



Public Service Commission

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

DATE: April 14, 2000
TO: Miami District Office (Welch)
FROM: Denise N. Vandiver; Division of Auditing and Financial Analysis
RE: Docket No. 000090-SU; Useppa Island Utility, Inc.
 Audit Request; Earnings Review
 Audit Control No. 00-104-4-1

Attached is a new audit service request. The analyst's requested due date is July 31, 2000. By copy of this memorandum, I request that Kathy Welch 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 _____
 CAF _____
 CMW _____
 OTR _____
 EAG _____
 LEG _____
 MAS _____
 OPC _____
 RRR _____
 SEC _____
 WAW _____
 OTM _____

DOCUMENT NUMBER-DATE

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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

April 14, 2000

Vincent Formosa
Useppa Island Utility, Inc.
P. O. Box 640
Bokeelia, FL 33922-0640

Re: Docket No. 000090-SU; Useppa Island Utility, Inc.
Audit Request; Earnings Review - Test Year Ended December 31, 1999
Audit Control No. 00-104-4-1

Dear Mr. Formosa:

The Florida Public Service Commission will conduct an earnings review audit 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. Kathy Welch, (305)470-5600, 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.

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AUDIT SERVICE REQUEST

April 12, 2000

00-104-4-1
(AFA Control #)

TO: DIVISION OF AUDIT & FINANCE, DENISE VANDIVER
FROM: DIVISION OF WATER AND WASTEWATER, BOB CASEY, (850)413-6974,
RE: REQUEST FOR AUDIT OF: USEPPA ISLAND UTILITY, INC. IN LEE COUNTY
DOCKET NO: 000090-SU

AUDIT PURPOSE: To prepare schedules of rate base, capital structure and net operating income using a test year ending December 31, 1999 (show all averaging adjustments). Base working capital allowance on 1/8 of operations and maintenance expenses.

LIST AUDIT OBJECTIVES AND OTHER INFORMATION ON BACK.

ADMINISTRATIVE DETAILS:

COMPANY CONTACT: LouAnn Christensen, Vince Formosa
Phone: (941)283-1061
MAILING ADDRESS: P.O. Box 640
Bokeelia, Florida 33922

LOCATION OF RECORDS: Utility Office, Useppa Island, Florida

AUDIT DUE DATE: July 31, 2000

COORDINATING DETAILS:

Accounting Analyst: BOB CASEY (850) 413-6974
Staff Engineers: TED DAVIS (850) 413-6966
MIKE WETHERINGTON (850) 413-7370

REFERENCES: -Order No. PSC-97-0930-FOF-WS (SARC order)
-Useppa 1999 Annual Report
-Staff Worksheets of UPIS, CIAC, Acc.Depr. & Acc. Amort. from last SARC
-Useppa's limited proceeding filing
-Staff Engineering Report (for limited proceeding)

BACKGROUND INFORMATION

Useppa Island Utility, Inc. (Useppa or utility) is a Class C water and wastewater utility located on Useppa Island in Lee County, Florida. Useppa filed a limited proceeding on January 24, 2000 to increase wastewater rates due to a DEP required upgrade of its wastewater plant which has been completed. The old wastewater plant is now being used as a surge tank and no retirements of wastewater plant are necessary due to the upgrade.

A customer meeting was conducted on April 6, 2000 on Useppa Island to receive comments from customers of the utility. The customers were mainly concerned with two service issues, outages and pressure problems.

The utility's 1999 annual report was received just prior to the customer meeting. It shows water revenues of \$165,009 with an NOI of \$49,247. It also shows wastewater revenues of \$82,021 with an NOI of (\$27,128). A closer examination of the annual report shows the utility has not reconciled its books per the last Commission order. Based on the utility's 1999 annual report (with adjustments made from the last SARC), it appears the utility may overearn on an overall basis if staff recommends the increase in wastewater revenue requested in the limited proceeding. We believe an audit of the utility's water and wastewater system books using the SARC audit guidelines is necessary before a recommendation is prepared (Last SARC audit - AFAD#96-268-4-1).

At the customer meeting, the utility general manager stated that there may be more pro forma plant in the planning stages including a new storage tank, and possible connection of the water plant to the wastewater emergency generator. A list of anticipated water and wastewater plant additions with installation dates will be necessary.

Staff engineers have reviewed all invoices for the new wastewater plant upgrade and have classified each of the plant items by account. Since the staff engineers examined only the wastewater plant, another engineering investigation may be necessary to examine water plant. Used and useful figures were calculated by staff engineers. However, staff discovered at the customer meeting that all 29 future lots on the island have meters and are being billed the base facility charge (per Vincent Formosa, General Manager). Therefore, all plant should be considered 100% used and useful.

ITEM #	AUDIT OBJECTIVE OR QUESTION	WORK PRIORITY
1.	Review prior Work papers, orders, etc. (See References)	H
2.	Agree annual report with company books (if appropriate) and have company reconcile differences.	H
3.	Agree book balances beginning with the test year balances from the last rate case in Docket No. 960975-WS.	H
4.	Review warranty deed or other evidence of utility land ownership for any purchase, sale, or transfers which may have occurred since rate base was last established.	H
5.	Test additions and retirements to water and wastewater plant since rate base was last established 07/31/96, describing major additions, retirements or adjustments.	H
6.	Test the annual accruals to accumulated depreciation based on adjusted plant, using last authorized depreciation rate(s) up to the beginning of the test year and the rates prescribed by Rule 25-30.140, F.A.C., for the test year.	H
7.	Test CIAC additions and adjustments since rate base was last established 07/31/96. Test by estimation using service availability policy in effect during period and number of customers.	H
8.	Test the annual accruals to accumulated amortization of CIAC, applying annual composite depreciation rates derived in No. 6 for cash CIAC, and depreciation rates for contributed plant.	H
9.	Test to determine the appropriate test year depreciation and amortization rates have been used.	H
10.	Review appropriate documentation to ensure that the utility owns all assets associated with the provision of service to its customers. It is not necessary for the utility to own the land if it	H

ITEM #	AUDIT OBJECTIVE OR QUESTION	WORK PRIORITY
	has an executed lease agreement (see item 4 above)	
11.	Audit the test year operation and maintenance expenses. If any problems arise, contact Bob Casey. Examine the expense for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.	H
12.	Review the allocation methodology used by the utility. Determine whether the original amounts to be allocated and the methodology are reasonable. Check the basis for accuracy and consistent application. Contact accounting analyst if any difficulties arise from the company with respect to reviewing these allocations.	H
13.	Follow the standard audit program for taxes other than income and the capital structure.	H
14.	Test revenue transactions with tariffed rates and perform <u>simple</u> calculation estimation to determine what test year revenues should be.	H
15.	Perform all specific requests as reflected on the audit services request on a per company basis.	H
16.	Interview utility owner or appropriate person regarding utility's plans for major plant retirement, new or expanded plant, etc., and provide summary of interview. Possible pro forma plant includes a new storage tank, and connection of the water plant to the emergency generator.	H
17.	Note expense areas where the utility has no costs assigned, but where benefits to utility operations are evident, i.e., business affairs conducted from home or office of another enterprise but no recognition is being given to office space, telephone use, etc.	H
18.	Perform a billing analysis. (Format attached)	H
19.	Request copies of all the utility's tax returns for each year covered by the audit review, especially years with major plant additions. If request is granted, provide audit coordinator with copies of tax returns along with the copies of	H

ITEM #	AUDIT OBJECTIVE OR QUESTION	WORK PRIORITY
	checks to IRS, if taxes were due and paid.	
20.	Determine any applicable income tax. The utility is an 1120 Corporation.	H
21.	Obtain or review the minutes of the board of director meetings.	M
22.	Unless it is obviously inadequate, do not spend a lot of time on compliance with NARUC uniform chart of accounts unless it makes a material difference in the revenue requirement.	M
23.	Prepare a working trial balance and other procedures relating to this area.	M

**Useppa Island Utility, Inc.
Docket No. 000090-SU
Limited Proceeding**

Wastewater Upgrade Plant Additions

Account No.	Description	Cost/Util	Staff Adjustments	Staff Adj. Total	Depreciation Rates	Depreciation	Accumulated Depreciation	0.00% Non-Used & Useful Plant	0.00% Non-Used & Useful Depreciation	0.00% Non-Used & Useful Acc.Depr.
351	Organization	\$1,328		\$1,328	2.50%	\$33	\$17	\$0	\$0	\$0
354	Structures	\$5,054	(\$672)	\$4,382	3.70%	\$162	\$81	\$0	\$0	\$0
355	Power Generation Equipment	\$8,536		\$8,536	5.88%	\$502	\$251	\$0	\$0	\$0
364	Flow Measuring Device	\$495		\$495	20.00%	\$99	\$50	\$0	\$0	\$0
365	Flow Measuring Installation	\$500		\$500	2.86%	\$14	\$7	\$0	\$0	\$0
380	Treatment & Disposal	\$161,076		\$161,076	6.67%	\$10,744	\$5,372	\$0	\$0	\$0
381	Plant sewers	\$2,676	(\$179)	\$2,497	3.13%	\$78	\$39	\$0	\$0	\$0
382	Outfall Sewer Lines	\$376		\$376	3.33%	\$13	\$6	\$0	\$0	\$0
		<u>\$180,040</u>	<u>(\$851)</u>	<u>\$179,189</u>		<u>\$11,645</u>	<u>\$5,822</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	Non-Used & Useful			<u>\$0</u>		<u>\$0</u>	<u>\$0</u>			
	Used and Useful			<u>\$179,189</u>		<u>\$11,645</u>	<u>\$5,822</u>			