

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-**

**DATE:** July 15, 2009

**TO:** Ms. Avy Crawford, Accounting Analyst, Division of Economic Regulation

**FROM:** Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*

**RE:** Docket No.: 090170-WU  
Company Name: Mobile Manor Water Company, Inc.  
Company Code: WU167  
Audit Purpose: A1b; Staff Assisted Rate Case  
Audit Control No: 09-131-1-1

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/ch

Attachment: Audit Report

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
Miami District Office, Tampa District Office, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

Mr. Tom Hawkins, President  
Mobile Manor Water Company, Inc.  
12650 Whitehall Drive  
Fort, Meyers, FL 33907-3619

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION  
DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING

Tallahassee District Office

MOBILE MANOR WATER COMPANY, INC.

STAFF ASSISTED RATE CASE

TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090170-WU  
AUDIT CONTROL NO. 09-131-1-1

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Hymavathi Vedula, Audit Manager

Handwritten signature of Lynn M. Deamer in cursive script.

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Lynn M. Deamer, District Audit Supervisor

DOCUMENT NUMBER-DATE

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

**July 07, 2009**

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have applied the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 7, 2009. We have applied these procedures to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure as of December 31, 2008 for Mobile Manor Water Company, Inc. The attached schedules were prepared by the audit staff as part of our work in Docket No. 090170-WU.

This audit was performed following general standards and field work 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.

## **I. 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 Commissioners' Uniform System of Accounts (NARUC USOA).

*Procedures:* The audit staff reviewed the utility's accounting system and found it not to be in compliance with the NARUC USOA. Audit Finding No. 1 discusses our findings.

### **RATE BASE**

#### Utility Plant in Service (UPIS)

*Objectives:* 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 into service.

*Procedures:* The utility recorded UPIS as fully depreciated and could not provide the records from the original developer/builder concerning the original cost or the date of installation for the meters, pipes, valves, and master meter. The utility did not provide sufficient support for any additions to plant since the original plant was placed in service. Due to the lack of records, we determined the UPIS balance for the year ended December 31, 2008 could not be established. Audit Finding No. 2 addresses our findings for UPIS.

#### Land and Land Rights

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

*Procedures:* The utility does not have any land recorded in its general ledger. We reviewed the online database for Lee County, and no recent warranty deeds or land purchases were recorded for the utility.

#### Accumulated Depreciation

*Objectives:* 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:* The audit staff reviewed the utility's books and records for accumulated depreciation and noted that UPIS had been fully depreciated. However, we were not able to establish a plant balance as of December 31, 2008 so accumulated depreciation could not be determined either.

### Contributions in Aid of Construction (CIAC)

*Objectives:* 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 ledger, approved tariffs, and tax returns for CIAC additions. We interviewed the owner of the utility and noted that the Utility does not have CIAC.

### 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**

### Revenue

*Objectives:* To determine that utility charges are those approved by the Commission in the utility's current authorized tariff. To determine that revenue earned from utility property during the test year are recorded and are properly classified in compliance with Commission rules and the NARUC USOA.

*Procedures:* We compiled utility revenue for the 12-month period ending December 31, 2008 from the utility's billing register. We tested the reasonableness of the utility records by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the utility. The utility provided its billing data in hard copy, so we tallied gallon usage by meter by month for all twelve months for 2008.

### Operation and Maintenance Expense (O&M)

*Objective:* To determine that O&M expenses are properly recorded in compliance with Commission rules, and are reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled O&M expense items from the utility's general ledger and vendor invoice file. We reviewed the utility's invoices for proper amount, period, classification, NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of expenses for water operations. Audit Finding No. 3 discusses our findings for O&M expense balances.

### 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 CIAC assets for ongoing utility operations.

*Procedures:* The audit staff reviewed the utility's books and records for depreciation expense which could not be established due to inadequate supporting documentation for UPIS.

Taxes Other Than Income (TOTI)

*Objective:* To determine the appropriate amounts for TOTI for the test year ended December 31, 2008

*Procedures:* We compiled TOTI expenses from the utility's general ledger and vendor invoice file. We reviewed the property tax invoices and regulatory assessment fee forms for proper amount, period, classification, NARUC account, and recurring nature.

**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 cost of capital are properly recorded in compliance with Commission rules.

*Procedures:* We reviewed the 2008 general ledger for the capital structure components. Due to lack of proper support, we could not trace the long-term debt balance to any supporting contracts or agreements. Audit Finding No. 4 discusses our finding about the long-term debt balance.

## **II. AUDIT FINDINGS**

### **AUDIT FINDING NO. 1**

#### **SUBJECT: BOOKS AND RECORDS**

**AUDIT ANALYSIS:** Mobile Manor Water Company, Inc.'s books and records are not maintained in accordance with the National Association of Regulatory Commissioners' Uniform System of Accounts (NARUC USOA).

NARUC, Class C, Accounting Instructions, states:

All books of accounts, together with records and memoranda supporting 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.

Mobile Manor Water Company, Inc. does not have adequate records to establish rate base. A cost study will be required to established rate base as of December 31, 2008.

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**

**AUDIT ANALYSIS:** The utility recorded \$694 representing a pump for plant in service and \$694 for accumulated depreciation in its general ledger as of December 31, 2008. The utility was unable to provide adequate support for this pump. The utility is a distribution water utility and confirmed it owns mains, pipes, valves and meters, but did not provide any cost data for either the original cost or any replacement costs for these items. Since no cost data was provided, the audit staff could not determine accumulated depreciation or depreciation expense.

The Utility provided documentation for its meter replacement program but it didn't include any cost data. The following schedule notes the number of meters that have been replaced:

**METER REPLACEMENT PROGRAM**

<b>YEAR</b>	<b>NO. OF REPLACEMENTS</b>
2000	3
2001	2
2002	6
2003	7
2004	2
2005	0
2006	17
2007	15
2008	46

**AUDIT FINDING NO. 3**

**SUBJECT: OPERATION AND MAINTENANCE (O&M) EXPENSES**

**AUDIT ANALYSIS:** The utility recorded \$68,486 in operation and maintenance expenses in its general ledger for 2008.

We reviewed these expenses and determined that they should be decreased by \$26,467. We are recommending total expenses of \$42,019 (\$68,486-\$26,467) for 2008. See the attached schedule for details. They did not provide any invoices or other adequate supporting documentation for the scheduled items.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** General ledger O&M expenses should be decreased by \$26,467.

SCHEDULE OF ADJUSTMENTS TO O&M EXPENSES					
Company	NARUC				Reason for
Acct#	Acct#	Account Name	Company Description	Amount	disallowance
2910	635	Water Testing	Beginning Balance	\$22	Insufficient Support
2910	635	Water Testing	GL Standard Journal entry	\$12	Insufficient Support
2910	635	Water Testing	GL Standard Journal entry	\$25	Insufficient Support
3110	675	Miscellaneous Expense	Telephone, Beginning Balance	\$94	Insufficient Support
2710	675	Miscellaneous Expense	Office Expenses, Beginning Balance	\$84	Insufficient Support
2550	631	Contractual Services Professional	Management Fees/Bensons	\$4,507	Insufficient Support
2550	631	Contractual Services Professional	Management Fees/Bensons	\$7,324	Insufficient Support
2720	640	Rents	Office Rents	\$600	Insufficient Support
4310	636	Contractual Services and Other	Water maintenance/Repairs	\$274	Insufficient Support
4310	636	Contractual Services and Other	Beginning Balance	\$282	Insufficient Support
4910	635	Water Testing	Beginning Balance	\$1,739	Insufficient Support
4910	635	Water Testing	Water testing	\$125	Insufficient Support
4930	635	Contractual Services-Testing	Water testing EPA Stage2 Testing	\$975	Insufficient Support
4960	630	Contractual Services-Billing	Water meter reading	\$1,365	Insufficient Support
2740	620	Materials and Supplies	Building maintenance/repairs	\$35	Insufficient Support
2740	620	Materials and Supplies	Building maintenance/repairs	\$229	Insufficient Support
2740	620	Materials and Supplies	Building maintenance/repairs	\$45	Insufficient Support
2740	620	Materials and Supplies	Rubber meter washer repairs	\$29.66	Insufficient Support
2740	636	Contractual Services and Other	No Description	\$8,702.00	Insufficient Support
				<u>\$26,466.70</u>	

**AUDIT FINDING NO. 4**

**SUBJECT: COST OF CAPITAL**

**AUDIT ANALYSIS:** The utility recorded \$20,000 for outstanding debt on the application for its Staff Assisted Rate Case. However, the utility had recorded \$5,656 for accounts payable and \$17,224 for notes payable in its general ledger as of December 31, 2008.

When asked the utility said that \$3,000 was related to loan amount made to water from Mobile Manor Inc., (a related party) in early 2008 to cover operating expenses. There is no interest rate established, no due date that principal must be repaid and no formal agreement. This is not long term debt.

The utility did not provide sufficient support for any long term and short term debt.

Utility recorded equity of (\$17,497) on its books and records.

A capital structure is not presented because the utility has negative equity and audit staff was unable to determine debt.

### III. EXHIBITS

#### EXHIBIT NO. 1 – WATER RATE BASE

**MOBILE MANOR WATER COMPANY, INC.  
DOCKET NO. 090170-WU  
STAFF-ASSISTED RATE CASE  
RATE BASE  
AS OF DECEMBER 31, 2008**

DESCRIPTION	UTILITY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AMOUNT PER AUDIT
UTILITY PLANT IN SERVICE	\$ 694	\$ (694)	2	\$ -
LAND	\$ -	\$ -		\$ -
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	\$ -	\$ -		\$ -
ACCUMULATED DEPRECIATION	\$ (694)	\$ 694	2	\$ -
ACCUMULATED AMORTIZATION OF CIAC	\$ -	\$ -		\$ -
WORKING CAPITAL ALLOWANCE	\$ -	\$ 5,252	(A)	\$ 5,252
<b>TOTAL:</b>	<b>\$ -</b>	<b>\$ 5,252</b>		<b>\$ 5,252</b>

(A) Working Capital Allowance was established using one-eighth of O and M. See Exhibit 2

**EXHIBIT NO. 2 – WATER NET OPERATING INCOME**

**MOBILE MANOR WATER COMPANY, INC.  
DOCKET NO. 090170-WU  
STAFF-ASSISTED RATE CASE  
NET OPERATING INCOME  
FOR THE PERIOD ENDING DECEMBER 31, 2008**

DESCRIPTION	UTILITY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AUDIT AMOUNT
OPERATING REVENUES	\$ 48,290			\$ 48,290
EXPENSES:				
O AND M EXPENSES	\$ 68,486	\$ (26,467)	3	\$ 42,019
DEPRECIATION EXPENSE	\$ -			\$ -
CIAC AMORTIZATION EXPENSE	\$ -			\$ -
TAXES OTHER THAN INCOME	\$ 2,492			\$ 2,492
TOTAL EXPENSES:	\$ 70,978	\$ (26,467)		\$ 44,511
<hr/>				
NET OPERATING INCOME (LOSS)	\$ (22,688)	\$ 26,467		\$ 3,779

Working Capital equals one-eighth of O & M Expenses:  $\$42,019/8=\$5,252$