539 and \$47,025 based on staff-adjusted operation and maintenance expenses of \$604,313 and \$376,200.

Recommendation: Staff recommends that water and wastewater rate base be increased by \$75,539 and \$47,025, respectively.

Exception No. 10

Subject: Accumulated Depreciation and Net Expense

Statement of Fact:

Accumulated Depreciation

Lindrick Service Corporation's December 31, 1997 accumulated depreciation balances were \$611,722 and \$1,282,793 for the water and wastewater utilities, respectively.

Net Depreciation Expense

The Lindrick 1997 depreciation expense was \$24,156.25 and \$60,612.85 for water and wastewater, respectively. The company's amortization of CIAC was \$14,059.39 and \$47,092.29, respectively for water and wastewater.

Recommendation: Accumulated depreciation and net depreciation expense are addressed as follows.

Accumulated Depreciation

The PSC recalculated accumulated depreciation balances are \$624,784 and \$1,310,987 for water and wastewater, respectively.

The accumulated depreciation additions for water and wastewater of 13,062 and 28,194, respectively, are calculated below.

	<u>Water</u>	<u>Wastewater</u>
A/D per company	\$611,722	\$1,282,793
A/D PSC recalculated	<u>624,784</u>	<u>1,310,987</u>
Additional A/D per audit	(\$13,062)	(\$28,194)

Net Depreciation Expense

The Commission's recalculation of depreciation expense was based on audited plant balances and Rule 25-30.140, F.A.C., Depreciation Rates. These expense totals were \$32,206 and \$80,940, respectively for water and wastewater.

Exception No. 10, contd.

The Commission's recalculation of amortization of CIAC was also based on audited CIAC balances and composite amortization rates derived from the current year's plant and depreciation balances. These amortization balances were \$29,816 and \$68,970 for water and wastewater, respectively.

The net depreciation expense adjustments for water and wastewater are (\$7,707) and (\$1,551), respectively, as calculated below.

Calculation of depreciation expense adjustment	<u>Water</u>	<u>Wastewater</u>
Depreciation expense per audit	\$32,206	\$80,940
CIAC amortization expense per audit	<u>(29,816)</u>	<u>(68,970)</u>
Net per audit	2,390	11,970
Company net expense	<u>(10,097)</u>	<u>(13,521)</u>
Adjustment required	(\$7,707)	(\$1,551)

Calculation of company net expense	<u>Water</u>	<u>Wastewater</u>
1997 Depreciation expense	\$24,156	\$60,613
1997 Amortization of CIAC	<u>(14,059)</u>	<u>(47,092)</u>
Net depreciation expense	\$10,097	\$13,521

Exception No. 11

Subject: Accumulated Amortization of CIAC

Statement of Fact: Lindrick Service Corporation failed to adjust its 1996 general ledger to the PSC Order No. 97-1501-FOF-WS. The required adjustments for the amortization would have been \$93,817 and \$37,174, respectively for water and wastewater.

The utility booked \$19,047.45 and \$46,959.28 to its 1996 amortization of CIAC accounts, respectively to the water and wastewater utilities.

The utility booked \$19,059.39 and \$47,092.29 to its 1997 amortization of CIAC accounts, respectively to the water and wastewater utilities.

The utility made an unsupported credit adjustment (Entry No. 7) in the amount of \$252,597 to water CIAC with an offsetting debit entry to accumulated amortization of water CIAC for the same amount. The description of this adjusting entry was "TO CORRECT OPENING BALANCE."

Recommendation: The Lindrick water and wastewater accumulated amortization of CIAC accounts should be increased by \$93,817 and \$37,174, respectively, to balance to PSC Order No. 97-1501-FOF-WS, dated November 25, 1997.

The Commission audit staff recomputations of the 1996 amortization expenses are \$30,707 and \$71,088 for water and wastewater, respectively. A 1996 increase of \$11,660 (\$30,707-\$19,047) should be made to the water amortization of CIAC account and a similar increase of \$24,129 (\$71,088-\$46,959) should be made to the wastewater amortization of CIAC account.

The Commission audit staff recomputations of the 1997 amortization expenses are \$29,816 and \$68,970 for water and wastewater, respectively. A 1997 increase of \$10,757 (\$29,816-\$19,059) should be made to the water accumulated amortization of CIAC account and a similar increase of \$21,878 (\$68,970-\$47,092) should be made to the wastewater amortization of CIAC account.

The Commission should reverse the amortization of CIAC Adjusting Entry No. 7 which is a debit of \$252,597 with a credit of the same amount. The offsetting credit to CIAC for the same amount was reversed in Exception No. 4.

The above recommendations are reflected in the table on the following page.

Exception No. 11, contd.

	<u>Water</u>	<u>Wastewater</u>
Accumulated amortization of CIAC per books	\$431,433	\$1,225,302
Adjust to PSC Order	93,817	37,174
Adjust 1996 amortization	11,660	24,129
Adjust 1997 amortization	10,757	21,878
Reverse adjustment	<u>0</u>	<u>(252,597)</u>
Total Amort. of CIAC Exceptions	<u>116,234</u>	<u>(169,416)</u>
Audited Acc. Amort. of CIAC	\$547,667	\$1,055,886

Exception No. 12

Subject: Accumulated Amortization of Wastewater Acquisition Adjustment

Statement of Fact: The utility's general ledger wastewater account balance for accumulated amortization of acquisition adjustment was \$17,126.

Recommendation: The Commission audit staff recalculated this balance based on the amortization rate used in the Order PSC-97-1501-FOF-WS. This recomputed balance was \$16,769.

The Commission should reduce the utility wastewater accumulated amortization of its acquisition adjustment by \$357 (\$17,126 - \$16,769).

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 costs 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)	(b)	(c)	(d)	(e)
DESCRIPTION	PER COMPANY	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$1,394,680	(\$227,076)	(4)	\$1,167,604
LAND	2,911	0		2,911
PLANT HELD FOR FUTURE USE	2,000	(2,000)	E3	0
CIAC	(917,848)	(151,793)	E4	(1,069,641)
ACQUISITION ADJUSTMENT	(11,715)	0		(11,715)
ACCUMULATED DEPRECIATION	(611,722)	(13,062)	E10	(624,784)
AMORTIZATION OF CIAC	431,433	116,234	E11	547,667
ACCUM AMORT OF ACQ ADJ	8,052	0		8,052
WORKING CAPITAL(3)	0	75,539	E9	75,539
	=====	=====		=====
TOTAL	\$297,791	(\$202,158)		\$95,633

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, 4, 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	(\$126,838)	(4)	\$2,586,409
LAND	19,353	0		19,353
PLANT HELD FOR FUTURE USE	0	0		0
CIAC	(2,455,018)	228,087	E4	(2,226,931)
ACQUISITION ADJUSTMENT	(24,905)	0		(24,905)
ACCUMULATED DEPRECIATION	(1,282,793)	(28,194)	E10	(1,310,987)
AMORTIZATION OF CIAC	1,225,302	(169,416)	E11	1,055,886
ACCUM AMORT OF ACQ ADJ	17,126	(357)	E12	16,769
WORKING CAPITAL (3)	0	47,025	E9	47,025
TOTAL	\$212,312	(\$49,693)		\$162,619

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 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	(\$6,239)	E4	\$668,261
	-----	-----		-----
OPERATING EXPENSES:				
O&M EXPENSE	754,552	(150,239)	(3)	604,313
DEPRECIATION EXPENSE	10,097	(7,707)	E10	2,390
TAXES OTHER THAN INCOME	64,268	(9,162)	E6	55,106
INCOME TAX EXPENSE(4)	0	0		0
AMORTIZATION EXPENSE	(244)	0		(244)
	-----	-----		-----
TOTAL OPERATING EXPENSE	\$828,673	(\$167,108)		\$661,565
	=====	=====		=====
NET OPERATING INCOME(LOSS)	(\$154,173)	\$160,869		\$6,696

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	\$0		\$656,313
	-----	-----		-----
OPERATING EXPENSES:				
O&M EXPENSE	531,840	(155,640)	(3)	376,200
DEPRECIATION EXPENSE	13,521	(1,551)	E10	11,970
TAXES OTHER THAN INCOME	50,525	7,496	E6	58,021
INCOME TAX EXPENSE(4)	0	0		0
AMORTIZATION EXPENSE	(519)	(1)		(520)
	-----	-----		-----
TOTAL OPERATING EXPENSE	\$595,367	(\$149,696)		\$445,671
	=====	=====		=====
NET OPERATING INCOME(LOSS)	\$60,946	\$149,696		\$210,642

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 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%

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REQUIRED FOOTNOTES:

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

Revised 10/15/98