

State of Florida



## 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-**

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**DATE:** March 23, 2005  
**TO:** Jan Kyle, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing *DNV*  
 Division of Regulatory Compliance and Consumer Assistance  
**RE:** *000644* **Docket No.:** 000649-WU; **Company Name:** Water Management Services, Inc.; **Audit Purpose:** Rate Case; **Audit Control No.:** 04-243-1-1

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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.

DNV/jcp  
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (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

Mr. Gene D. Brown, President  
 Water Management Services, Inc.  
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 Tallahassee, FL 32309-3428

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
BUREAU OF AUDITING

Tallahassee District Office

WATER MANAGEMENT SERVICES, INC.

LIMITED PROCEEDINGS AUDIT

TWELVE MONTH PERIOD ENDED JUNE 30, 2004

DOCKET NO. 000694-WU

AUDIT CONTROL NO. 04-243-1-1

A handwritten signature in black ink, appearing to read "Joseph Perdue", written over a light gray rectangular background.

Joseph Perdue, Audit Manager

A handwritten signature in black ink, appearing to read "Robert T. Moore", written over a light gray rectangular background.

Robert Moore, Audit Staff

A handwritten signature in black ink, appearing to read "Lynn M. Deamer", written over a light gray rectangular background.

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE**

**AUDITOR'S REPORT**

**March 16, 2005**

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

We have applied the procedures described later in this report to audit the accompanying Exhibit of Petition for Approval of Phase III Final Rates, filed October 14, 2004 with this Commission. These schedules were prepared by the utility as part of its petition filed in Docket No. 000694-WU. There is no confidential information associated with this 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 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.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

**Verify** - The item was tested for accuracy, and substantiating documentation was examined.

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### RATE BASE:

**PLANT:** Audit Staff reviewed the prior rate case and determined that all Staff Calculated Adjustments were made. Audit Staff compiled plant account balances from the General Ledger from January 1, 1993 through June 30, 2004. Selected Account balances were verified and traced to supporting documentation.

**ACCUMULATED DEPRECIATION:** Audit Staff reviewed the prior rate case and determined that certain Staff Calculated adjustments have not been made. Audit Staff recomputed the depreciable life of the New Plant construction as stated in the Utility's filing.

**CONSTRUCTION WORK IN PROGRESS:** Audit Staff sampled and traced CWIP from the Utility's filing to the General Ledger.

**CONTRIBUTIONS IN AID OF CONSTRUCTION:** Audit Staff reviewed CIAC from last rate case to June 30, 2004. Audit Staff sampled CIAC and compared the sample to company records.

**AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION:** Audit Staff reviewed Amortization of CIAC from last rate case to June 30, 2004. Audit Staff recomputed Amortization of CIAC on a sample basis and compared to company records.

**REVENUE:** Audit Staff scheduled revenues for the 12 months ending June 30, 2004, and traced them to Monthly Billing Summaries filed by the utility. Audit Staff compared the Monthly Billing Summaries to the General Ledger. Audit Staff traced the revenue from the company filed True-up to the Billing Summaries.

**EXPENSES:** Audit staff compiled operation expenses from the general ledger for 12 months ended 6/30/2004. Audit Staff traced selected transactions to source documentation. Disclosed or noted any exceptions. Audit Staff scanned the expense accounts for anomalies.

**Exception No. 1**

**Subject: Insurance Expense**

**Statement of Fact:** The Utility charged Accounts 657.1 and 657.8 (General Insurance) for the premium on non-utility vehicles, boats and trailers owned by the president and CEO of the Utility or by other companies to which the president and CEO is affiliated. Company stated through written response that these items "...are included in the insurance policy as a convenience to the President and CEO of the utility and all expenses related to the vehicles are currently paid by him". However, no adjustments are made in these accounts to reflect payment from an outside source.

**Recommendation:** The Utility should remove \$5,426.00 from Account 657 General Insurance Expense. The National Association of Regulatory Utility Commissioner, Uniform System of Accounts for Class B Water Utilities states that the account shall include costs associated with insurance of automobiles and trucks used for the utility purposes.

**Exception No. 2**

**Subject: Accumulated Depreciation**

**Statement of Fact:** The Utility failed to make some of the commission adjustments in Docket No. 940109-WU, Schedule No. 1-B related to Accumulated Depreciation. The adjustments that need to be are as follows:

Item A -	To reduce for removal of storage tank (AE #12)Stip 4	\$ 629
Item F -	To correct for depreciation error (AE #15)Stip 11	(10,327)
Item G -	To decrease for adjustment eng. Fees (AE #14) Issue No. 3	1,470
Item I-	To decrease for rate change (Stip #14)	3,564
	<b>Net Adjustment of</b>	<b>\$ (4,664)</b>

**Recommendation:** The Utility should make the above adjustments to reflect the Florida Public Service Commission adjustments in Docket No. 940109-WU.

**Disclosure No. 1**

**Subject: Lodging**

**Statement of Fact:** The Utility charged Account 675.86 Miscellaneous Expense for \$403.46 for Accounts Receivable – Trade For Lodging during the 12 months ended June 30, 2004. The utility stated “The house at service location number 26 was made available by the owner for overnight lodging for Gene D. Brown in exchange for the payment of the water service at that location. The monthly water expense is entered in the general ledger as lodging expense.” The utility pays the water service. Auditor did not determine if this is reimbursed by Gene Brown.

The utility facilities on St. George Island are approximately 85 miles from the utilities office located in Tallahassee

**Recommendation:** This information is provided for analyst’s review.



**Disclosure No. 2**

**Subject: Transportation Expense**

**Statement of Fact:** The Utility charged Account 650 Transportation Expense for \$32,011.05, which includes repairs, mileage and credit card charges for the 12 months ended June 30, 2004. The actual fuel and mileage for the period totaled \$24,603.23, this appears excessive. After the review of credit card statements of the president and vice-president at the Utility, some fuel charge locations are clearly outside the roughly 85 mile one way commute between the Utility's Tallahassee office and the office on St. George Island. In addition, the Utility is reimbursing employees, President, and Vice President for mileage that appears to be excessive.

**Recommendation:** This information is provided for analysis review.

**Disclosure No. 3**

**Subject: Internet**

**Statement of Fact:** The Utility charged Accounts 675.82 Miscellaneous Expense \$1,591.62 and 636 Contractual Services-Other \$431.43 for Comcast high speed internet services and cable television at 3848 Killlearn Court (Tallahassee Office). Credit Card statements show that the Utility is also paying for Earthlink internet service at the same location. There is no need for two internet services at the same location.

**Recommendation:** Audit Staff believes that the payment for two services concurrently is excessive. This information is provided for Analyst's review.

**Disclosure No. 4**

**Subject: Onstar**

**Statement of Fact:** The Utility charged Accounts 675 Miscellaneous Expense \$163.98, Account 650 Transportation Expense \$36.44 and Account 636 Contractual Services-Other \$36.44 for Onstar services.

**Recommendation:** Audit staff believes that this expense is unnecessary. The driver of the vehicle to which the Onstar service is applicable is the Vice President of the Company and the primary work location is at the utility's Tallahassee office. Per company response, the Vice President of the utility works at the Island office approximately two days per month. This information is provided for analyst's review.

**Disclosure No. 5**

**Subject:** NSF/Late Fee

**Statement of Fact:** The Utility charged Account 675 Miscellaneous Expenses \$424.00 for Nonsufficient Funds and charged Account 650 Transportation Expense \$35.00 for Late Charges on the Utility's U. S. Bank Card charges.

**Recommendation:** The ratepayers should not bear these imprudent costs. This information is provided for analyst's review.

**Disclosure No. 6**

**Subject: Credit Card**

**Statement of Fact:** The Utility charged Accounts 675.86 Miscellaneous Expense for \$526.40 for a personal credit card for Gene Brown. No adjustments were made to this account to reflect payment from an outside source.

**Recommendation:** This information is provided for analyst's review.

WATER MANAGEMENT SERVICES, INC. - DOCKET NO. 000694-WU  
PLANT IN SERVICE and  
CALCULATION OF AVERAGE DEPRECIATION RATE

NARUC Acct	Plant Component	Total	PSC Guideline Service Life, yrs	Annual Depr. Expense	Actual Accum. Depr.	1/2 yr Depr.
303	Land	\$20,151				
304	Structures (island office improv.)	287,231	33.00	8,704	4,352	4,352
307	Wells & Springs (well controls)	16,698	30.00	557	186	278
309	Supply Mains (exposed)	3,259,090	30.00	108,636	76,151	54,318
309	Supply Mains (other)	229,639	35.00	6,561		3,281
310	Power Gen. Equip. ( emergency gen.)	40,982	20.00	2,049	1,537	1,025
311	Pumping Equipment (controls)	69,611	20.00	3,481	1,740	1,740
320	Treatment Equip. (aerator, chlorinator)	36,065	22.00	1,639	919	820
330	Dist. Res. & Standpipes (tank & fittings)	18,018	37.00	487	191	243
331	Trans & Dist. Mains (pipe improv.)	1,009,001	43.00	23,465	8,977	11,733
	Engineering & Overheads @ Avg Dep. L.	1,170,050	31.92	36,654	8,977	18,327
	Depreciable Plant	\$6,136,386	31.92	\$192,233	\$103,029	\$96,116
	Total Plant, incl. land	6,156,536		3.13%		
	Deprec. Plant excl. Engr. & Overheads	4,966,336	31.92	155,579		3.13%

Support for non-guideline depreciation rate for exposed supply mains

NARUC Account	Contractor	Total **	PSC Guideline Service Life, yrs
309	Boh Brothers Mains & Appurt. - exposed	1,233,664	30 **
309	Blankenship Mains & Appurt. - exposed	832,804	30 **
309	Materials - Mains & Appurt. - exposed U.S. Filter - hangers	561	30 **
309	Weldcraft - hangers	584,060	30 **
309	Clow - D.I. pipe	426,323	30 **
309	Consolidated - coating	181,678	30 **
		<u>3,259,090</u>	

\*\* In Order No. PSC-03-1005-PAA-WU, the Commission recognized that the exposed mains were subject to more adverse environmental conditions than buried pipe. On that basis, it allowed a 35 year life, as compared to the and distribution mains. The main in question is a supply main. The rule indicates a guideline life of 35 years for supply mains. Applying the Commission's logic, the authorized depreciation life for buried and exposed pipes should be 35 and 30 years rather than the 40 and 35 years in the order.