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# Public Service Commission

June 15, 2000

Mr. Joseph Sherwood  
Alafaya Palm Valley Associates, Ltd.  
2500 Maitland Center Parkway, Ste. 105  
Maitland, FL 32751-4165

**Re: Docket No. 991984-WS; Alafaya Palm Valley Associates, Ltd.  
Audit Report - Determine Rate Base  
Audit Control No. 00-046-3-1**

Mr. Sherwood:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver  
Bureau of Auditing Services

DNV:sp

- APP  cc:  Division of Records and Reporting
- CAF  Division of Regulatory Oversight (Hoppe/Harvey/Johnson/File Folder)
- CMP  Orlando District Office (Winston)
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Orlando District Office*

ALAFAYA PALM VALLEY ASSOCIATES, LTD.

RATE BASE DETERMINATION AUDIT

AS OF AUGUST 30, 1999

DOCKET NO. 991984-WS

AUDIT CONTROL NO. 00-046-3-1

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*

TABLE OF CONTENTS

<b>I.</b>	<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
	PURPOSE .....	1
	DISCLAIM PUBLIC USE .....	1
	SUMMARY OF SIGNIFICANT FINDINGS .....	2
	SUMMARY OF SIGNIFICANT PROCEDURES .....	2
<b>II.</b>	<b>EXCEPTIONS</b>	
1.	BOOKS AND RECORDS .....	3
2.	LAND .....	4
3.	PLANT-IN-SERVICE AND ACCUMULATED DEPRECIATION .....	5
3.	CIAC AND AMORTIZATION .....	7
<b>III.</b>	<b>EXHIBITS</b>	
1.	WATER RATE BASE .....	8
2.	WASTEWATER RATE BASE .....	9

**DIVISION OF REGULATORY OVERSIGHT  
AUDITOR'S REPORT**

**JUNE 2, 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 as of August 30, 1999, for Alafaya Palm Valley Associates, Ltd. The attached schedules were prepared by the auditor as part of our work in Docket No. 991984-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 land costs for wastewater by \$19,889.

The utility understated plant-in-service for water and wastewater by \$98,240 and \$105,256, respectively. The total adjustments to accumulated depreciation are to decrease water by \$7,968 and increase wastewater by \$170,721.

Contributions-in-Aid-of-Construction (CIAC) are understated for water by \$3,230 and understated for wastewater by \$34,867. The associated accumulated amortization of CIAC should be decreased for water by \$3,808 and increased for wastewater by \$59,101.

## **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 vendor invoices and read Annual Report documentation from January 1986 to December 1999. Recalculated CIAC, accumulated depreciation, and accumulated amortization of CIAC balances for the same period. Obtained major construction contracts and land acquisition documents at the utility owner's off-site business offices. Updated the plant and depreciation subaccount balances. Reconciled rate base balances authorized in Commission Order No. 16360, issued July 16, 1986, to the beginning amounts. Verified Annual Report plant additions. Compiled and verified utility customer additions and CIAC connection charges. 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, Class C, Accounting Instruction 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, Class C, Accounting Instruction 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.

**Recommendation:** Alafaya Palm Valley Associates, Ltd. keeps its utility accounts commingled with those of the operation of the Palm Valley Community. Neither the plant nor the expense accounts are maintained according to the NARUC Uniform System of Accounts (USOA). Documentation was not maintained at the utility location for the plant additions, and no retirement entries were made. The utility contracts with a CPA firm to prepare its Annual Report to the Commission. The Annual Report is prepared by extracting utility activity from its Alafaya Palm Valley community general ledger and submitting forms for the community management to complete.

The Commission should order the utility to set up its books and records according to the NARUC System. This would require monthly closings and booking retirement entries for plant taken out of service. Additionally, the Commission should schedule a USOA compliance audit for the utility.

**Exception No. 2**

**Subject: Land**

**Statement of Fact:** The utility indicated that it added land to its wastewater plant with a cost of \$113,866 in 1990. It also provided documentation and calculations intended to support this cost.

**Recommendation:** The documentation provided stated that Alafaya Palm Valley Associates, Ltd. paid \$208,000 for the 11.6-acre parcel containing the 5.241 acres of utility land. The cost per acre of \$17,931 ( $\$208,000/11.6$  acres) times the utility land equals a total utility cost of \$93,977 ( $\$17,931 \times 5.241$  acres).

Utility proposed cost of land addition	\$113,866
Documented cost of addition	<u>93,977</u>
Recommended reduction of land addition	\$19,889

The Commission should decrease the wastewater land account by \$19,889.

**Exception No. 3**

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

**Statement of Fact:** The utility filed Annual Reports from 1986 through 1999. However, no monthly general ledger was maintained. (See Exception No. 1.) Water and wastewater infrastructure additions were accounted for at the off-site corporate office. Replacements and plant expansions are accounted for locally. Plant activity is summarized annually for Annual Report preparation.

**Recommendation:** The utility's 1999 Annual Report restated back to the August 30, 1999 transfer date, indicated that the ending depreciable water and wastewater plant balances were \$285,865 and \$1,134,245, respectively.

The balances per audit were determined using beginning plant subaccount balances established by Order No. 16360, issued July 16, 1986, and verified Annual Report additions plus other additions and retirements resulting from audit fieldwork. It was determined that the utility did not account for the plant additions resulting from a 1992 102-lot (Phase III) community expansion. The utility also booked a \$102,020 wastewater plant addition in 1993 which had previously been included in 1989. The August 30, 1999 per audit water and wastewater depreciable plant balances were determined to be \$384,105 and \$1,239,501, respectively.

**Depreciable Plant-in-Service**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
Water	\$285,865	\$384,105	\$98,240
Wastewater	\$1,134,245	\$1,239,501	\$105,256

The Commission should increase the August 30, 1999 Alafaya Palm Valley Associates, Ltd. water and wastewater depreciable utility plant-in-service balances by \$98,240 and \$105,256, respectively.

**Accumulated Depreciation**

The audit staff applied the Rule 25-30.140, F.A.C., depreciation rates to the audited plant subaccount balances from January 1, 1986 to August 30, 1999, to obtain the per audit water and the wastewater accumulated depreciation balances on the following page.

**Exception No. 3, contd.**

The following accumulated depreciation adjustments are made because the utility missed major plant additions, and it used incorrect depreciation rates for plant subaccounts. Also, it failed to booked retirements.

	<u>Balance per Utility</u>	<u>Balance per Audit</u>	<u>Audit Exception</u>
Water Accumulated Depreciation	(\$204,503)	(\$196,535)	\$7,968
Wastewater Accumulated Depreciation	(\$334,013)	(\$504,734)	(\$170,721)

The Commission should decrease water accumulated depreciation by \$7,968 and increase the wastewater accumulated depreciation by \$170,721.

**Exception No. 4**

**Subject: CIAC and Amortization of CIAC**

**Statement of Fact:** Commission Order No. 16360, issued July 16, 1986, established the January 1, 1986 water and wastewater CIAC balances to be \$62,439 and \$97,661, respectively. The associated accumulated amortization of the water and wastewater CIAC balances as of January 1, 1986, were \$13,696 and \$21,424, respectively.

**Recommendation:** The utility's 1999 Annual Report balances restated to August 30, 1999, indicated that the utility water CIAC and accumulated amortization balances were (\$89,509) and \$45,717, respectively. The utility wastewater CIAC and accumulated amortization balances were (\$390,046) and \$99,513, respectively.

In 1991, the utility carried forward net CIAC balances from 1990, and it used amortization rates of 3.12 percent and 2.5 percent for water and wastewater, respectively, for amortization instead of annual composite rates.

Using the prior Commission Order amounts above and the verified Annual Report additions, the per audit CIAC and CIAC amortization balances were recalculated based on the annual composite depreciation rate from January 1, 1986 to August 30, 1999.

**Water**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
CIAC	(\$89,509)	(\$92,739)	(\$3,230)
Amort. of CIAC	\$45,717	\$41,909	(\$3,808)

**Wastewater**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
CIAC	(\$390,046)	(\$424,913)	(\$34,867)
Amort. of CIAC	\$99,513	\$158,614	\$59,101

The Commission should increase the August 30, 1999 water and wastewater CIAC balances by (\$3,230) and (\$34,867), respectively.

The Commission should decrease and increase the August 30, 1999 water and wastewater accumulated amortization of CIAC balances by (\$3,808) and \$59,101, respectively.

**EXHIBIT I**

ALAFAYA PALM VALLEY ASSOCIATES, LTD.  
DOCKET NO. 991984-WS  
WATER RATE BASE  
AS OF AUGUST 30, 1999

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER UTILITY (1)	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$285,865.00	\$98,240.00	AE 3	\$384,105.00
LAND	2,433.00	0.00		2,433.00
CIAC	(89,509.00)	(3,230.00)	AE 4	(92,739.00)
AMORTIZATION OF CIAC	45,717.00	(3,808.00)	AE 4	41,909.00
ACCUMULATED DEPRECIATION	(204,503.00)	7,968.00	AE 3	(196,535.00)
WORKING CAPITAL (2)	0.00	0.00		0.00
TOTAL	\$40,003.00	\$99,170.00		\$139,173.00

**REQUIRED FOOTNOTES:**

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

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

**EXHIBIT II**

**ALAFAYA PALM VALLEY ASSOCIATES, LTD.  
DOCKET NO. 991984-WS  
WASTEWATER RATE BASE  
AS OF AUGUST 30, 1999**

(a) DESCRIPTION	(b) PER UTILITY (1)	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$1,134,245.00	\$105,256.00	AE 3	\$1,239,501.00
LAND	116,298.00	(19,889.00)	AE 2	96,409.00
CIAC	(390,046.00)	(34,867.00)	AE 4	(424,913.00)
AMORTIZATION OF CIAC	99,513.00	59,101.00	AE 4	158,614.00
ACCUMULATED DEPRECIATION	(334,013.00)	(170,721.00)	AE 3	(504,734.00)
WORKING CAPITAL (2)	0.00	0.00		0.00
<b>TOTAL</b>	<b>\$625,997.00</b>	<b>(\$61,120.00)</b>		<b>\$564,877.00</b>

**REQUIRED FOOTNOTES:**

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