



ORIGINAL

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 10, 2004

TO: Stephanie Clapp, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DN*
Division of Regulatory Compliance and Consumer Assistance

RE: **Docket No.** 040160-WU ; **Company Name:** Keen Sales, Rentals, and Utilities, Inc./Alturas Utilities, LLC; **Audit Purpose:** Establish ratebase at time of transfer ; **Audit Control No.** 04-069-3-2

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COMMISSION CLERK

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 Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Orlando District Office

**KEEN SALES, RENTALS AND UTILITIES, INC.
ALTURAS WATER SYSTEM**

ESTABLISH RATE BASE AT TRANSFER

AS OF FEBRUARY 10, 2004

**DOCKET NO. 040160-WU
AUDIT CONTROL NO. 04-069-3-2**

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, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

April 30, 2004

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 February 10, 2004, for Keen Sales, Rentals and Utilities, Inc., d/b/a Alturas Water System. The attached schedule was prepared by the audit staff as part of our work in Docket No. 040160-WU.

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's books and records were not in compliance with NARUC and the Commission Rules.

Water utility-plant-in-service (UPIS) was understated by \$13,973.

Utility land was overstated by \$1,500.

Accumulated depreciation (AD) was understated by \$23,443.

Contributions-in-aid-of-construction (CIAC) and accumulated amortization was understated by \$18,637.

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 the financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

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

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

Scanned - The documents or accounts were read quickly looking for obvious errors.

RATE BASE: Prepared Alturas' water rate base as of February 10, 2004. Compiled and verified all plant additions acquired from April 1, 2000 through February 10, 2004. Computed accumulated depreciation as of February 10, 2004. The audit staff reflected the March 31, 2000, account balances established per Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, as the starting amounts. Scanned utility records for CIAC additions from March 31, 2000 through February 10, 2004.

OTHER: Toured the water plant and facilities. Verified the utility's application of rates and charges in accordance with its tariff.

Exception No. 1

Subject: Books and Records

Statement of Fact: Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records in conformity with the NARUC, National Association of Regulatory Commissioners Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, 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 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: The utility is currently utilizing the NARUC System of Accounts applicable to descriptions and corresponding numbering.

Keen Sales, Rentals and Utilities, Inc., however, does not segregate amounts monthly applicable to the four utility systems it owns and operates per its general ledger (GL).

Since year-end 2001, its accountant prepares year-end spreadsheets to segregate financial data applicable to each system.

Order No. PSC-01-0323-PAA-WU balances were not recorded by the utility.

The journal entries per the GL are primarily system consolidated and lack descriptions. As a consequence, the audit trail is cumbersome and does not comply with the NARUC, Class C, Accounting Instruction regarding the readily furnishing of full information.

Rate base, per utility, is as of December 31, 2003, as the utility does not close its books monthly.

The audit staff recommends that the said deficiencies be remedied by the utility.

Exception No. 2

Subject: Utility-Plant-in-Service

Statement of Fact: The Alturas Water System's books and records reflected \$39,542 of utility-plant-in-service at February 10, 2004, excluding general plant which is not being transferred.

Recommendation: The audit staff recommends that the following utility plant-in-service accounts be adjusted as noted. The primary rationale for the variances was attributable to Order No. PSC-01-0323-PAA-WU amounts that were not recorded by the utility.

In addition, some pro forma amounts per the said Order had to be adjusted to reflect actual costs.

Account	Description	UPIS Per Audit Staff @2/10/04	UPIS Per Utility @2/10/04	Difference	
304	Structures & Improvements	\$94	\$94	\$0	
307	Wells & Springs	6,987	2,000	4,987	(a)
311	Pumping Equipment	4,681	9,479	(4,798)	(b)
320	Water Treatment Equipment	220	2,000	(1,780)	(c)
330	Dist. Reservoirs & Standpipes	16,265	17,265	(1,000)	(d)
331	Trans. & Dist. Lines	18,637	3,000	15,637	(e)
334	Meters & Meter Installations	6,631	5,704	927	(f)
		\$53,515	\$39,542	\$13,973	

NOTES:

- (a) The utility did not adjust account to reflect balance per Order No. PSC-01-0323-PAA-WU of \$6,987. The utility balance as of March 31, 2000, was \$2,000 and remained unchanged as of February 10, 2004.
- (b) The utility reflected a March 31, 2000 account balance of \$1,365 as opposed to the PSC Order balance of \$2,651. Additionally, the account should be reduced by \$6,088 to reflect the retired pumping equipment (\$2,651 - \$1,365 - \$6,088). Unaccounted \$4 (\$4,802 - \$4,798)
- (c) The utility did not adjust the account to reflect balance per Order No. PSC-01-0323-PAA-WU of \$220. The utility balance as of March 31 2000, was \$2,000 and remained unchanged as of February 10, 2004.
- (d) The utility balance as of March 31, 2000, of \$1,000 in the account was added to the actual cost of a water storage tank. The audit staff excluded the pro forma cost determined as of March 31, 2000, and reflected the actual cost of the expenditure.
- (e) The utility did not adjust the account to reflect balance per Order No. PSC-01-0323-PAA-WU of \$18,637. The utility balance as of March 31, 2000, was \$3,000 and remained unchanged as of February 10, 2004.
- (f) The utility reflected a \$1,000 account balance as of March 31, 2000, as opposed to the \$1,910 PSC Order balance. The amount of \$17 was not accounted for (\$1,910 - \$1,000 + \$17 = \$927).

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: The Alturas Water System's books and records reflected \$7,138 of accumulated depreciation as of February 10, 2004, excluding general plant which is not being transferred.

Recommendation: The audit staff recommends that the following plant accumulated depreciation accounts be adjusted as noted. The differences were a result of the plant adjustments per Audit Exception. 2 as follows.

Account	Description	Audit Staff Adjusted AD Balance @2/10/04	Utility AD Balance @2/10/04	Difference	
304	Structures & Improvements	\$5	\$5	\$0	
307	Wells & Springs	6,987	574	6,413	(a)
311	Pumping Equipment	2,132	1,916	216	(b)
320	Water Treatment Equipment	220	1,476	(1,256)	(c)
330	Dist. Reservoirs & Standpipes	1,232	1,598	(366)	(d)
331	Trans. & Dist. Lines	18,637	451	18,186	(e)
334	Meters & Meter Installations	1,368	1,118	250	(f)
		\$30,581	\$7,138	\$23,443	

NOTES:

- (a) The account balance was fully depreciated as of March 31, 2000, per Order No. PSC-01-0323-PAA-WU. There were no additions from March 31, 2000 through February 10, 2004.
- (b) Depreciation was based on a UPIS account balance of \$1,365 as opposed to the PSC Order balance of \$2,651 ($(\$2,651 - \$1,365 * .0661 * 3.3 \text{ years} = \$326 \text{ difference})$). Pumping additions of \$8,118 were not offset by a \$6,088 retirement ($(\$8,118 * 75\%)$) for depreciation purposes ($(\$6,088 * .0661 * 2.75 \text{ years} = \$1,107 \text{ difference})$). The audit staff accumulated depreciation audit balance as of March 31, 2000, per Order No. PSC01-0323-PAA-WU was \$1,207; the utility was \$183, for a difference of \$1,024.
Total difference ($(\$1,107 - \$1,024 - \$326 = (\$243))$) ($(\$243 - \$216 = \$27 \text{ unaccounted for})$)
- (c) The account balance was fully depreciated as of March 31, 2000, per Order No. PSC-01-0323-PAA-WU. There were no additions from March 31, 2000 through February 10, 2004.
- (d) The utility had a March 31, 2000, balance of \$252; Order No. PSC-01-0323-PAA-WU reflected a \$0 balance. Depreciation per the audit staff, in accordance with Rule 25-30.140, F.A.C., from April 1, 2000 through February 10, 2004, was \$1,232 whereas the utility was \$1,346, for a difference of \$114 ($(\$252 + \$114 = \$366)$).
- (e) The account balance was fully depreciated as of March 31, 2000, per Order PSC-01-0323-PAA-WU. There were no additions from March 31, 2000 through February 10, 2004.
- (f) The account balance as of March 31, 2000, per utility, was understated by \$910, resulting in less accumulated depreciation as of February 10, 2004.

Exception No. 4

Subject: Contributions-in-Aid-of Construction (CIAC) and Related Accumulated Amortization

Statement of Fact: Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, established fully amortized CIAC of \$18,637 applicable to the Alturas Water System.

Recommendation: The utility never recorded the \$18,637 per its books and records.

The audit staff recommends that the utility book the CIAC and related accumulated amortization.

Exception No. 5

Subject: Utility Land

Statement of Fact: Order No. PSC-01-323-PAA-WU, issued February 5, 2001, established land value as \$500.

Recommendation: The utility books and records reflect a land balance of \$2,000.

The audit staff recommends that the account be reduced by \$1,500 to reconcile with the amount per Order.

Disclosure No. 1

Subject: Acquisition Adjustment

Statement of Fact: The contracted price for the sale of the Alturas Water System according to the Sale and Purchase Agreement along with the Closing Statement is \$45,000.

Recommendation: The audit staff has established rate base as \$23,434 per this Certificate of Transfer examination. This would result in a \$21,566 acquisition adjustment (\$45,000 - \$23,434).

The utility has not requested an acquisition adjustment be considered.

EXHIBIT

KEEN SALES, RENTALS, AND UTILITIES, INC.
 ALTURAS SYSTEM
 WATER RATE BASE
 DOCKET NO. 040160-WU
 AS OF FEBRUARY 10, 2004

DESCRIPTION	PER UTILITY AS OF 12/31/03	AUDIT EXCEPTION	REFER TO	PER AUDIT AS OF 2/10/04
UTILITY PLANT-IN-SERVICE	\$39,542	\$13,973	E 2	\$53,515
LAND	2,000	(1,500)	E 5	500
ACCUMULATED DEPRECIATION	(7,138)	(23,443)	E 3	(30,581)
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	0	(18,637)	E 4	(18,637)
ACCUMULATED AMORTIZATION OF CIAC	0	18,637	E 4	18,637
TOTAL	\$34,404	(\$10,970)		\$23,434