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**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.** 040159-WU ; **Company Name:** Keen Sales, Rentals, and Utilities, Inc./Sunrise System; **Audit Purpose:** Establish ratebase at time of transfer ; **Audit Control No.** 04-069-3-1

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

Amanda Chambers  
Keen Sales, Rentals, and Utilities, Inc./Sunrise System  
685 Dyson road  
Haines City, FL 33844

Earlene Keen  
Keen Sales, Rentals, and Utilities, Inc./Sunrise System  
685 Dyson road  
Haines City, FL 33844

Stuart Sheldon  
20 West Tropical Way  
Ft. Lauderdale, FL 33317

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**FLORIDA PUBLIC SERVICE COMMISSION**

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

*Orlando District Office*

**KEEN SALES, RENTALS AND UTILITIES, INC.  
SUNRISE SYSTEM**

**CERTIFICATE OF TRANSFER AUDIT  
AS OF FEBRUARY 10, 2004**

**DOCKET NO. 040159-WU  
AUDIT CONTROL NUMBER 04-069-3-1**

*Intesar Terkawi*

*Intesar Terkawi, Audit Manager*

*Charleston J. Winston*

*Charleston J. Winston, District Audit Supervisor*

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

**April 28, 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., Sunrise System. The attached schedule was prepared by the audit staff as part of our work in Docket No. 040159-WU, Certificate of Transfer.

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's water plant is understated by \$2,667 as of February 10, 2004.

The utility did not adjust the land for water per Commission Order No. PSC-01-1162-PAA-WU, issued May 22, 2001.

The utility's water accumulated depreciation balance is understated by \$2,995 as of February 10, 2004.

The utility's water accumulated amortization balance is understated by \$1,344 as of February 10, 2004.

## **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 were read quickly looking for obvious errors.

**Verified** - The items were tested for accuracy, and compared to the substantiating documentation.

**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.

**RATE BASE:** Compiled utility plant-in-service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from March 31, 2001 until February 10, 2004. Verified 100 percent of plant additions. Scanned documents and accounts for CIAC additions. Recalculated CIAC accumulated amortization and accumulated depreciation. Tested additions to accumulated depreciation and accumulated amortization for proper rates and calculations.

**OTHER:** Reviewed and recalculated a sample of customer bills from the utility's billing register to verify the Commission-approved rates as of February 10, 2004.

**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 accordance with the National Association of Regulatory Utility Commissioners (NARUC), Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction No.2 A. states:

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

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 as to support fully the facts pertaining to such entries.

The utility did not close its books monthly.

**Recommendation:** The utility contracts with a CPA firm to prepare the general ledger and the Annual Reports. The Sunrise Water Co. 2000 Annual Report is commingled with all other utility companies that are owned by Keen Sales, Rentals and Utilities, Inc. Sunrise's general ledgers from 2001-2003 are commingled with all other utility companies that are owned by Keen Sales, Rentals and Utilities, Inc.

The utility did not use the proper depreciation rates cited in Commission Rule 25-30-140, F.A.C., nor did it use the proper account classification, outlined in the National Association of Regulatory Utility Commissioners (NARUC), Uniform System of Accounts (USOA).

The utility did not reconcile rate base to the prior Commission Order, PSC-01-1162-PAA-WU, issued May 22, 2001.

The utility does not maintain its books per the Commission rules cited above.

**Exception No. 2**

**Subject: Water Plant**

**Statement of Fact:** The utility recorded \$108,831 for water plant as of December 31, 2003.

Per Commission Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, the water plant should be \$96,714, as of March 31, 2000.

Per NARUC Accounting Instruction Number 2A,

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account 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 of all the facts relevant thereto.

**Recommendation:** The utility did not make the required plant adjustment per the above-mentioned Order. Staff was unable to determine the basis for the utility balance. However, using the balance established in the prior order and the audited plant additions, we determined a plant balance of \$111,498.

The audit staff recommends that the Commission should require the utility to increase the water plant by \$2,667 (\$111,498-\$108,831) as of February 10, 2004, according to Schedules A and B on the following pages.

**Schedule A of Exception No. 2, continued**

Date	Per Utility	Difference	Per Order	Explanation
03/31/00			\$96,714	Beginning balance per prior Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, Docket No. 001118-WU
	Per Utility	Difference	Per Audit	Explanation
2000 Additions	\$1,837	(\$269)	\$1,568	See Schedule B.
2000 Balance	\$113,583	(\$15,301)	\$98,282	
2001 Additions	\$0	\$561	\$561	See Schedule B.
2001 Balance	\$113,583	(\$14,740)	\$98,843	
2002 Additions	\$11,735	\$314	\$12,049	See Schedule B.
2002 Retirement	(\$9,505)	\$0	(\$9,505)	
2002 Balance	\$103,159	(\$1,772)	\$101,387	
2003 Additions	\$5,672	\$4,439	\$10,111	See Schedule B.
2003 Balance	\$108,831	\$2,667	\$111,498	



**Schedule B of Exception No. 2, continued**

<b>Date</b>	<b>Account</b>	<b>Check No.</b>	<b>Vendor Name</b>	<b>Amount</b>	<b>Description</b>
06/12/00	334 - Meter & Meter Installation	1504	Hughes Supply Inc.	\$357	Meter and meter installation parts
05/05/00	334 - Meter & Meter Installation	1466	Polk Pump & Irrigation Co., Inc.	\$240	Meter parts
09/08/00	311 - Pumping Equipment	1624	Steve's Electric, Inc.	\$473	Phase monitor
09/18/00	311 - Pumping Equipment	1624	Steve's Electric, Inc.	\$376	Phase monitor
04/13/00	320 - Water Treatment Equipment	1464	Polk Pump & Irrigation Co., Inc.	<u>\$122</u>	Air vent
<b>Total 2000</b>				<b>\$1,568</b>	
12/21/01	334 - Meter & Meter Installation	NA	Lakeland Water and Sewer	\$145	Meter parts
02/21/01	334 - Meter & Meter Installation	1766	Dunham Well Drilling, Inc.	<u>\$416</u>	Meter parts
<b>Total 2001</b>				<b>\$561</b>	
08/07/02	304 - Structures & Improvements	2454	Gator Fence Co.	\$394	Fence
03/14/02	334 - Meter & Meter Installation	2255	Polk Pump & Irrigation Co., Inc.	\$500	Meter parts
10/31/02	334 - Meter & Meter Installation	2575	Guardian Meter Co.	\$258	Sunrise allocation of meter parts
02/12/02	334 - Meter & Meter Installation	Cash	B&M Services of Winter Haven, Inc.	\$127	Meter parts
01/02/02	334 - Meter & Meter Installation	NA	Lakeland Water and Sewer	\$109	Meter parts
08/22/02	311 - Pumping Equipment	2499	Steve's Electric, Inc.	\$64	Sunrise allocation of phase monitor
06/14/02	341 Transportation Equipment		For d Truck	\$10,596	Van
<b>Total 2002</b>				<b>\$12,049</b>	
02/18/03	334 - Meter & Meter Installation	2731	Steve's Electric, Inc.	\$281	Meter parts
03/25/03	311 - Pumping Equipment	2760	Dunham Well Drilling	\$9,199	Pump and motor & installation
06/05/03	311 - Pumping Equipment	3887	Steve's Electric, Inc.	\$182	Electric control on pump
06/07/03	311 - Pumping Equipment	2933	Steve's Electric, Inc.	<u>\$8</u>	Breaker square and labor
<b>Total 2003</b>				<b>\$10,111</b>	

**Exception No. 3**

**Subject: Land**

**Statement of Fact:** The utility recorded \$0 in land as of December 31, 2003.

Per Commission Order No. PSC-01-1162-PAA-WU, issued on May 22, 2001, the utility's water land amount should be \$553, as of March 31, 2000.

**Recommendation:** The utility's records do not agree with the above-mentioned Commission Order. The utility understated water land by \$553.

The audit staff recommends that the Commission order the utility to comply with the above-mentioned Commission directive to increase water land by \$553.

**Exception No. 4**

**Subject: Accumulated Depreciation**

**Statement of Fact:** The utility recorded \$46,977 for accumulated depreciation as of December 31, 2003.

The depreciation rates for water and wastewater are outlined in Commission Rule 25-30.140, F.A.C.

Per Commission Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, the utility's accumulated depreciation amount should be \$30,709.

**Recommendation:** The utility did not adjust its records according to the above mentioned Order. The utility did not use the depreciation rates outlined in the above Commission rule

The audit staff recalculated the accumulated depreciation to be \$49,972 as of February 10, 2004.

Based on the above recalculation, the audit staff recommends to the Commission that accumulated depreciation be increased by \$2,995 (\$49,972-\$46,977) as of February 10, 2004.

See schedule for the audit staff's calculations as follows:

**Exception No. 4, continued**

Water - Accumulated Depreciation (A/D) Adjustments as of February 10, 2004

Acct. No.	Account Name	Description	Balance Per Utility As of 12/31/03	Rec. Adjust.	Balance Per Audit As of 02/10/04
301	Organization	Plant per audit, \$750, rate of 2.5%. Plant per utility \$0.00	\$0	\$81	\$81
304	Structures & Improvements	Plant per audit, \$5,653, rate of 3.57%. Plant per utility, \$6,513, rate of 3.45%.	2,156	(104)	2,052
307	Wells & Springs	Plant and A/D are the same for the utility and the audit. The difference amount is due to the additional one month depreciation per audit.	7,782	54	7,836
310	Power Generation Equipment	Plant and A/D are the same for the utility and the audit. The difference amount is due to the additional one month depreciation per audit.	6,907	56	6,963
311	Pumping Equipment	Plant per audit, \$14,551, rate of 5.88%. Plant per utility, \$8,672, rate of 5.88%.	2,253	355	2,608
320	Water Treatment Equipment	Plant per audit, \$4,055, rate of 5.88%, Plant per utility, \$3,933, rate of 5.87%.	2,452	46	2,498
330	Distribution Reservoirs & Standpipe	Plant and A/D are the same for the utility and the audit. The difference amount is due to the additional one month depreciation per audit.	8,759	55	8,814

**Exception No. 4, continued**

Acct. No.	Account Name	Description	Balance Per Utility As of 12/31/03	Rec. Adjust.	Balance Per Audit As of 02/10/04
331	Transmission & Distribution Mains	Plant and A/D are the same for the utility and the audit. The difference amount is due to the additional one month depreciation per audit.	4,677	27	4,704
334	Meter & Meter Installation	Plant per audit, \$11,672, rate of 5.88%. Plant per utility, \$10,601, rate of 6.04%.	5,585	44	5,629
340	Office Equipment	Plant per Order, \$0.00, Plant per utility, \$1,825, rate of 9.86%.	973	(973)	0
341	Transportation Equipment	Plant per audit, \$10,595, rate of 16.67%. Plant per utility, \$12,573, rate 12.77%.	3,997	3,450	7,447
343	Tools, Shop, & Garage Equipment	Plant per Order, \$0 Plant per utility, \$402, rate 5.72%.	109	(109)	0
347	Miscellaneous Equipment	Plant per Order, \$0. Plant per utility, \$2,388.00, rate of 4.98%.	1,328	(1,328)	0
348	Other Tangible Plant	Plant per Order, \$2,388.00, rate of 5.00%. Plant per utility, \$0.	0	1,340	1,340
<b>Total</b>			<b>\$46,977</b>	<b>\$2,995</b>	<b>\$49,972</b>

**Exception No. 5**

**Subject: Accumulated Amortization of CIAC**

**Statement of Fact:** The utility recorded \$4,677 in water accumulated amortization of CIAC as of December 31, 2003.

Per Commission Order No PSC-01-1162-PAA-WU, issued May 22, 2001, the water accumulated amortization of CIAC amount should be \$3,454.

**Recommendation:** The utility did not make the adjustment to the above mentioned Order.

The audit staff recalculated the water accumulated amortization of CIAC to be \$6,021 as of February 10, 2004. The composite rates used in the above calculation reflect plant additions that were not reflected in the utility's calculation, in addition to the utility's failing to make the correct adjustment according to the above-mentioned Order.

The audit staff recommends to the Commission that the water accumulated amortization of CIAC be increased by \$1,344 (\$6,021 -\$4,677). This amount includes the adjustment per above-mentioned Order and the adjustment for using the correct composite rates.

**EXHIBIT**

**KEEN SALES, RENTALS AND UTILITIES, INC.  
SUNRISE SYSTEM  
WATER RATE BASE  
DOCKET NO. 040159-WU  
CERTIFICATE OF TRANSFER AUDIT  
AS OF FEBRUARY 10, 2004**

DESCRIPTION	PER UTILITY AS OF 12/31/03 (1)	AUDIT EXCEPTION (1)	REFER TO	PER AUDIT AS OF 02/10/04 (1)
UTILITY PLANT-IN-SERVICE	\$108,831	\$2,667	E2	\$111,498
LAND & LAND RIGHTS	0	553	E3	553
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	(12,393)	0		(12,393)
ACCUMULATED DEPRECIATION	(46,977)	(2,995)	E4	(49,972)
ACCUMULATED AMORTIZATION OF CIAC	4,677	1,344	E5	6,021
WORKING CAPITAL(2)	0	0		0
<b>TOTAL</b>	<b>\$54,138</b>	<b>\$1,569</b>		<b>\$55,707</b>

**FOOTNOTES:**

- 1) Small differences can be attributed to rounding errors.
- 2) Working capital calculations not required.