

State of Florida



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Public Service Commission

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

DATE: May 11, 2009
TO: Richard J. Wright, Professional Accountant Specialist, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No: 090072-WU; Company Name: Keen Sales, Rentals and Utilities, Inc.;
Audit Purpose: Staff-assisted rate case; Company Code: WU771;
Audit Control No: 09-058-1-1;

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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/tbm

Attachment: Audit Report

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

Ms. Melinda Dunnahoe
Keen Sales, Rentals and Utilities, Inc.
685 Dyson Road
Haines City, FL 33844-8587

DOCUMENT NUMBER-DATE

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

KEEN SALES, RENTALS AND UTILITIES, INC.

STAFF-ASSISTED RATE CASE

TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090072-WU
AUDIT CONTROL NO. 09-058-1-1

A handwritten signature in black ink, appearing to read "Charleston J. Winston", written over a horizontal line.

Charleston J. Winston, Audit Manager

A handwritten signature in black ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer, District Audit Supervisor

DOCUMENT NUMBER-DATE

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

May 5, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income and Capital Structure as of December 31, 2008, for Keen Sales, Rental and Utilities, Inc. The attached schedules were prepared by the audit staff as part of our work in Docket No. 090072-WU.

This review was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

DOCUMENT NUMBER-DATE

04577 MAY 12 08

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OBJECTIVES AND PROCEDURES

GENERAL

Utility Books and Records

Objective: To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts. (USOA)

Procedures: We reviewed the utility's accounting system and found it not to be in compliance with the above. Audit Finding No. 1 discusses our findings and recommendations.

RATE BASE

Utility Plant in Service (UPIS)

Objective: To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

Procedures: Due to the lack of records we determined the UPIS balance for the test year ended December 31, 2008 could not be established. We compiled UPIS additions for the period January 1, 2001 through December 31, 2008 to determine the UPIS additions for this proceeding. We toured the utility plant site to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 2 discusses our findings and recommended UPIS additions as of December 31, 2008.

Land

Objective: To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We verified that the land is own by the utility. We determined the land value when it was first dedicated to public service.

Contributions-in-Aid-of-Construction (CIAC)

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA. To verify and insure that all donated property is properly accounted for and recorded as CIAC.

Procedures: We reviewed the general ledgers for CIAC additions. We reviewed the utility's available tax returns for 2005 through 2007 Federal Income Tax returns for unrecorded cash and property contributions. We reviewed the utility's tariffs for authorized CIAC additions.

Accumulated Depreciation

Objective: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA. To verify that depreciation expense accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

Procedures: We reviewed the utility's books and records for accumulated depreciation. Accumulated depreciation could not be established due to inadequate books and records of the utility. We calculated accumulated depreciation on plant additions that could be verified. Audit Finding No. 2 discusses our findings and recommended balance for accumulated depreciation for the verified plant additions as of December 31, 2008.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC USOA.

Procedures: We were unable to determine any CIAC due to inadequate books and records of the utility; therefore there was no accumulated amortization of CIAC to determine.

Working Capital

Objective: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We calculated the utility's working capital balance as of December 31, 2008 using one-eighth of operation and maintenance expense pursuant to Commission Rule 25-30.433(2), Florida Administrative Code.

NET OPERATING INCOME

Revenues

Objective: To determine that revenues are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

Procedures: We compiled utility revenues for the 12-month period ending December 31, 2008 from the utility's billing register records. We prepared a billing analysis to test the reasonableness of the recorded revenues. Audit Finding No. 4 discusses our findings and recommended revenues for the 12-month period ending December 31, 2008.

Operation and Maintenance Expense

Objective: To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and are reasonable and prudent for ongoing utility operations.

Procedures: We compiled operation and maintenance expense items from the utility's general ledger and vendor invoice file. We reviewed a sample of utility invoices for proper amount, period, classification, NARUC account and recurring nature. We determined the

proper allocation of invoices and expenses that included services for water operations. Audit Finding No. 5 discusses our findings and recommended operation and maintenance expense balance for the 12-month period ending December 31, 2008.

Taxes-Other-Than-Income (TOTI)

Objective: To determine that TOTI expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

Procedures: We compiled TOTI expense items from the utility's general ledger and vendor invoice file. We reviewed a sample of property taxes, payroll taxes, Regulatory Assessment Fee, for proper amount, period, classification, NARUC account and recurring nature. We determined the proper allocation of all tax expenses that included services for water operations.

Depreciation Expense

Objective: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility contributions-in-aid-of-construction assets from ongoing utility operations.

Procedures: Depreciation expense could not be determined because the UPIS and CIAC balances for the test year ended December 31, 2008 could not be established due to the lack of records.

CAPITAL STRUCTURE

General

Objective: To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules.

Procedures: We reviewed the 2008 general ledger and annual report for the capital structure components. The utility's debt was traced to the debt agreements. We determined that the utility's capital structure is made up of long term debt and equity.

AUDIT FINDING NO. 1

SUBJECT: BOOKS AND RECORDS

AUDIT ANALYSIS: Keen Sales, Rentals and Utilities, Inc. books and records are not maintained in accordance with The National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, 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.

Commission Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records in conformity with the NARUC USOA.

Keen Sales, Rentals and Utilities, Inc. does not have adequate records to establish rate base. An original cost study will be required to established rate base as of December 31, 2008. The plant in service that could be verified is shown in Audit Finding No. 2

Land was not recorded for the amount when it was first dedicated to public service as shown in Audit Finding No. 3.

As shown in Audit Finding No. 4 some of the operation and maintenance expenses were not recorded properly.

The utility maintains a general ledger and billing registers. However, items recorded in the general ledger are not properly supported as shown in Audit Finding Nos. 2, 3, 4 and 5.

The Commission should require the utility to maintain its books and records in compliance with the NARUC USOA, Commission orders, and Commission rules.

AUDIT FINDING NO. 2

SUBJECT: UTILITY PLANT IN SERVICE AND ASSOCIATED ACCUMULATED DEPRECIATION

AUDIT ANALYSIS: The utility recorded \$86,217 for plant in service and \$61,832 for accumulated depreciation in its general ledger as of December 31, 2008. The utility was unable to provide adequate documentation in support of plant in service as of December 31, 2008.

A balance per audit could not be established for plant, accumulated depreciation and depreciation expense. Therefore, the balance per utility and per audit have been excluded until such time that an Original Cost Study is conducted.

The schedule below reflects the plant additions and accumulated depreciation that we could determine and should be considered when an original cost amount is derived.

The utility had a plant addition of \$2,951 purchased on January 21, 2009. The amount was for a well pump replacement and should be recorded to Pumping Equipment – Account No. 311. The previous well pump shown below should be retired if this plant addition is considered.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

Reduce plant in service by \$86,217 and accumulated depreciation by \$61,832

VERIFIABLE PLANT IN SERVICE AND ASSOCIATED ACCUMULATED DEPRECIATION

Account	Description	Date	Cost	FPSC RULE RATE	Accumulated Depreciation as of 12/31/08
304 - Structures and Improvements	Fence	12/09/05	\$ 900	3.57%	\$ 113
311 - Pumping Equipment	Well Pump	05/25/06	\$ 2,321	5.88%	\$ 341
334 - Meters and Meter Installations	Meters	10/31/02	\$ 125	5.88%	\$ 55
334 - Meters and Meter Installations	Meters	07/14/08	\$ 90	5.88%	\$ 3
334 - Meters and Meter Installations	Meters	02/14/05	\$ 122	5.88%	\$ 25
334 - Meters and Meter Installations	Meters	01/15/02	\$ 224	5.88%	\$ 86
334 - Meters and Meter Installations	Meters	06/29/06	\$ 48	5.88%	\$ 7
334 - Meters and Meter Installations	Meters	03/29/05	\$ 124	5.88%	\$ 25
334 - Meters and Meter Installations	Meters	07/08/05	\$ 46	5.88%	\$ 10
340 - Office Furniture and Equip	All-in-One Copier	10/01/08	\$ 67	16.67%	\$ 6
340 - Office Furniture and Equip	Computer Equipment	04/05/06	\$ 45	16.67%	\$ 19
340 - Office Furniture and Equip	Computer Equipment	04/18/06	\$ 315	16.67%	\$ 131
341 - Transportation Equipment	Utility Trailer	09/27/06	\$ 322	16.67%	\$ 188
341 - Transportation Equipment	2002 Ford Van E250	08/07/02	\$ 6,139	16.67%	\$ 6,139
Total:			\$ 10,888		\$ 7,148

AUDIT FINDING NO. 3

SUBJECT: LAND

AUDIT ANALYSIS: The utility recorded \$4,000 for land in its general ledger as of December 31, 2008. The utility stated that "Keen Sales and Rentals, Inc., decided the selling price for the Keen Utility property by prorating the site. Each lot on Ray Keen Road sells for \$20,000. The size of the lot for the 'Well Site' is approximately one-fifth of a lot. Therefore, making the cost \$4,000."

Per the NARUC USOA for Class C Water Utilities, all utility plant shall be recorded at original cost of such property of the person first devoting it to public service.

Commission Order No. PSC-99-2114-PAA-SU, dated October 25, 1999, states "Florida is an original cost jurisdiction and Chapter 367, Florida Statutes, requires that we consider the cost of the utility assets at the time those assets are dedicated to public service."

According to an appraisal done by Gladys Y. Scanland, State Certified General Appraiser License No. 0000654, the development, named Keen Subdivision, was purchased in June 1990 by Keen Sales and Rental, for \$58,400. Keen Subdivision consists of 9.73 acres including the utility.

We used the date of June 1990 as the date the utility was first dedicated to public service because this is when the land was purchased for development.

The Polk County Property Appraiser office shows the utility land located in Keen Subdivision consists of .0963 acres.

We determined the original cost of the land when it was first dedicated to public service to be \$578 as shown below.

$$\$58,600 / 9.73 = \$6,002 \times .0963 = \$578.$$

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

Land should be reduced by \$3,422 (\$4,000 - \$578)

AUDIT FINDING NO. 4

SUBJECT: REVENUES AND REGULATORY ASSESSMENT FEE

AUDIT ANALYSIS: The utility recorded \$39,038 for revenues in its general ledger for 2008.

The utility recorded \$109 to revenues but could not provide supporting documentation for this amount. The utility revenues should be reduced by \$109.

The utility Regulatory Assessment Fee (RAF) shown in its 2008 general ledger was \$1,774. This amount was based on 2007 revenues. The correct amount of RAF is \$1,752 ($\$39,038 - \$109 = \$38,929 \times 4.5\%$). The utility RAF should be reduced by \$22.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

Revenues should be decreased by \$109

RAF should be decreased by \$22

AUDIT FINDING NO. 5

SUBJECT: OPERATION AND MAINTENANCE EXPENSES

AUDIT ANALYSIS: The utility recorded \$38,412 in operation and maintenance expenses in its general ledger for 2008.

We reviewed these expenses and determined that they should be decreased by \$13,895. We are recommending total expenses of \$24,517 (\$38,412 - \$13,895) for 2008. See the attached schedule for details.

The utility is requesting a proforma office rental expenses of \$75 per month or \$900 (\$75 x 12) per year. Both the real estate company and the utility share a common office. The office is owned by the real estate company.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

The general ledger expenses should be decreased by \$13,895.

SCHEDULE OF ADJUSTMENTS TO O & M EXPENSES

Acct #	Account Name	Description	Amount Per Company	Audit Adjustment	Amount Per Audit	Ref No.
603	Salaries/Wages Officers	Officers Salaries	\$ 7,920	\$ (7,920)	\$ -	1
	Employee Pension and					
604	Benefits	Health Insurance	\$ 899	\$ 733	\$ 1,632	2
615	Purchased Power	Electric	\$ 1,969	\$ (427)	\$ 1,542	3
618	Chemicals	Chemicals	\$ 892	\$ (95)	\$ 797	1
620	Materials and Supplies	Materials	\$ 410	\$ (91)	\$ 319	1
	Contractual Services -					
635	Testing	Testing	\$ 3,078	\$ (225)	\$ 2,853	1
640	Rents	Rent	\$ 3,240	\$ (3,240)	\$ -	1
650	Transportation Expense	Vehicle	\$ 772	\$ (39)	\$ 733	1
655	Insurance Expense	Insurance	\$ 2,706	\$ (809)	\$ 1,897	4
675.1	Miscellaneous Expenses	Postage	\$ 2,080	\$ (1,711)	\$ 369	5
675.9	Miscellaneous Expenses	Repairs	\$ 1,312	\$ (71)	\$ 1,241	1
		Total:		\$ (13,895)		

Reference 1:

The utility did not provide the supporting documentation.

Reference 2:

Employee health insurance for \$883 was misclassified to Account No. 655 - Insurance Expense. Per the NARUC USOA for Class C Water Utilities, Account No. 604 – Employee Pensions and Benefits Expense, “This account shall include all accruals . . . and payments for employee accident, sickness, hospital and death benefits or insurance therefor.” Account No. 604 – Employee Pensions and Benefits Expense should be increased by \$883 for this misclassification.

The utility recorded \$300 for employee health insurance. Per the utility’s invoice the amount was \$150 that should be recorded. Account No. 604 – Employee Pensions and Benefits Expense should be decreased by \$150 per the utility’s invoice.

The total increase to Account No. 604 – Employee Pension and Benefits Expense should be \$733 (\$883 - \$150).

Reference 3:

The real estate company and the utilities share a common office. The shared office purchased power expenses were charged to the utilities and not allocated to the real estate company. We allocated them equally between the real estate office and the utilities. The purchased power expenses should be decreased by \$190 for the proper allocation between the real estate office and the utility.

Automobile insurance for \$74 was misclassified to Account No. 615 – Purchased Power Expense. This amount should have been recorded to Account No. 655 – Insurance Expense. Per the NARUC USOA for Class C Water Utilities, Account No. 655 – Insurance Expense, “This account shall include all insurance costs applicable to the accounting period, including workman’s compensation, liability, vehicle, fire and theft or robbery insurance.” Account No. 615 – Purchased Power Expense should be decreased by \$74.

Account No. 615 – Purchased Power Expense should be reduced by \$163 because the utility could not provide the supporting documentation.

The total decrease to Account No. 615 – Purchased Power Expense should be \$427 (\$190 + \$74 + \$163).

Reference 4:

Employee health insurance for \$883 was misclassified to Account No. 655 - Insurance Expense. Per the NARUC USOA for Class C Water Utilities, Account No. 604 – Employee Pensions and Benefits Expense, “This account shall include all accruals . . . and payments for employee accident, sickness, hospital and death benefits or insurance therefor.” Account No. 655 -

Insurance Expense should be decreased by \$883 for this misclassification.

Automobile insurance for \$74 was misclassified to Account No. 615 – Purchased Power Expense. The amount should have been recorded to Account No. 655 – Insurance Expense. Per the NARUC USOA for Class C Water Utilities, Account No. 655 – Insurance Expense, “This account shall include all insurance costs applicable to the accounting period, including workman’s compensation, liability, vehicle, fire and theft or robbery insurance.” Account No. 655 – Insurance Expense should be increased by \$74.

The total decrease to Account No. 655 – Insurance Expense should be \$809 (\$883 - \$74).

Reference 5:

An amount of \$1,711 was incorrectly recorded to the utility. Keen Sales, Rentals and Utilities, Inc., is composed of the real estate company and the utilities. This amount is a real estate company expense that was owed to the City of Haines City.

EXHIBIT I

KEEN SALES, RENTALS AND UTILITIES, INC. SUBDIVISIONS

DOCKET NO. 090072-WU

STAFF-ASSISTED RATE CASE

RATE BASE

AS OF DECEMBER 31, 2008

DESCRIPTION	COMPANY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AMOUNT PER AUDIT
UTILITY PLANT IN SERVICE	\$ 86,217	\$ (86,217)	2	\$ -
LAND	\$ 4,000	\$ (3,422)	3	\$ 578
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	\$ -			\$ -
ACCUMULATED DEPRECIATION	\$ (61,832)	\$ 61,832	2	\$ -
ACCUMULATED AMORTIZATION OF CIAC	\$ -			\$ -
WORKING CAPITAL ALLOWANCE	\$ -	\$ 3,065	(A)	\$ 3,065
				\$ -
TOTAL:	\$ 28,385	\$ (24,742)		\$ 3,643

(A) Working Capital Allowance was established using one-eighth of O and M. See Exhibit II

EXHIBIT II

KEEN SALES, RENTALS, AND UTILITIES, INC. - SUBDIVISIONS

DOCKET NO. 0900072-WU

STAFF-ASSISTED RATE CASE

NET OPERATING INCOME

FOR THE PERIOD ENDING DECEMBER 31, 2008

DESCRIPTION	COMPANY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AUDIT AMOUNT
OPERATING REVENUES	\$ 39,038	\$ (109)	4	\$ 38,929
EXPENSES:				
O AND M EXPENSES	\$ 38,412	\$ (13,895)	5	\$ 24,517
DEPRECIATION EXPENSE	\$ 4,350	\$ (4,350)		\$ -
CIAC AMORTIZATION EXPENSE	\$ -			\$ -
TAXES OTHER THAN INCOME	\$ 2,088	\$ (22)	4	\$ 2,066
INCOME TAX EXPENSE	\$ -	\$ -	(A)	\$ -
TOTAL EXPENSES:	\$ 44,850	\$ (18,267)		\$ 26,583
NET OPERATING INCOME				
(LOSS)	\$ (5,812)	\$ 18,158		\$ 12,346

(A) The utility is a Sub-Chapter S Corporation. Sub-Chapter S Corporations are not subject to federal or state income taxes and the Commission does not allow income tax expense because they are not taxable entities.

Working Capital equals one-eighth of O & M Expenses: $\$24,517 / 8 = \$3,065$

EXHIBIT III

KEEN SALES, RENTALS AND UTILITIES, INC. - SUBDIVISIONS

DOCKET NO. 090072-WU

CAPITAL STRUCTURE

STAFF-ASSISTED RATE CASE

AS OF DECEMBER 31, 2008

DESCRIPTION	COMPANY AMOUNT	RATIO	COST	WEIGHTED COST
COMMON EQUITY	\$ 4,634	9.24%	12.67%	1.17%
LONG-TERM DEBT	\$ 45,497	90.76%	7.00%	6.35%
TOTAL CAPITAL:	\$ 50,131	100.00%		7.52%

The utility does not collect a customer deposit for service connections

Common Equity cost rate is per FPSC Order PSC-08-0846-FOF-WS, issued December 31, 2008.