

State of Florida



# Public Service Commission

ORIGINAL

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

DATE: March 29, 2000  
 TO: Division of Water and Wastewater (Clapp)  
 FROM: Division of Auditing and Financial Analysis (Vandiver) *W*  
 RE: Docket No. 991889-WS; Crystal Lake Club  
 Audit Report; Rate Base Determination  
 Audit Control No. 00-014-3-1

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.

DNV/sp

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
- Research and Regulatory Review (Harvey)

Crystal Lake Club  
 Joe Sherwood  
 c/o Clayton, Sherwood, Williams  
 2500 Maitland Center Parkway, Ste. 105  
 Maitland, FL 32751-4165

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FLORIDA PUBLIC SERVICE COMMISSION

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

*Orlando District Office*

CRYSTAL LAKE CLUB

RATE BASE DETERMINATION AUDIT

HISTORICAL YEAR ENDED AUGUST 30, 1999

DOCKET NO. 991889-WS

AUDIT CONTROL NO. 00-014-3-1

A handwritten signature in cursive script, reading "Robert F. Dodrill, Sr.", written over a horizontal line.

*Robert F. Dodrill, Sr., Audit Manager*

A handwritten signature in cursive script, reading "Charleston J. Winston", written over a horizontal line.

*Charleston J. Winston, Audit Supervisor*

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

**MARCH 20, 2000**

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

We have applied the procedures described later in this report to audit the water and wastewater rate bases for the historical year ended August 30, 1999, for Crystal Lake Club. The attached schedules were prepared by the auditor as part of our work in Docket No. 991889-WS.

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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The utility did not follow the NARUC Uniform System of Accounts.

The utility overstated plant-in-service for water and wastewater by \$9,482 and \$212, respectively. The associated adjustments to accumulated depreciation are to decrease water by \$7,029 and increase wastewater by \$11,799.

CIAC is understated for water by \$475 and overstated for wastewater by \$325. The associated CIAC accumulated amortization should be increased by \$2,421 and \$4,112 for water and wastewater, respectively.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, 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.

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

**RATE BASE:** Scanned contract operator invoices in the vendor files from 1993 to 1999 and compiled plant additions and retirements. Updated the plant and depreciation subaccount balances. Reconciled rate base balances authorized in Commission Order No. PSC-94-0243-FOF-WS, issued March 4, 1994, to the beginning amounts. Verified plant and retirement additions. Scheduled and verified contributions-in-aid-of-construction (CIAC) additions. Recalculated the amortization of CIAC using annual composite depreciation rates.

**OTHER:** Toured the water and wastewater plants to obtain an understanding of the recent plant additions.

## **EXCEPTIONS**

### **Exception No. 1**

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

**Statement of Fact:** Rule 25-30.115, Florida Administrative Code, requires Florida utilities to maintain their books and records by the NARUC, National Association of Regulatory Utility Commissioners, Uniform System of Accounts.

NARUC, Accounting Instructions No. 2, states:

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.

NARUC, Accounting Instructions No. 4, states:

Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Amounts applicable or assignable to specific utility departments shall be segregated monthly. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

The utility was cited for noncompliance with NARUC in Audit Exception No. 1 of the staff-assisted rate case audit report of Crystal Lake Club, Docket No. 930572-WS.

**Recommendation:** Crystal Lake Club keeps its utility accounts commingled with those of the operation of the Crystal Lake Community. Neither the plant nor the expense accounts are maintained according to the NARUC Uniform System of Accounts. The utility contracts with a CPA firm once a year to extract its utility activity and to prepare its Annual Report to the Commission.

The Commission should order the utility to set up its books and records according to the NARUC System. Additionally, it should schedule a compliance audit for the utility.

**Exception No. 2**

**Subject: Plant-in-Service and Accumulated Depreciation**

**Statement of Fact:** The utility filed Annual Reports from 1993 through 1998. However, no general ledger was maintained. (See Exception No. 1.) Water and wastewater plant additions and major replacements are made by the contract operator. His detailed invoices provide records of the work performed.

**Recommendation:** The Crystal Lake Club 1998 water and wastewater Annual Reports updated to the 1999 transfer date, August 30, 1999, indicated that the ending depreciable plant balances were \$398,816 and \$544,618, respectively.

The balances per audit were determined using previous audit plant subaccount balances and verified Annual Report additions plus other additions and retirements resulting from audit fieldwork. The water and wastewater depreciable plant balances per audit were determined to be \$389,334 and \$544,406, respectively.

**Utility Plant-in-Service**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
Water	\$398,816	\$389,334	(\$9,482)
Wastewater	\$544,618	\$544,406	(\$212)

The Commission should reduce the August 30, 1999 Crystal Lake Club water and wastewater depreciable utility plant-in-service balances by \$9,482 and \$212, respectively.

The audit staff applied the Rule 25-30.140, F.A.C., depreciation rates to the audited plant subaccount balances from July 1993 to August 30, 1999, to obtain the per audit water and the wastewater accumulated depreciation balances below.

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
Water Accumulated Depreciation	(\$121,107)	(\$114,078)	\$7,029
Wastewater Accumulated Depreciation	(\$200,912)	(\$212,711)	(\$11,799)

The Commission should decrease water accumulated depreciation by \$7,029 and increase the wastewater accumulated depreciation by \$11,799.

**Exception No. 3**

**Subject: CIAC and Amortization of CIAC**

**Statement of Fact:** The Commission Order No. PSC-94-0209-FOF-WS, issued March 4, 1994, established the June 30, 1993 water and wastewater CIAC balances to be \$148,125 each. The associated accumulated amortization of the water and wastewater CIAC as of June 30, 1993, was stated to be \$18,347 and \$21,905, respectively, by that Order.

**Recommendation:** The Crystal Lake Club 1998 water Annual Report balances updated to August 30, 1999, indicated that the CIAC and accumulated amortization balances were (\$165,450) and \$46,547, respectively. The wastewater CIAC and accumulated amortization balances were (\$175,350) and \$54,991, respectively.

Using the prior Commission Order amount and verified Annual Report additions, the per audit CIAC amortization was recalculated based on the annual composite depreciation rate from June 30, 1993 to August 30, 1999.

**Water**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
CIAC	(\$165,450)	(\$165,925)	(\$475)
Amort. of CIAC	\$46,547	\$48,968	\$2,421

**Wastewater**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
CIAC	(\$175,350)	(\$175,025)	\$325
Amort. of CIAC	\$54,991	\$59,103	\$4,112

The Commission should (increase) decrease the August 30, 1999 water and wastewater CIAC balances by (\$475) and \$325, respectively.

The Commission should increase the August 30, 1999 water and wastewater accumulated amortization of CIAC balances by \$2,421 and \$4,112, respectively.



**EXHIBIT I**

**CRYSTAL LAKE CLUB  
DOCKET NO. 991889-WS  
WATER RATE BASE  
HISTORICAL YEAR ENDED AUGUST 30, 1999**

(a) DESCRIPTION	(b) PER UTILITY (1)	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$398,816.00	(\$9,482.00)	AE 2	\$389,334.00
LAND	3,403.00	0.00		3,403.00
CIAC	(165,450.00)	(475.00)	AE 3	(165,925.00)
AMORTIZATION OF CIAC	46,547.00	2,421.00	AE 3	48,968.00
ACCUMULATED DEPRECIATION	(121,107.00)	7,029.00	AE 2	(114,078.00)
WORKING CAPITAL (2)	0.00	0.00		0.00
TOTAL	\$162,209.00	(\$507.00)		\$161,702.00

**REQUIRED FOOTNOTES:**

(1) Utility amounts from 1998 Annual Report updated to August 30, 1999.

(2) Working Capital was not to be calculated per Audit Service Request.

**EXHIBIT II**

**CRYSTAL LAKE CLUB  
DOCKET NO. 991889-WS  
WASTEWATER RATE BASE  
HISTORICAL YEAR ENDED AUGUST 30, 1999**

(a) DESCRIPTION	(b) PER UTILITY (1)	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$544,618.00	(\$212.00)	AE 2	\$544,406.00
LAND	7,914.00	0.00		7,914.00
CIAC	(175,350.00)	325.00	AE 3	(175,025.00)
AMORTIZATION OF CIAC	54,991.00	4,112.00	AE 3	59,103.00
ACCUMULATED DEPRECIATION	(200,912.00)	(11,799.00)	AE 2	(212,711.00)
WORKING CAPITAL (2)	0.00	0.00		0.00
TOTAL	\$231,261.00	(\$7,574.00)		\$223,687.00

**REQUIRED FOOTNOTES:**

- (1) Utility amounts from 1998 Annual Report updated to August 30, 1999.  
(2) Working Capital was not to be calculated per the Audit Service Request.