

State of Florida



Public Service Commission

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DATE: November 24, 1999
TO: Division of Water and Wastewater (Morgan-Gates)
FROM: Division of Auditing and Financial Analysis (Vandiver) *W*
RE: Docket No. 991290-WU; Brendenwood Water System; Audit Control No. 99-270-3-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

Attachment

cc: Division of Auditing and Financial Analysis (Devlin, Causseaux, Harvey, File Folder)
 Orlando District Office (Winston)
 Division of Records and Reporting
 Division of Legal Services

Mr. Paul E. Day
 Brendenwood Water System
 P.O. Box 350294
 Grand Island, FL 32735-0294

AFA _____
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FLORIDA PUBLIC SERVICE COMMISSION

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

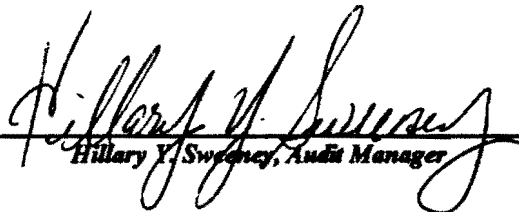
Orlando District Office

BRENDENWOOD WATER SYSTEM

STAFF-ASSISTED RATE CASE

HISTORICAL YEAR ENDED JUNE 30, 1999

**DOCKET NO. 991290-WU
AUDIT CONTROL NO. 99-270-3-1**


Hillary Y. Sweeney, Audit Manager


Charleston J. Winston, District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
1.	NONCOMPLIANCE WITH THE NARUC USOfA	4
2.	UPIS AND ASSOCIATED ACCUMULATED DEPRECIATION OF UPIS	5
3.	CIAC AND ACCUMULATED AMORTIZATION OF CIAC	6
4.	UNDERSTATED REVENUES	7
5.	OPERATING EXPENSES	8
III.	DISCLOSURES	
1.	FEEES FOR CONTRACTUAL SERVICES - OTHER	9
2.	CIAC	10
IV.	EXHIBITS	
1.	RATE BASE	11
2.	NET OPERATING INCOME	12

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

NOVEMBER 14, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules for Rate Base and Net Operating Income for the 12-month period ended June 30, 1999, for Brendenwood Water System (Brendenwood or utility). The attached schedules were prepared by the auditor as part of our work in Docket No. 991290-SU.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility does not maintain its books and records as required by the Uniform System of Accounts and Commission rules.

Utility-plant-in-service (UPIS) and accumulated depreciation for the period ended June 30, 1999, are \$8,614.59 and \$1,140.04, respectively. Additionally, depreciation expense calculated on UPIS is \$585.51.

The utility collects unauthorized service availability fees. Contributions-in-aid-of-construction (CIAC) and accumulated amortization of CIAC for the period are \$1,577.78 and \$257.02, respectively. Additionally, amortization expense calculated on UPIS for year is \$107.24.

Utility revenues for the period ended June 30, 1999, should be increased by \$776.03 to reflect free water to the owner and collection of base facility charges (BFC) from the developer.

Transportation expense and insurance expense should be reduced by \$478.66 and \$511.80, respectively, to reflect 80 percent of the truck and 30 percent of the van usage for utility purposes.

Developer lines will be donated to the utility upon construction completion.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining 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.

Verified - The items were tested for accuracy, and substantiating documentation was examined.

Assembled - Presented in Commission-required format financial information that was provided to audit staff and is the representation of utility management.

RATE BASE: Scanned and verified 100 percent of utility-provided documents used to identify additions to UPIS and accumulated depreciation for the period ended June 30, 1999. Computed CIAC and associated amortization of CIAC through analysis of the utility's billing register. Calculated working capital.

NET OPERATING INCOME: Scanned and verified 100 percent of utility-provided documents used to assemble account balances for utility revenues, operations and maintenance expenses, and taxes other than income for the 12-month period ended June 30, 1999.

OTHER: Interviewed the owner to obtain pro forma expense information.

Audit Exception No. 1

Subject: Noncompliance with the NARUC Uniform System of Accounts

Statement of Facts: Brendenwood Water System is a small system providing water to approximately 55 customers.

Commission Rule 25-30.115 (1), Florida Administrative Code (F.A.C.), requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC.

In Order No. 14787, issued August 28, 1985, no Rate Base and Capital Structure schedules were included because rate base was set at zero.

Recommendation: Although utility books are well kept and thorough, the utility does not use the account numbers prescribed by the NARUC Uniform System of Accounts (UsosA). The utility should be required to bring its books into conformity with NARUC.

The utility investment is 100 percent equity, and Order No. 14787, its general ledgers and annual reports show no amount for proprietary capital. Therefore, the audit staff did not include a Capital Structure exhibit. When final rate base is established, capital structure should be set equal to it and at 100 percent equity.

Audit Exception No. 2

Subject: UPIS and Associated Accumulated Depreciation of UPIS

Statement of Facts: In Brendenwood's last staff-assisted rate case for the period ended December 31, 1984, in Commission Order No. 14787 staff determined that the costs associated with the water system were allocated to the cost of each lot and home sold. Consequently, the Commission set rate base for Brendenwood at zero.

In Commission Order No. 22425, issued January 17, 1990, the Commission approved the transfer of ownership, which occurred in July 1988, to Mr. Paul Day. Since the transfer, Mr. Day has made several plant additions and replacements.

Recommendation: Using the owner's tax records, invoices and canceled checks, audit staff has assembled UPIS and associated accumulated depreciation for the period ended June 30, 1999.

Audit staff has calculated and determined that UPIS and accumulated depreciation of UPIS for the period ended June 30, 1999, is \$8,614.59 and \$1,140.04, respectively. Staff has also calculated depreciation expense of \$585.51. The schedule below provides detail of the UPIS and accumulated depreciation balances by account.

Utility-Plant-in-Service Period Ended June 30, 1999			
<u>Acc. No.</u>	<u>Account Description</u>	<u>Plant</u>	<u>(1) Acc/Dep</u>
304	Structures & Improvements	\$1,430.91	(\$63.05)
311	Pumping Equipment	3,152.90	(553.90)
320	Water Treatment Equipment	2,138.71	(105.10)
340	Office Furniture & Equipment	950.00	(229.58)
345	Power Operated Equipment	<u>942.07</u>	<u>(188.44)</u>
	Total	\$8,614.59	(\$1,140.07)

(1) Accumulated depreciation balances are calculated using a composite rate of 2.5 percent through June 30, 1998. For the 12-month period ended June 30, 1999, accumulated depreciation balances were calculated using rates established in Rule 25-30.140(2)(a), F.A.C.

Exception No. 3

Subject: CIAC and Accumulated Amortization of CIAC

Statement of Fact: Commission Order No. 22398, issued January 10, 1990, extended Brendenwood's service territory to provide water to Jeremy Estates. Since that time, the utility has been collecting a BFC for lots under construction and recording it as revenues. The BFC assessed to the developer is based on the utility's authorized tariffs at that time.

The utility initiates billing to the developer at the start of construction on a lot although water service is not yet available. Upon installation of the meter at which time water service is available, the utility converts to billing its new customer, the home owner.

The USofA states that Account No. 271, CIAC shall include . . . "Any amount or item of money, . . . from any person or governmental agency, any portion of which is provided at no cost to the utility"

Recommendation: The utility should reclassify the BFC received from the developer prior to the installation of the meter to CIAC. Audit staff calculated CIAC, accumulated amortization of CIAC and amortization expense for the period ended June 30, 1999, in the amounts of \$1,577.78, \$257.02 and \$107.24, respectively. The schedule below shows the annual CIAC balances and accumulated amortization of CIAC.

**CIAC
Period Ended June 30, 1999**

<u>Year</u>	<u>CIAC</u>	<u>Accum. Amort.</u>
1990	\$66.17	\$1.65
1991	\$188.33	\$6.36
1992	\$188.33	\$11.07
1993	\$371.57	\$20.36
1994	\$592.73	\$35.18
1995	\$821.66	\$55.72
1996	\$1,055.30	\$82.10
1997	\$1,293.44	\$114.44
1998	\$1,413.68	\$149.78
1999	\$1,577.78	\$257.02

Exception No. 4

Subject: Understated Revenues

Statement of Fact: The utility recorded revenues of \$23,553.00.

Free Water

The utility owner, Mr. Day, is also a customer for Brendenwood. Although the billing register reflects his monthly consumption, it does not reflect a charge for the water provided.

Prior Commission Order No. 11241-A determined “. . . the practice of providing free water to be discriminatory, . . .” and required “. . . the utility to perform meter readings and charge . . . for all water consumption.”

BFC

As stated in Exception No. 3, the utility collected \$1,577.78 in BFC for the period ended June 30, 1999.

Recommendation: The utility should make the adjustments below to reflect a period ended June 30, 1999 balance of \$24,329.00.

To reflect water service charges to the owner	\$940.13
To remove BFC that should be recorded as CIAC	<u>(164.10)</u>
Total adjustment	<u>\$776.03</u>

Audit Exception No. 5

Subject: Operating Expenses

Statement of Facts: The utility recorded operating expenses of \$20,267.44.

Allocations

The utility claimed 100 percent of transportation and insurance expenses on a truck and van and 100 percent of repair costs on the lawn mower. Per discussion with the owner, the utility usage on the truck, van and lawn mower are 80, 30 and 50 percents, respectively.

Unrecorded Costs

The utility recorded \$94.86 for wireless telephone service.

Miscellaneous Nonutility Expenses

The utility recorded estate taxes of \$150.00 and a Christmas bonus of \$100.00.

Recommendation: The utility should make the following adjustments:

408 TOTI	
Estate tax - Reclassify to 426 Miscellaneous Nonutility Expense.	<u>\$(150.00)</u>
636 Contractual Services - Other	
Unrecorded costs for wireless phone service	\$274.00
Christmas bonus - Reclassify to 426 Miscellaneous Nonutility Expense.	\$(100.00)
To reflect 50% allocation costs to utility for mower repair	\$(106.19)
426.5	<u>\$67.81</u>
650 Transportation Expense	
To reflect an 80% and 30% allocation to the utility for truck and van usage, respectively	<u>\$(478.66)</u>
655 Insurance Expense	
To reflect an 80% and 30% allocation to the utility for truck and van usage, respectively	<u>\$(511.80)</u>
Total reduction to Operation & Maintenance (O&M)	<u>\$(922.65)</u>

Additionally, per Rule 25-30.433 (4), F.A.C., working capital was calculated using one-eighth of O&M expenses for a balance of \$2,418.12.

Audit Disclosure No. 1

Subject: Fees for Contractual Services - Other

Statement of Facts: The utility recorded Contractual Services - Other of \$5,562.49.

Operator Fees

The utility has contracted with Pak Water for operator services since the system was brought into service. The operator's fees are \$30 per month. However, he may not be able to continue much longer due to health reasons. The utility obtained quotes from various companies for operator services to support a potential increase in operator fees. Per the quotes received, the average fees for operator services are \$215 per month.

Maintenance Person

Currently the owner, Mr. Day, attends to the utility's daily maintenance requirements. Also, Mr. Day assists in major repairs. However, he does not receive payments for maintenance. The utility obtained quotes from various companies for maintenance services. Per the quotes received, the average costs for maintenance services are \$40 per hour and \$50 per hour minimum for emergencies. An estimate of hours required for a system this size is deferred to the engineer.

Bookkeeper

The bookkeeper for the utility is the owner's daughter. Her services provided include monthly billing, preparation of the annual report, filing price indexes and permit renewals. Currently, she does not receive payment for these services provided.

Audit Disclosure No. 2

Subject: CIAC

Statement of Facts: The utility's service territory includes an area currently under development. The developer has agreed to donate the lines to the utility as the lots are sold. The utility does not have a written developer agreement.

EXHIBIT I

**BRENDENWOOD WATER SYSTEM
DOCKET NO. 991290-WU
RATE BASE
PERIOD ENDED 06/30/99**

DESCRIPTION	(a)	(b)	(c)	(d)	(e)	(f)
		PER UTILITY 6/30/99	AUDIT EXCEPTION	REFER TO	PER AUDIT 6/30/99	AVERAGE BALANCE 6/30/99
UTILITY PLANT-IN-SERVICE		\$5,291	\$3,324	E-2	\$8,615	\$7,984
LAND			0		0	
ACCUMULATED DEPRECIATION (1)		\$0	(\$1,140)	E-2	(\$1,140)	(\$1,076)
CIAC		\$0	(\$1,578)	E-3	(\$1,578)	(\$1,496)
ACCUMULATED AMORT. OF CIAC		\$0	\$257	E-3	\$257	\$203
WORKING CAPITAL ALLOWANCE			\$2,418	E-5	\$2,418	\$2,418
		-----	-----		-----	-----
RATE BASE		\$5,291	\$3,281		\$8,572	\$8,033
		=====	=====		=====	=====

FOOTNOTE:

- (1) Accumulated depreciation balances are calculated using a composite rate of 2.5 percent through June 30, 1998. For the 12-month period ended June 30, 1999, accumulated depreciation balances were calculated using rates established in Rule 25-30.140(2)(a), F.A.C.

EXHIBIT II**BRENDENWOOD WATER SYSTEM
DOCKET NO. 991290-WU
NET OPERATING INCOME
PERIOD ENDED 06/30/99**

(a) DESCRIPTION	(b) PER UTILITY 6/30/99	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT 6/30/99
OPERATING REVENUES	\$23,553	\$776	E-4	\$24,329
	-----	-----		-----
OPERATING EXPENSES:				
OPERATIONS & MAINTENANCE EXPENSE	\$20,268	(\$923)	E-5	\$19,345
DEPRECIATION EXPENSE	\$0	\$586	E-2	\$586
CIAC AMORTIZATION	\$0	(\$107)	E-3	(\$107)
TAXES OTHER THAN INCOME	\$1,553	(\$150)		\$1,403
INCOME TAX EXPENSE (1)	\$0	\$0		\$0
	-----	-----		-----
TOTAL OPERATING EXPENSE	\$21,821	(\$594)		\$21,227
	-----	-----		-----
NET OPERATING INCOME (LOSS)	\$1,732	\$1,370		\$3,102

FOOTNOTE:

- (1) Brendenwood is a sole proprietorship. Consequently, income tax expense is not included.
- (2) Differences are due to rounding.