

State of Florida



# Public Service Commission

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

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**DATE:** October 1, 2001  
**TO:** Division of Economic Regulation (Fitch/Biggins)  
**FROM:** Division of Regulatory Oversight (Vandiver)  
**RE:** Docket No. 010869-WS; East Marion Sanitary Systems, Inc.; Staff Assisted Rate Case; Audit Control No. 01-207-3-1

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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, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

Attachment  
DNV/jcp

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Legal Services

Mr. Herbert Hein  
East Marion Sanitary Systems, Inc.  
P. O. Box 245  
Silver Springs, FL 34489-0245

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Tallahassee District Office*

EAST MARION SANITARY SYSTEMS, INC.

STAFF ASSISTED RATE CASE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2000

DOCKET NO. 010869-WS

AUDIT CONTROL NO. 01-207-3-1

*Michael Buckley*  
Michael Buckley, Audit Manager

*Lynn M. Deamer*  
Lynn M. Deamer, Audit Supervisor

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

**September 12, 2001**

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

We have applied the procedures described later in this report to prepare the accompanying schedules of Net Operating Income, and Capital Structure, for the historical year ended December 31, 2000, for East Marion Sanitary Systems, Inc. Water and Wastewater. The attached schedules were prepared by the auditor as part of the utility's petition for a staff assisted rate case in Docket No. 010869-WS.

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**

An original cost study must be done before Rate Base can be established. The Utility does not use NARUC accounts. The Utility does not own the land it is situated on.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, 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.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Reviewed** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

**Verify** - The item was tested for accuracy and compared to the substantiating documentation.

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**RATE BASE:** Certain components of Rate Base could not be calculated. The Utility could not provide original source documents for Plant-in-Service. The following schedules could not be prepared and are contingent on an original cost study done by the engineer for the Public Service Commission: Rate Base, Plant-in-Service, Depreciation Expense, Accumulated Depreciation, Contributions in Aid of Construction(CIAC), and amortization of CIAC. Working capital, however, was calculated using one-eighth of the Utility's operation and maintenance expenses.

**NET OPERATING INCOME:** Scanned and verified utility provided documents used to assemble account balances for operating revenues, operations and maintenance expenses, and taxes other than income tax for the year ended December 31, 2000. Recomputed utility billing records to verify the existing rates charged by the Utility.

**CAPITAL STRUCTURE:** Compiled components of Capital Structure as of December 31, 2000. Verified that there is no note for Long Term Debt and no interest charged for it. Calculated the cost rate for common equity using the leverage formula per Docket No. 000006-WS, Order No. PSC-00-1162-PAA-WS. Calculated the weighted cost rates.

## **EXCEPTIONS**

### **Exception No. 1**

**Subject: Plant-In-Service**

**Statement of Fact:** The National Association of Regulatory Utility Commissioners (NARUC), Class C, Accounting Instruction 2. B, requires all water and wastewater utilities to maintain its books and records,

...so that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner to support fully the facts pertaining to such entries.

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 Uniform System of Accounts (USOA).

The Utility could not provide original source documents for Plant-In-Service. The following schedules could not be prepared and are contingent on an original cost study done by the engineer for the Public Service Commission: Rate Base, Plant-In-Service, Depreciation Expense, Accumulated Depreciation, Contributions in Aid of Construction (CIAC), and Amortization of CIAC.

**Recommendation:** The Commission should require the Utility to conform to the USOA and Commission rule cited above.

**Exception No. 2**

**Subject: Uniform System of Accounts**

**Statement of Fact:** Rule 25-30.115(1), F.A.C. states, "Water and Wastewater utilities shall, effective January 1, 1998, maintain its accounts and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA) adopted by the National Association of Regulatory Utility Commissioners." The Utility does not use the NARUC USOA account numbers.

NARUC, Class C, Accounting Instruction 2. B. states, "All books of account, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries." The Utility does not maintain a General Ledger, Balance Sheet, or Income Statement using specific NARUC USOA account numbers.

**Recommendation:** The Utility should maintain its accounts and records in conformity with NARUC USOA and Commission rules cited above.

## **DISCLOSURES**

### **Disclosure No. 1**

**Subject:** Land

**Statement of Fact:** The Utility does not own the land it is situated on. The properties on which all plant facilities are situated are owned by Universal Sonlight Inc. a Nevada Corporation as Trustee. An unwritten lease agreement has been entered into with the property owner. East Marion Sanitary Systems Inc., is obligated to pay all property taxes and maintenance on the properties until December 31, 2001 and starting January 1, 2002, to pay the amount of six hundred dollars per month in addition to all property taxes and maintenance on the properties, with a 3% cost increase annually thereafter.

**Recommendation:** A written long term lease agreement should be entered into with the property owner.



**Disclosure No. 2**

**Subject:** Regulatory Assessment Fees

**Statement of Fact:** East Marion Sanitary Systems, Inc. reported for the year ended December 31, 2000 water revenues of \$8,482 and paid a Regulatory Assessment Fee (RAF) of \$382. The audit staff recalculated water revenues and found the amount should be \$8,384. The RAF on this amount should be \$377 resulting in an overpayment of \$5.00.

East Marion Sanitary Systems, Inc. reported for the year ended December 31, 2000 wastewater revenues of \$7,944 and paid a RAF of \$357. The audit staff recalculated wastewater revenues and found the amount should be \$8,319. The RAF on this amount should be \$374 resulting in an underpayment of \$17.00.

**Recommendation:** East Marion Sanitary Systems should file amended RAF returns.

**WATER NET OPERATING INCOME  
EAST MARION SANITARY SYSTEMS, INC.  
YEAR END 12/31/00  
DOCKET NO. 010869-WS  
AUDIT CONTROL NO. 01-207-3-1**

Account Number	Description	Balance Per Company	Balance Per Audit	Difference
<b>REVENUES</b>				
461.1	Metered Sales	\$7,881.68	\$7,908.87	(\$27.19)
474	Transfer fees	\$270.00	\$270.00	\$0.00
474	Connection fees	\$105.00	\$105.00	\$0.00
474	Disconnect fees	\$60.00	\$60.00	\$0.00
474	Returned Check	\$40.00	\$40.00	\$0.00
	<b>TOTAL REVENUES</b>	<b>\$8,356.68</b>	<b>\$8,383.87</b>	<b>(\$27.19)</b>
<b>EXPENSES</b>				
615	Purchased Power	\$1,297.98	\$1,297.99	(\$0.01)
618	Chemicals	\$199.03	\$199.03	\$0.00
620	Materials & Supplies	\$94.12	\$80.00	\$14.12
630	Contract Services Billing	\$1,039.50	\$1,040.00	(\$0.50)
631	Cont. Ser. Professional	\$650.00	\$650.00	\$0.00
635	Cont. Ser. Testing	\$160.00	\$160.00	\$0.00
636	Cont. Ser. Other	\$9,422.40	\$9,413.24	\$9.16
665	Regulatory Commission	\$382.00	\$382.00	\$0.00
670	Bad Debt Expense	\$38.52	\$38.52	\$0.00
675	Miscellaneous Expense	\$0.00	\$44.50	(\$44.50)
403	Depreciation Expense	\$2,841.00	0*	\$2,841.00
403	Amortization of CIAC	(\$441.00)	0*	(\$441.00)
408	Taxes Other	\$424.59	\$424.59	(\$0.00)
	<b>TOTAL EXPENSES</b>	<b>\$16,108.14</b>	<b>\$13,729.87</b>	<b>\$2,378.27</b>
	<b>NET INCOME(LOSS)</b>	<b><u>(\$7,751.46)</u></b>	<b><u>(\$5,346.00)</u></b>	<b><u>(\$2,405.46)</u></b>

\* Depreciation Expense and Amortization of CIAC were not calculated because they are contingent on an original cost study.

**WASTE WATER NET OPERATING INCOME  
EAST MARION SANITARY SYSTEMS, INC.  
YEAR END 12/31/00  
DOCKET NO. 010869-WS  
AUDIT CONTROL NO. 01-207-3-1**

Account Number	Description	Balance Per Company	Balance Per Audit	Difference
<b>REVENUES</b>				
522.1	Metered Sales	\$7,943.55	\$7,943.55	\$0.00
536	Transfer fees	\$270.00	\$270.00	\$0.00
536	Connection fees	\$105.00	\$105.00	\$0.00
536	Disconnect fees	\$0.00	\$0.00	\$0.00
536	Returned Check	\$0.00	\$0.00	\$0.00
	<b>TOTAL REVENUES</b>	<b>\$8,318.55</b>	<b>\$8,318.55</b>	<b>\$0.00</b>
<b>EXPENSES</b>				
715	Purchased Power	\$1,297.98	\$1,297.99	(\$0.01)
718	Chemicals	\$0.00	\$0.00	\$0.00
720	Materials & Supplies	\$79.37	\$80.00	(\$0.63)
730	Contract Services Billing	\$950.00	\$950.00	\$0.00
731	Cont. Ser. Professional	\$650.00	\$650.00	\$0.00
735	Cont. Ser. Testing	\$1,235.00	\$1,235.00	\$0.00
736	Cont. Ser. Other	\$3,849.49	\$3,869.24	(\$19.75)
765	Regulatory Commission	\$357.00	\$357.00	\$0.00
770	Bad Debt Expense	\$38.52	\$38.52	\$0.00
775	Miscellaneous Expense	\$29.75	\$29.75	\$0.00
403	Depreciation Expense	\$6,659.00	0*	\$6,659.00
403	Amortization of CIAC	(\$636.00)	0*	(\$636.00)
408	Taxes Other	\$1,071.98	\$1,071.98	\$0.00
	<b>TOTAL EXPENSES</b>	<b>\$15,582.09</b>	<b>\$9,579.48</b>	<b>\$6,002.61</b>
	<b>NET INCOME(LOSS)</b>	<b><u>(\$7,263.54)</u></b>	<b><u>(\$1,260.93)</u></b>	<b><u>(\$6,002.61)</u></b>

\* Depreciation Expense and Amortization of CIAC were not calculated because they are contingent on an original cost study.

**CAPITAL STRUCTURE SCHEDULE**  
**EAST MARION SANITARY SYSTEMS, INC.**  
**YEAR END MONTHS ENDED 12/31/00**  
**DOCKET NO. 010869-WS**  
**AUDIT CONTROL NO. 01-207-3-1**

	Test Year Per Utility	Percent Of Total	Cost	Weighted Cost
Common Equity	\$238,097	98.61%	9.37%	9.24%
Long Term Debt	\$3,350	01.39%	0%	0%
<b>TOTAL</b>	<u>\$241,447</u>	100.00%		9.24%