



# Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

---

DATE: March 14, 2000  
 TO: Tampa District Office (McPherson)  
 FROM: Denise N. Vandiver; Division of Auditing and Financial Analysis *DN*  
 RE: Docket No. 991643-SU; Aloha Utilities, Inc.  
 Audit Service Request: Rate Case  
 Audit Control No. 00-074-2-1

---

Attached is a new audit service request. The analyst's requested due date is June 2, 2000. By copy of this memorandum, I request that Jim McPherson be added to the CASR distribution list.

DNV: sp

Attachments

cc: Public Counsel  
 Division of Auditing and Financial Analysis (Halbert)  
 Division of Records and Reporting

AFA \_\_\_\_\_  
 APP \_\_\_\_\_  
 CAP \_\_\_\_\_  
 CMU \_\_\_\_\_  
 QTR \_\_\_\_\_  
 EAM \_\_\_\_\_  
 LEG \_\_\_\_\_  
 MAS \_\_\_\_\_  
 OFC \_\_\_\_\_  
 REC \_\_\_\_\_  
 SEC \_\_\_\_\_  
 WAL \_\_\_\_\_  
 QTR \_\_\_\_\_

DOCUMENT NUMBER-DATE  
 03398 MAR 16 2000  
 FPSC-RECORDS/REPORTING

STATE OF FLORIDA

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



TIMOTHY DEVLIN, DIRECTOR  
AUDITING & FINANCIAL ANALYSIS  
(850) 413-6480

## Public Service Commission

March 14, 2000

Stephen G. Watford  
Aloha Utilities, Inc.  
2514 Aloha Place  
Holiday, FL 34691-3499

Re: Docket No. 991643-SU; Aloha Utilities, Inc.  
Audit Request; Rate Case  
Audit Control No. 00-074-2-1

Dear Mr. Watford:

The Florida Public Service Commission will audit the utility's Seven Springs wastewater rate base, capital structure, and net operating income for the historical base test year ending September 30, 1999 and the projected test year ending September 30, 2001 in accordance with Commission audit procedures. Access will be requested to documents and records of the utility and, if necessary, supporting records for affiliate company transactions that affect regulated operations. Staff auditors may also request to review the utility's external audit working papers for the most recent independent audit. Jim McPherson, (813) 744-6093, the district office supervisor, will coordinate this audit. Questions regarding the audit or audit staff should be directed to the district supervisor or myself. My phone number is (850) 413-6487.

The Audit Access to Records rule for each industry states:

In those instances where the utility disagrees with the auditor's assessment of a reasonable response time to the audit request, the utility shall first attempt to discuss the disagreement with the auditor and reach an acceptable revised date. If agreement cannot be reached, the utility shall discuss the issue with successive levels of supervisors at the Commission until an agreement is reached.

Stephen G. Watford  
Page 2  
March 14, 2000

A formal report is expected to be issued for internal Commission use in June 2, 2000. A copy of the final report will be mailed to the company liaison listed in the Commission Mailing Directory.

Sincerely,



Denise N. Vandiver  
Bureau Chief - Auditing Services

DNV: sp

cc: District Office Supervisor  
Division of Legal Services  
Division of Records and Reporting  
Public Counsel

Marshall Deterding  
Rose Law Firm  
2548 Blirstone Road  
Tallahassee, FL 32301

# AUDIT SERVICE REQUEST

FLORIDA PUBLIC SERVICE COMMISSION

00 MAR 16 11:01 AM

March 13, 2000

Date of Request

00-074 2-1

AFAD control #

AUDITING & FINANCIAL ANALYSIS DIV

TO : DIVISION AUDITING & FINANCIAL ANALYSIS (VANDIVER)

FROM : WATER AND WASTEWATER Division      BART FLETCHER Name      413-7017 phone number

RE : REQUEST FOR AUDIT OF ALOHA UTILITIES, INC.  
 DOCKET NO.: 991643-SU  
 AUDIT PURPOSE: To audit the utility's Seven Springs wastewater rate base, capital structure and net operating income for the historical base test year ending September 30, 1999 and the projected test year ending September 30, 2001.  
 LIST AUDIT OBJECTIVES & OTHER INFORMATION ON BACK.

### ADMINISTRATIVE DETAILS:

COMPANY CONTACT: Robert C. Nixon, CPA      Accounting Consultant      (727) 791-4020  
Name Title phone number

MAIL ADDRESS: 2560 Gulf-to-Bay Blvd, Suite 200  
Street Address  
 Clearwater FL 34625  
City State Zip Code

LOCATION OF RECORDS 2514 Aloha Place; Holiday, FL 34691  
City State

AUDIT DUE DATE: June 2, 2000      PIECEMEAL RESULTS YES  NO

**\*\* Please audit revenues, bills, gallons sold and customers for the twelve-month year ended September 30, 1999 first and provide these audit results to staff ASAP.**

COORDINATING DETAILS: Mike Wetherington, Staff Engineer (413-7370); Jennie Lingo, Projected Billing Determinants (413-6964); and Connie Binford, Staff Accounting Analyst (413-7011)

Name and phone number of other Division staff and any other administrative instructions

REFERENCES: Orders Nos. PSC-99-1917-PAA-WS and PSC-99-2083-CO-WS  
Attach copies of FPSC ORDERS and other documents as appropriate

### FOR USE OF THE FIELD AUDIT SUPERVISOR:

REQUEST ACKNOWLEDGED BY: \_\_\_\_\_ DATE: \_\_\_\_\_  
 AUDIT MANAGER ASSIGNED: \_\_\_\_\_ DATE ON SITE: \_\_\_\_\_  
 COMMENTS: \_\_\_\_\_

ALOHA UTILITIES, INC.

Company Name

ITEM #	AUDIT OBJECTIVE OR QUESTION Add supplemental background for auditor	WORK PRIORITY
--------	--	------------------

UTILITY AND CASE BACKGROUND

Rate base was last established for this utility in Orders Nos. PSC-99-1917-PAA-WS and PSC-99-2083-CO-WS, Dockets Nos. 970536-WS and 980245-WS, using the simple average test year ended December 31, 1998. In these dockets, the Commission utilized the audited year-end December 31, 1997 and the utility's 1998 annual report to establish rate base. However, since the utility's 1998 annual report amounts were not audited, this audit's starting point should be January 1, 1998. In the instant case, the utility has requested a projected thirteen-month average test year ended September 30, 2001 for final rates, with an historical base year ended September 30, 1999. The interim test year is the historical 13-month average test year ended September 30, 1999. According to the final projected test year, the utility's Seven Springs wastewater system plant in service will be increasing by approximately \$7,260,000 and its operating costs will increase by approximately \$535,000 annually.

HIGH PRIORITY - STANDARD REQUIREMENTS

Rate Base

1. Review Orders Nos. PSC-99-1917-PAA-WS and PSC-99-2083-CO-WS.
2. Agree the September 30, 1999 year-end MFR amounts with utility books and have the utility reconcile differences.
3. Verify that the adjustments from Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, are reflected on the books of the utility and the MFRs.
4. Test additions and retirements to plant since December 31, 1997, describing major additions, retirements or adjustments.
5. The utility owns several parcels of land, totaling 58 acres, adjacent to the Seven Springs wastewater treatment plant. According to Audit Disclosure No. 3 of the supplemental audit of land as of 12/31/97 (Audit Control No. 97-064-2-1), staff auditors were told that the utility already had an easement on this property before the land was purchased. **Obtain** a copy of any utility easements for this property, prior to the purchase.
6. Test the annual accruals to accumulated depreciation, using depreciation rate(s) prescribed by Rule 25-30.140, FAC, for the test years. If you find major deficiencies in the reserve account, please notify WAW staff, ASAP, and do not recalculate the reserve account without discussing it with WAW staff beforehand.

PRIORITY H - HIGH PRIORITY - CRITICAL WORK NEEDED TO COMPLETE PROGRAM.  
CODES M - MIDDLE PRIORITY - REQUIRED FOR FULL CONSIDERATION OF PROGRAM.  
L - LOW PRIORITY - WORK THAT CAN BE DEFERRED.

ALOHA UTILITIES, INC.

Company Name

ITEM #	AUDIT OBJECTIVE OR QUESTION Add supplemental background for auditor	WORK PRIORITY
--------	--	------------------

7. Test CIAC additions or adjustments since December 31, 1997. Test by estimation using service availability policy in effect during period and number of customers.
8. Test the annual accruals to accumulated amortization of CIAC, applying annual composite depreciation rates derived in 6.
9. Test intermediate period projections of plant in service, accumulated depreciation, CIAC, and accumulated amortization of CIAC to determine if any material differences are evident with the actual balances to date and the utility's projected balances.

Capital Structure

10. Follow the standard audit program for capital structure.
11. Test intermediate year projections of the capital accounts to determine if any material differences are evident with the actual balances to date and the utility's projected balances.

Net Operating Income

12. Sample test year ended September 30, 1999 O&M expenses. If any problems arise, contact the accounting analyst and, if necessary, audit the complete account(s). Examine the expenses for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.
13. Test intermediate period projections of O&M expenses to determine if any material differences are evident with the actual balances to date and the utility's projected balances.
14. Audit revenues, bills, gallons sold and customers for September 30, 1999. **Please perform this audit request first and provide the results to staff ASAP.**
15. Follow the standard audit program for taxes other than income.
16. If the auditors believe that scope limitations necessitate deletion of these audit requests, please advise the technical staff so that other discovery measures may be employed.

PRIORITY    H - HIGH PRIORITY - CRITICAL WORK NEEDED TO COMPLETE PROGRAM.  
CODES        M - MIDDLE PRIORITY - REQUIRED FOR FULL CONSIDERATION OF PROGRAM.  
               L - LOW PRIORITY - WORK THAT CAN BE DEFERRED.

ALOHA UTILITIES, INC.

Company Name

ITEM #	AUDIT OBJECTIVE OR QUESTION Add supplemental background for auditor	WORK PRIORITY
--------	--	------------------

17. Review the minutes of the board of director meetings. If material items of interest are noted, attach a copy in the audit workpapers.

**HIGH PRIORITY - SPECIFIC REQUIREMENTS**

18. Verify the amount of O&M Expenses for Aloha Gardens water, Aloha Gardens wastewater and Seven Springs water for the twelve-month year ended September 30, 1999 which the utility has listed in the MFRs on Schedule A-17(C), Page 2 of 2. Sample test year ended September 30, 1999 O&M expenses for these systems. Examine the expenses for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.
19. Test working capital allowance for the 13-month average test year ended September 30, 1999. Examine the components of working capital for the proper period, amount, support documentation and whether unreasonable or imprudent. Review Order No. PSC-99-1917-PAA-WS for consistency in adjustments and regulatory policy.
20. In the MFRs on Schedule A-18(C), the utility listed a miscellaneous current & accrued assets balance of \$5,000 for three months of the September 30, 1999-historical base year. Examine the monthly miscellaneous current & accrued assets balances of the twelve-month year ending September 30th for the years 1997 and 1998 to determine if miscellaneous current & accrued assets (Account No. 174) are recurring assets for this utility.
21. Examine September 30, 1999 ending Interest Income balance of \$9,572 from Aloha's cash operating account for the proper period, amount, and support documentation.

PRIORITY H - HIGH PRIORITY - CRITICAL WORK NEEDED TO COMPLETE PROGRAM.  
CODES M - MIDDLE PRIORITY - REQUIRED FOR FULL CONSIDERATION OF PROGRAM.  
L - LOW PRIORITY - WORK THAT CAN BE DEFERRED.