

State of Florida



Public Service Commission

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

DATE: October 2, 2001
TO: Division of Economic Regulation (Fitch)
FROM: Division of Regulatory Oversight (Vandiver) *W*
RE: Docket No. 0100828-SU0; Harder Hall-Howard, Inc.; Staff Assisted Rate Case;
Audit Control No. 01-186-3-2

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.

DNV/jcp
Attachment

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

Mr. Paul E. Howard
Harder Hall-Howard, Inc.
122 East Lake Drive Blvd.
Sebring, FL 33782-5018

DOCUMENT NUMBER-DATE

12528 OCT-30

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Orlando District Office

HARDER HALL-HOWARD, INC.

STAFF-ASSISTED RATE CASE

HISTORICAL PERIOD ENDED JULY 31, 2001

**DOCKET NO. 010828-SU
AUDIT CONTROL NO. 01-186-3-2**

A handwritten signature in black ink, appearing to read "Charleston J. Winston", written over a horizontal line.

Charleston J. Winston, Audit Manager

A handwritten signature in black ink, appearing to read "Duane Chamberlin", written over a horizontal line.

Duane Chamberlin, Audit Staff

A handwritten signature in black ink, appearing to read "Jeffery A. Small", written over a horizontal line.

Jeffery A. Small, Professional Accountant Specialist

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
	1. BOOKS AND RECORDS	4
	2. UPIS AND ACCUMULATED DEPRECIATION	5
	3. CIAC AND ACCUMULATED AMORTIZATION OF CIAC	6
	4. REVENUES	7
	5. OPERATION AND MAINTENANCE EXPENSES	8
III.	DISCLOSURES	
	1. PRO FORMA PLANT	9
	2. PRO FORMA EXPENSES	10
IV.	EXHIBITS	
	1. RATE BASE	11
	2. NET OPERATING INCOME	12
	3. CAPITAL STRUCTURE	13

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

SEPTEMBER 17, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income and Capital Structure for the historical 12-month period ended July 31, 2001, for Harder Hall-Howard, Inc. The attached schedules were prepared by the audit staff as part of our work in this staff-assisted rate case audit.

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

The utility does not maintain its books and records as required by the Uniform System of Accounts (USOA) and Commission rules.

Utility-plant-in-service (UPIS) should be decreased by \$301.

Accumulated depreciation should be increased by \$7,541, and depreciation expense should be decreased by \$36.

Contributions-in-aid-of-construction (CIAC) should be increased by \$5,500, and accumulated amortization of CIAC should be increased by \$1,886 as of July 31, 2001. CIAC amortization expense should be decreased by \$587 for the 12-month period ended July 31, 2001.

Revenues should be reduced by \$5,779.

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.

Verified - The items were tested for accuracy, and substantiating documentation was examined.

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

RATE BASE: Compiled account balances for UPIS, CIAC, accumulated depreciation, and accumulated amortization of CIAC from June 30, 1992. Reconciled rate base balances authorized in Commission Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, to the general ledger balance. Verified additions to UPIS and CIAC as of July 31, 2001. Tested additions to accumulated depreciation and accumulated amortization for proper rates and calculations. Calculated working capital using one-eighth of operation and maintenance (O&M) expenses.

NET OPERATING INCOME: Compiled utility revenue and operation and maintenance accounts for the 12-month period ended July 31, 2001. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Verified a judgmental sample of operation and maintenance expenses. Verified support for taxes other than income.

CAPITAL STRUCTURE: Compiled components of the capital structure as of July 31, 2001.

OTHER: Scanned the company's income tax returns for 1995 through 2000 for regulatory matters.

Exception No. 1

Subject: Books and Records

Statement of Fact: NARUC, Class C, Accounting Instruction 2.A, requires all water and wastewater utilities to maintain their accounts on an accrual basis.

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 USOA.

Recommendation: The company's books and records are not closed on a monthly basis. The last closing of the company's books was December 31, 2000. The company does not use the NARUC Chart of Accounts. Other noncompliance with NARUC and Commission rules are shown in the exceptions that follow.

All exceptions in this report are based on the general ledger amounts. Adjustments in this report are made for the period ended July 31, 2001.

The Commission should require the utility to conform to the USOA and Commission rule cited above.

Exception No. 2

Subject: Utility-Plant in-Service (UPIS) and Accumulated Depreciation

Statement of Fact: Per the company's general ledger, a plant balance of \$612,735 was recorded as of December 31, 2000.

The company increased plant-in-service by \$301 to Account No. 380, Treatment and Disposal Equipment, on March 23, 1992.

Commission Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, established rate base as of June 30, 1992. Treatment and Disposal Equipment was established in this Order by using an Original Cost Study.

An amount of \$371,965 for accumulated depreciation was recorded in the general ledger as of December 31, 2000.

Commission Rule 25-30.140, F.A.C., Depreciation, establishes the rates for plant-in-service depreciation.

Recommendation: The company did not reconcile its plant-in-service to the above Order. The audit staff recommends that plant-in-service be reduced by \$301. This amount was already in the Original Cost Study as of June 31, 1992.

For Account No. 380, Treatment and Disposal Equipment, the company uses a 10 percent depreciation rate on \$3,318 of its plant-in-service when the above rule states that the rate should be 15 percent.

Due to the above reconciliation, using the incorrect rates, and not closing its books monthly, accumulated depreciation should be increased by \$7,541, and depreciation expense should be decreased by \$36.

As stated in Exception No. 1, the company does not close its books monthly. Therefore, its accumulated depreciation and depreciation expense are not properly stated for the period ended July 31, 2001. The above amounts are adjustments to the company's December 31, 2000 amounts.

Exception No. 3

Subject: CIAC and Accumulated Amortization of CIAC

Statement of Fact: The company recorded \$463,845 in CIAC and \$214,013 in accumulated amortization of CIAC as of December 31, 2000.

Per NARUC, Account No. 271, Contributions-in-Aid-of-Construction, A.,

This account shall include: 1. Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility,

Commission Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, established CIAC for \$455,945 and accumulated amortization of CIAC for \$101,074 as of June 30, 1992.

Per the Commission, a composite rate or a standard rate of 3.1 percent should be used for CIAC received that is not associated with a particular plant-in-service item.

Recommendation: The company did not record the following amounts for CIAC.

<u>Date</u>	<u>Description</u>	<u>Per Company</u>	<u>Recommended Adjustment</u>	<u>Per Audit</u>	<u>Reason</u>
1992	Order Adjustment	\$454,645	\$1,300	\$455,945	Order
1995	Tap Fees	900	600	1,500	Unrecorded
1996	Tap Fees	0	1,500	1,500	Unrecorded
2001	Tap Fees	0	<u>2,100</u>	2,100	Unrecorded
	Total Adjustment		<u>\$5,500</u>		

The company uses a rate of 4 percent for its tap fees instead of the above Commission rate. The audit staff used a rate of 3.1 percent to calculate amortization of CIAC from July 1, 1992 through July 31, 2001.

CIAC should be increased by \$5,500 as of July 31, 2001. The associated accumulated amortization of CIAC should be increased by \$1,886 as of July 31, 2001. The associated CIAC amortization expense for the 12-month period ending July 31, 2001 should be decreased by \$587.

As stated in Exception No. 1, the company does not close its books monthly. Therefore, its accumulated amortization and amortization expense are not properly stated for the period ended July 31, 2001. The above amounts are adjustments to the company's December 31, 2000 amounts.

Exception No. 4

Subject: Revenues

Statement of Fact: The utility recorded \$56,252.15 revenues for the 12-month period ending July 31, 2001.

A portion of the Commission-approved utility's tariff, dated August 11, 1998, is shown below:

Rate Base Facility Charge	
Meter size:	
5/8" X3/4"	\$ 19.63
1"	\$ 49.40
2"	\$158.09
3"	\$316.16
Gallorage charge per 1,000:	
General service	\$ 2.57
Multi-residential service	\$ 2.15
Residential service	
Maximum of 10,000 gallons	\$ 2.15

Commission Rule 25-30.135(2), F.A.C., "No utility may modify or revise its rules or regulations or its schedules of rates and charges until the utility files and receives approval from the Commission for any such modification or revision."

Recommendation: The utility used the following rates to bill its customers for the above period.

Rate Base Facility Charge	
Meter size:	
5/8" X3/4"	\$ 19.73
5/8" X3/4"	\$ 99.32
1"	\$ 49.66
2"	\$178.65
3"	\$317.81
Gallorage charge per 1,000:	
General service	\$ 2.59
Multi-residential service	\$ 2.16
Residential service	
Maximum of 10,000 gallons	\$ 2.16

Using the billing analysis the audit staff calculated revenues of \$50,473.38. Revenues should be reduced by \$5,778.77 (\$56,252.15 - \$50,473.38).

The associated Regulatory Assessment Fees (RAFs) for the utility should be reduced by \$126.70 (actual year 2000 RAFs filed with the Commission \$2,398 - RAFs per audit \$2,271).

The utility should be required to bill its customers per the Commission approved tariff.

Exception No. 5

Subject: Operation and Maintenance Expenses (O & M)

Statement of Fact: The utility recorded \$1,000 in rate case expenses for the 12-month period ended July 31, 2001.

Section 367.0816, Florida Statutes, states “The amount of rate case expense determined by the commission pursuant to the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period of 4 years.”

Recommendation: The expense of the \$1,000 rate case expense that the utility paid in July 2001 should be amortized over a four-year period. O and M Expenses should be reduced by \$750.

The audit staff has determined O & M Expenses for the 12-month period ended July 31, 2001, to be \$46,177. The associated working capital allowance is \$5,772 ($\$46,177 / 8$).

The above O & M Expenses does not include pro forma expenses discussed in Disclosure No. 2.

Disclosure No. 1

Subject: Pro Forma Plant

Statement of Fact: According to the vice president, the company is planning a major plant expansion in 2002. The additions will include a 25,000-gallon tank and a 15,000 gallon sludge digester. The company had provided only one unpaid invoice for \$4,798 concerning this expansion. No other written estimates or bids for this plant expansion were provided.

Recommendation: Final disposition is deferred to the analyst.

Disclosure No. 2

Subject: Pro Forma Expenses

Statement of Fact: The utility's general ledger did not have a breakdown of the salaries of each employee, or service provider, the rent of the office, power for the office, the water and wastewater for the office or of the phone for use of the operations of the wastewater treatment plant.

In a meeting with the assistant secretary-treasurer, the utility's contact person, on September 12, 2001, the average number of hours that she works on the utility billing and general management is around 10 hours per week.

The vice president of Harder Hall-Howard and his maintenance crew spend around 20 hours per week at the wastewater treatment plant.

Per the utility's records, no costs are recorded for the above personnel.

The utility has an office in the clubhouse of the Harder Hall-Howard Golf Course. In the meeting of September 12, 2001, the assistant secretary-treasurer stated that no rent expense or electric was allocated to the operation of the wastewater treatment plant.

The assistant secretary-treasurer also stated that when the operating account for the wastewater treatment plant had sufficient funds, the phone bill and insurance would be paid out of the wastewater treatment plant account. If the funds were not available, the Harder Hall-Howard Golf Course would pay these bills out of the Harder Hall-Howard Golf Course account.

Recommendation: A monthly allocation should be made for salaries, rent, phone, water, wastewater, and electric for the office expenses. An estimate of these expenses was requested from the utility, but was not provided.

Final disposition is deferred to the analyst.

EXHIBIT I**HARDER HALL-HOWARD, INC.
DOCKET NO. 010828-SU
RATE BASE
AS OF JULY 31, 2001**

(a) DESCRIPTION	(b) PER COMPANY @12/31/00	(c) AUDIT EXCEPTION	(d) REFER TO(1)	(e) PER AUDIT @7/31/01
UTILITY-PLANT-IN-SERVICE	\$612,735	(\$301)	E2	\$612,434
LAND	5,000	0		5,000
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(463,845)	(5,500)	E3	(469,345)
ACCUMULATED DEPRECIATION	(371,965)	(7,541)	E2	(379,506)
AMORTIZATION OF CIAC	214,013	1,886	E3	215,899
WORKING CAPITAL	0	5,772	E5	5,772
TOTAL:	(\$4,062)	(\$5,684)		(\$9,746)

REQUIRED FOOTNOTES:

- (1) Audit adjustments do not include audit disclosures.
- (2) Small differences are due to rounding errors.
- (3) Computed at 1/8 of O & M on Exhibit II.

EXHIBIT II

HARDER HALL-HOWARD, INC.
DOCKET NO. 010828-SU
NET OPERATING INCOME
12-MONTH PERIOD ENDED JULY 31, 2001

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT
OPERATING REVENUES	\$56,252	(\$5,779)	E4	\$50,473
<hr/>				
EXPENSES:				
O&M EXPENSE	46,927	(750)	E5	46,177
DEPRECIATION EXPENSE	13,612	(36)	E2	13,576
CIAC AMORTIZATION	(13,388)	587	E3	(12,801)
TAXES OTHER THAN INCOME	6,566	(127)	E4	6,439
INCOME TAX EXPENSE (2)	0	0		0
<hr/>				
TOTAL EXPENSES:	53,717	(326)		53,391
<hr/>				
NET OPERATING INCOME (LOSS)	\$2,535	(\$5,453)		(\$2,918)

REQUIRED FOOTNOTES:

- (1) Audit adjustments do not include audit disclosures.
- (2) The utility is a Sub-Chapter S Corporation. Income tax expense is not considered.

EXHIBIT III

**HARDER HALL-HOWARD, INC.
DOCKET NO. 010828-SU
CAPITAL STRUCTURE
AS OF JULY 31, 2001**

DESCRIPTION	PER COMPANY	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT	RATIO	COST RATE(2)	WEIGHTED COST OF CAPITAL
COMMON EQUITY	\$156,004	\$0		\$156,004	100%	9.37%	9.37%

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) Cost rate for common equity established in Order No. PSC-00-1162-PAA-WS, issued June 26, 2000