

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** September 18, 2008  
**TO:** Stephen B. Fletcher, Public Utilities Supervisor, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance  
**RE:** Docket No. 070693-WS; Company Name: Lake Utility Services, Inc.; Audit Purpose: Audit allocations to Utilities, Inc. of Lake Utility Services, Inc., Wedgefield Utilities, Inc. Inc., and Miles Grant Water and Sewer Company; Company Code: WS641, WS759, and WS433; Audit Control No. 08-231-4-2

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Attached is the final audit report for the audit 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 Office of Commission Clerk. There are no confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey, District Offices, File Folder)  
Office of Commission Clerk (2)  
General Counsel  
Office of Public Counsel

Mr. Patrick C. Flynn  
Lake Utility Services, Inc.  
200 Weathersfield Avenue  
Altamonte Springs, FL 32714-4027

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DOCUMENT NUMBER-DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**

***DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING***

*Miami District Office*

**Utilities, Inc.  
Audit of Headquarters Plant Accounts**

**Twelve Months Ended June 30, 2007**

**DOCKETS #070693-WS, 070694-WS, and 070695-WS  
AUDIT CONTROL NO. 08-231-4-2**

A handwritten signature in cursive script, appearing to read "Kathy L. Welch", written over a horizontal line.

***Kathy L. Welch  
Audit Manager***

A handwritten signature in cursive script, appearing to read "Bety Maitre", written over a horizontal line.

***Bety Maitre  
Staff Auditor***

A handwritten signature in cursive script, appearing to read "Yen Ngo", written over a horizontal line.

***Yen Ngo  
Staff Auditor***

A handwritten signature in cursive script, appearing to read "Iliana Piedra", written over a horizontal line.

***Iliana Piedra  
Accounting Specialist***

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

**September 12, 2008**

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the Utilities, Inc. parent company, WSC and the Utilities, Inc. of Florida headquarters office. The procedures also relate to the allocations to Lake Utility Services, Inc., Wedgefield Utilities, Inc. and Miles Grant Water and Sewer Company, Docket Numbers 070693-WS, 070694-WS, and 070695-WS respectively.

*This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.*

## **OBJECTIVES AND PROCEDURES**

**Objective** – To determine if Utilities, Inc. has complied with the Commission's directive in Commission order PSC-03-1440-FOF-WS to allocate costs based on ERCs.

**Procedure** – We reviewed the allocation manuals from Water Service Corp. (WSC), the Northbrook office headquarters in Illinois. We reviewed the worksheets used to adjust the headquarter's allocations. We reviewed the worksheet used to allocate the Utilities Inc. of Florida (UIF) Altamonte Springs headquarters. We reviewed the worksheets used to allocate transportation. We recalculated the allocation factors. Audit finding one discusses errors made in the allocation worksheets.

**Objective** – To audit the allocated plant additions for the test year ended June 30, 2007.

**Procedure** – We reviewed the ledgers for the two companies, WSC and UIF. We selected additions since our last audit at December 31, 2005 to June 30, 2007 and obtained invoices to support the additions. We determined which employees were using the vehicles and new laptop computers. We recalculated depreciation during the same period.

**Objective** – To audit the projections for allocated plant additions for the projected years ending June 30, 2008 and June 30, 2009.

**Procedures** – We reviewed the forecast worksheets and determined the only increase related to the new accounting and billing systems. We obtained the actual costs of the projects and the dates they were put in service. We calculated the forecast balance using the correct ERC allocation factors. We recalculated the depreciation on the revised amounts. Audit finding two discusses the errors made to the forecast.

## **AUDIT FINDING NO. 1**

### **SUBJECT: PLANT AND ACCUMULATED DEPRECIATION ALLOCATIONS**

**AUDIT ANALYSIS:** Costs incurred and assets held by WSC for its headquarters in Illinois are recorded in the books of WSC and allocated to the individual utilities each quarter. Therefore, in March, June, September and December, the WSC books have zero balances for its allocated accounts and the utilities have balances for the share allocated to each. Prior to 2008, the allocations were based on several different factors depending on the type of plant account and the type of expense. The Lake Utility Services, Inc. (LUSI) and Wedgefield Utilities, Inc. (Wedgefield) filings show balances mainly in the months when allocations were made and zero balances in other months even though the plant existed during the entire year.

The costs and plant related to the UIF office in Altamonte Springs are allocated using a worksheet once a year. The worksheet is based on customer equivalents.

Transportation is allocated separately based on customer equivalents.

Because Commission Order No. PSC-03-1440-FOF-WS required the use of ERCs to allocate common plant and expenses, an adjustment column was made to the allocated plant to change the calculation to ERCs and to correct for the 2005 audit in Docket No. 060253-WS of the affiliate accounts. The computation of these adjustments was done within the spreadsheets for the filing. It appears that the calculation duplicated another allocation, causing errors in the adjustments. In addition, it did not appear that the allocation of UIF headquarters costs or transportation costs were changed from Customer Equivalents. Some months did not include UIF at all. The allocation used was not consistent between LUSI, Wedgefield, and Miles Grant. For example, LUSI had a positive allocation of transportation costs, Wedgefield had a negative and the exhibits for Miles Grant don't mention transportation at all.

Therefore, staff recomputed the allocation using the 13-month balances of WSC and UIF headquarters without any allocations in and out of headquarters for each quarter's booked charges to the individual utilities. We made the adjustments from the 2005 audit and allocated the remaining balance based on ERCs to the three utilities.

For July 2006 to June 2007, the filings for LUSI and Wedgefield were understated for plant and accumulated depreciation. For Miles Grant, plant was overstated and accumulated depreciation was understated. The schedule following this finding shows the calculation of the difference.

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger.

**EFFECT ON THE FILING:** For July 2006 to June 2007, the LUSI plant should be increased by \$19,506 for water and \$6,467 for wastewater, the Wedgefield water plant should be increased by \$59,448, and the Miles Grant plant decreased by \$2,023 for water and \$32,466 for wastewater.

For July 2006 to June 2007, the accumulated depreciation should be increased by \$70,067 for LUSI water and \$23,291 for LUSI wastewater, \$19,851 for Wedgefield water, \$34,149 for Miles Grant water and \$12,493 for Miles Grant wastewater.

## WSC Plant Allocation

WSC-Company 2 Chicago office Account		13-Month Average	ADJ. LAST AUDIT	NET TO ALLOCATE	NOTE A	NOTE A	NOTE A
					LUSI ERC %	WEDGEFIELD ERC %	MILES GRANT ERC %
Number	Account Name				0.0386905	0.010569868	0.007423267
3036089	L & L RIGHTS (GEN PLT)	95,000		95,000	3,676	1,004	705
3406090	OFF STRUCT & IMPRV	2,703,260		2,703,260	104,590	28,573	20,067
3406091	OFF FURN & EQPT	1,242,162		1,242,162	48,060	13,129	9,221
3406010	Mainframe Computer	707,918	(377,085)	330,833	12,800	3,497	2,456
3406020	Mini Computer	1,129,010	(556,012)	572,998	22,170	6,057	4,254
3406110	Comp System Cost	1,121,540	(816,836)	304,704	11,789	3,221	2,262
3406120	Micro System Cost	236,694	(98,621)	138,073	5,342	1,459	1,025
3466093	TELEPHONES	120,696		120,696	4,670	1,276	896
3466094	TOOLS SHOP & MISC EQPT	20,986		20,986	812	222	156
3466097	COMMUNICATION EQPT	259,577		259,577	10,043	2,744	1,927
101.1	Total	7,636,843	(1,848,554)	5,788,289	223,952	61,181	42,968
3917050	TRANSPORTATION-WSC	234,780		234,780	9,084	2,482	1,743
<b>Division 600 UIF</b>					<b>NOTE B</b>	<b>NOTE B</b>	<b>NOTE B</b>
					<b>0.13406297</b>	<b>0.0366247</b>	<b>0.0257217</b>
3406090	OFF STRUCT & IMPRV	164,416		164,416	22,042	6,022	4,229
3406091	OFF FURN & EQPT	51,389		51,389	6,889	1,882	1,322
3466097	COMMUNICATION EQPT	65,849		65,849	8,828	2,412	1,694
3406020	MINI COMPUTERS	167,435		167,435	22,447	6,132	4,307
		449,089	0	449,089	60,206	16,448	11,551
<b>Division 601 UIF</b>							
3406090	OFF STRUCT & IMPRV	713,143		713,143	95,606	26,119	18,343
3406091	OFF FURN & EQPT	124,538		124,538	16,696	4,561	3,203
3466094	TOOLS SHOP & MISC EQPT	72,201		72,201	9,679	2,644	1,857
		909,882	0	909,882	121,981	33,324	23,404
3917050	TRANSPORTATION UIF	2,314,174		2,314,174	310,245	84,756	59,524
<b>TOTAL ALLOCATED PER STAFF</b>		<b>11,544,767</b>	<b>(1,848,554)</b>	<b>9,696,213</b>	<b>725,468</b>	<b>198,191</b>	<b>139,190</b>
<b>PERCENT ALLOCATED TO WATER</b>					<b>75.1048%</b>	<b>50.3722%</b>	<b>51.5000%</b>
<b>WATER AMOUNT PER STAFF</b>					<b>544,861</b>	<b>99,833</b>	<b>71,683</b>
<b>PERCENT ALLOCATED TO WASTEWATER</b>					<b>24.90%</b>		<b>48.50%</b>
<b>WASTEWATER AMOUNT PER STAFF</b>					<b>180,607</b>		<b>67,507</b>
<b>WATER PER FILINGS</b>					<b>525,355</b>	<b>40,385</b>	<b>73,706</b>
<b>WASTEWATER PER FILINGS</b>					<b>174,140</b>		<b>99,973</b>
<b>DIFFERENCE WATER</b>					<b>19,506</b>	<b>59,448</b>	<b>(2,023)</b>
<b>DIFFERENCE WASTEWATER</b>					<b>6,467</b>		<b>(32,466)</b>

Note A: Based on ERC's at 6/07 for total company

Note B: Based on ERC's at 6/07 for Florida



## WSC Accumulated Depreciation Allocation

WSC-Company 2 Chicago office		13-Month	ADJ. LAST	NET TO	NOTE A	NOTE A	NOTE A
Account		Average	AUDIT	ALLOCATE	LUSI	WEDGEFIELD	MILES GRANT
Number	Account Name				ERC %	ERC %	ERC %
					0.0386905	0.010569868	0.007423267
3036089	L & L RIGHTS (GEN PLT)	95,000		95,000	3,676	1,004	705
3406090	OFF STRUCT & IMPRV	2,703,260		2,703,260	104,590	28,573	20,067
3406091	OFF FURN & EQPT	1,242,162		1,242,162	48,060	13,129	9,221
3406010	Mainframe Computer	707,918	(377,085)	330,833	12,800	3,497	2,456
3406020	Mini Computer	1,129,010	(556,012)	572,998	22,170	6,057	4,254
3406110	Comp System Cost	1,121,540	(816,836)	304,704	11,789	3,221	2,262
3406120	Micro System Cost	236,694	(98,621)	138,073	5,342	1,459	1,025
3466093	TELEPHONES	120,696		120,696	4,670	1,276	896
3466094	TOOLS SHOP & MISC EQPT	20,986		20,986	812	222	156
3466097	COMMUNICATION EQPT	259,577		259,577	10,043	2,744	1,927
101.1	Total	7,636,843	(1,848,554)	5,788,289	223,952	61,181	42,968
3917050	TRANSPORTATION-WSC	234,780		234,780	9,084	2,482	1,743
<b>Division 600 UIF</b>					<b>NOTE B</b>	<b>NOTE B</b>	<b>NOTE B</b>
					<b>0.13406297</b>	<b>0.0366247</b>	<b>0.0257217</b>
3406090	OFF STRUCT & IMPRV	164,416		164,416	22,042	6,022	4,229
3406091	OFF FURN & EQPT	51,389		51,389	6,889	1,882	1,322
3466097	COMMUNICATION EQPT	65,849		65,849	8,828	2,412	1,694
3406020	MINI COMPUTERS	167,435		167,435	22,447	6,132	4,307
		449,089	0	449,089	60,206	16,448	11,551
<b>Division 601 UIF</b>							
3406090	OFF STRUCT & IMPRV	713,143		713,143	95,606	26,119	18,343
3406091	OFF FURN & EQPT	124,538		124,538	16,696	4,561	3,203
3466094	TOOLS SHOP & MISC EQPT	72,201		72,201	9,679	2,644	1,857
		909,882	0	909,882	121,981	33,324	23,404
3917050	TRANSPORTATION UIF	2,314,174		2,314,174	310,245	84,756	59,524
<b>TOTAL ALLOCATED PER STAFF</b>		11,544,767	(1,848,554)	9,696,213	725,468	198,191	139,190
<b>PERCENT ALLOCATED TO WATER</b>					75.1048%	50.3722%	51.5000%
<b>WATER AMOUNT PER STAFF</b>					544,861	99,833	71,683
<b>PERCENT ALLOCATED TO WASTEWATER</b>					24.90%		48.50%
<b>WASTEWATER AMOUNT PER STAFF</b>					180,607		67,507
<b>WATER PER FILINGS</b>					525,355	40,385	73,706
<b>WASTEWATER PER FILINGS</b>					174,140		99,973
<b>DIFFERENCE WATER</b>					19,506	59,448	(2,023)
<b>DIFFERENCE WASTEWATER</b>					6,467		(32,466)

Note A: Based on ERC's at 6/07 for total company

Note B: Based on ERC's at 6/07 for Florida

**AUDIT FINDING NO. 2**

**SUBJECT: FORECAST**

**AUDIT ANALYSIS:** The filing for LUSI included a forecast for 2008 and 2009 plant and accumulated depreciation. The forecast for Wedgefield included a proforma adjustment for the allocated plant. Review of the company detail shows the only allocated account increased for LUSI was the computer account. WSC has redone its accounting and billing system in 2008. The change increased the WSC plant by \$21,077,241.19. The final part of the project was closed to the ledger in July 2008.

Based on the allocation to Wedgefield on ERCs and the allocation percent to water, the proforma adjustment of \$106,486 appears reasonable. However, based on the additions, the 2009 forecast for LUSI is overstated by \$379,689.

The attached schedule computes the corrected allocation for plant and accumulated depreciation.

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger.

**EFFECT ON THE FILING:** The plant filing for LUSI for 2009 should be decreased by \$283,663 for water and \$94,027 for wastewater. The accumulated depreciation filing for LUSI for 2009 should be decreased by \$5,820 for water and \$1,929 for wastewater.

WSC-Company 2 Chicago office		13-Month	NOTE A
Account		Average	LUSI
Number	Account Name		ERC %
			<b>0.0386905</b>
3036089	L & L RIGHTS (GEN PLT)	95,000	3,676
3406090	OFF STRUCT & IMPRV	2,703,260	104,590
3406091	OFF FURN & EQPT	1,242,162	48,060
3406010	Mainframe Computer	20,819,105	805,502
3406020	Mini Computer	572,998	22,170
3406110	Comp System Cost	304,704	11,789
3406120	Micro System Cost	138,073	5,342
3466093	TELEPHONES	120,696	4,670
3466094	TOOLS SHOP & MISC EQPT	20,986	812
3466097	COMMUNICATION EQPT	259,577	10,043
101.1	Total	<u>26,276,562</u>	<u>1,016,653</u>
3917050	TRANSPORTATION-WSC	234,780	9,084

			NOTE B
Division 600 UIF			<b>0.13406297</b>
3406090	OFF STRUCT & IMPRV	164,416	22,042
3406091	OFF FURN & EQPT	51,389	6,889
3466097	COMMUNICATION EQPT	65,849	8,828
3406020	MINI COMPUTERS	167,435	22,447
		<u>449,089</u>	<u>60,206</u>
Division 601 UIF			
3406090	OFF STRUCT & IMPRV	713,143	95,606
3406091	OFF FURN & EQPT	124,538	16,696
3466094	TOOLS SHOP & MISC EQPT	72,201	9,679
		<u>909,882</u>	<u>121,981</u>
3917050	TRANSPORTATION UIF	2,314,174	310,245
<b>TOTAL</b>		<u>30,184,486</u>	<u>1,518,170</u>
<b>PER FILING</b>			<u>185,859</u>
<b>DIFFERENCE</b>			<u>(377,869)</u>
<b>% WATER AT 75.1048%</b>			<u>(283,663)</u>
<b>% WASTEWATER AT 24.8952%</b>			<u>(94,027)</u>

NOTE A: BASED ON ERC'S AT 6/07 TOTAL COMPANY

NOTE B: BASED ON ERC'S AT 6/07 FLORIDA ONLY

13-Month  
Average

NOTE A  
LUSI  
ERC %  
0.0386905

**WSC-Company 2 Chicago office**

1083090	A/D - Office Structures	(1,289,519)	(49,892)
1083091	A/D - Office Furniture & Equip	(1,116,080)	(43,182)
1081010	A/D - Mainframe Computer	(2,518,521)	(97,443)
1081020	A/D - Mini Computer	(333,015)	(12,885)
3406150	Comp System Amortization	(36,643)	(1,418)
3406160	Microsystem Amortization	(72,296)	(2,797)
1083093	A/D - Telephones	(108,303)	(4,190)
1083094	A/D - Tools Shop & Misc. Equip	(20,986)	(812)
1083097	A/D - Communication Equip	(247,934)	(9,593)
108.3	Total	<u>(5,743,298)</u>	<u>(222,211)</u>

3917050 TRANSPORTATION-WSC (130,766) (5,059)

**NOTE B**

**Division 600 UIF**

0.13406297

1081020	ACCUM DEPR-MINI COMP	(127,838)	(17,138)
1083090	ACCUM DEPR.-3406090	(45,442)	(6,092)
1083091	ACCUM DEPR.-3406091	(19,995)	(2,681)
1083097	ACCUM DEPR.-3466097	(65,098)	(8,727)
		<u>(258,373)</u>	<u>(34,638)</u>

**Division 601 UIF**

1083090	ACCUM DEPR.-3406090	(140,557)	(18,844)
1083091	ACCUM DEPR.-3406091	(54,063)	(7,248)
1083094	ACCUM DEPR.-3466094	(24,016)	(3,220)
		<u>(218,636)</u>	<u>(29,311)</u>

3917050 TRANSPORTATION UIF (1,879,047) (251,911)

TOTAL (8,230,120) (543,130)

PER FILING (550,879)

DIFFERENCE 7,749

% WATER AT 75.1048% 5,820

% WASTEWATER AT 24.8952% 1,929

NOTE A: BASED ON ERC'S AT 6/07 TOTAL COMPANY

NOTE B: BASED ON ERC'S AT 6/07 FLORIDA ONLY