

State of Florida



Public Service Commission

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

DATE: April 23, 2002
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: Undocketed; A. P. Utilities, Inc.; Audit Purpose: establish rate base for future transfer of remaining system of utility; Audit Control No. 02-032-3-5

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 me for distribution. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Philip D. Woods, President
A. P. Utilities, Inc.
3925 S. E. 45th Court, Suite E
Ocala, FL 34480-7431

Christopher Browder, Esq.
Gray, Harris & Robinson, P.A.
P. O. Box 3068
Orlando, FL 32802-3068

AUS _____
CAF _____
CMP _____
COM _____
CTR _____
ECR _____
GCL _____
OPC _____
MMS _____
SEC
OTH _____

DOCUMENT NUMBER-DATE

04712 APR 30 08

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Orlando District Office

**A.P. UTILITIES, INC.
QUAIL RUN**

ESTABLISH RATE BASE AT TRANSFER

AS OF MARCH 15, 2002

**UNDOCKETED
AUDIT CONTROL NO. 02-032-3-5**

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDING	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
	1. BOOKS AND RECORDS	3
	2. WATER UTILITY-PLANT-IN-SERVICE	4
	3. ACCUMULATED DEPRECIATION	5
III.	DISCLOSURE	
	1. TRANSFER	6
IV.	EXHIBIT	
	1. WATER RATE BASE	7

**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

April 10, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedule of rate base as of March 15, 2002, for Quail Run, a system of A.P. Utilities, Inc. The attached rate base schedule was prepared by the audit staff as part of our work for the establishment of rate base.

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 books and records of the utility were not maintained in substantial compliance with NARUC Water Class "C" Instructions 2.A. and B.

Water utility-plant-in-service was understated by \$7,917.

Water accumulated depreciation was understated by \$16,168.

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 item was tested for accuracy and compared to the substantiating documentation.

RATE BASE: Reconciled rate base balances authorized in Commission Order No. 25063, issued September 13, 1991, to the November 30, 1990, beginning balances. Verified all plant additions acquired from November 30, 1990 through March 15, 2002. Computed accumulated depreciation at March 15, 2002. Scanned the utility's records for CIAC additions. Prepared rate base for Quail Run, a system of A.P. Utilities, Inc., as of March 15, 2002.

OTHER: Recalculated a judgmental sample of customer bills applying FPSC-approved tariff rates.

Exception No. 1

Subject: Books and Records

Statement of Fact: A.P. Utilities, Inc. maintains its books and records on a cash basis and does not utilize a general or subsidiary ledger nor the NARUC Uniform System of Accounts (USOA).

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 1996 NARUC USOA.

NARUC, Class C, Accounting Instruction 2. A, states,

The books of accounts of all water and wastewater utilities shall be kept by the double entry method on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

NARUC, Class C, Accounting Instruction 2. B, states,

All books of accounts, 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 books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

Recommendation: The audit staff recommends that the utility maintain its books and records in compliance with the aforementioned Instructions.

Exception No. 2

Subject: Water Utility Plant-in-Service (UPIS)

Statement of Fact: A.P. Utilities, Inc. does not maintain continuing property records or a general ledger to record the acquisition of plant investment. (See Exception No. 1.)

Recommendation: The utility provided the audit staff with annual printouts of expenditures remitted to vendors and other payees during the periods subsequent to the last FPSC establishment of rate base at November 30, 1990, per FPSC Order No. 25063, issued September 13, 1991.

The audit staff determined that \$7,916.88 of the itemized payments were applicable to capitalized plant additions.

<u>Payee</u>	<u>Description</u>	<u>Date</u>	<u>Amount</u>
Earl Well Drilling	Pump rebuild	10/19/97	\$1,258.49
Earl Well Drilling	New 20-hp pump, motor, & accessories	7/21/00	5,318.39
Reeves Electric	Rebuilt 200-amp single phase service	3/31/01	<u>1,340.00</u>
			\$7,916.88

The audit staff recommends that UPIS of \$36,365 be increased by \$7,917, for a total of \$44,282 at transfer on March 15, 2002.

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: A.P. Utilities, Inc. does not maintain plant investment records and, accordingly, does not reflect depreciation on capital items. (See Exception No. 2.)

Recommendation: Accumulated depreciation per FPSC Order No. 25063 was \$8,429 on the UPIS balance of \$36,365.

Depreciation on the \$36,365 balance from December 1, 1990 through March 15, 2002, based on Rule 25-30.140, Florida Administrative Code (F.A.C.), rates was computed as \$15,231.

Accumulated depreciation on the unrecorded UPIS additions of \$7,916.88, per Exception No. 2, was \$937.

The audit staff recommends that the reserve balances of \$8,429 be increased by \$16,168 (\$15,231 + \$937) to reflect a balance of \$24,597 at March 15, 2002.