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DATE: September 28, 2009
TO: Kathy Kaproth, Professional Accountant Specialist, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No.: 090322-WS
Company Name: O & S Water Company Inc.
Company Code: WU538
Audit Purpose: Regulatory Assessment Fee Payment Plan
Audit Control No: 09-218-2-1

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: (With Attachment)
Division of Regulatory Compliance (Salak, Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

09964 SEP 28 8

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FLORIDA PUBLIC SERVICE COMMISSION

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

Tampa District Office

O & S WATER COMPANY, INC.


REGULATORY ASSESSMENT FEE PAYMENT PLAN

AS OF DECEMBER 31, 2008

**DOCKET NO. 090322-WS
AUDIT CONTROL NO. 09-218-2-1**



Daniel Acheampong, Audit Manager



Joseph W. Rohrbacher, District Supervisor

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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

SEPTEMBER 16, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed 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 August 5, 2009. We have applied these procedures to the attached schedules prepared by the audit staff in support of O & S Water Company Inc's request for Regulatory Assessment Fee Payment Plan in Docket No. 090322-WS.

This audit was 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 and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES

GENERAL

Utility Employees' Responsibilities

Objective: To document the responsibilities of each officer and employee, their time spent on each duty with the corresponding monthly salary.

Procedures: We requested and reviewed the responsibilities of the officers and the employees per their employment contracts.

RATE BASE

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

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts. To verify and insure that all donated property is properly accounted for and recorded as CIAC since the last rate base was established.

Procedures: We compiled CIAC additions for the period June 30, 1991 through December 31, 2008 to determine the utility's CIAC balance for this proceeding. We recorded additions to CIAC using the utility's annual reports and trial balance. The beginning CIAC and accumulated amortization of CIAC balance were established in Commissions Order No. PSC-92-0204-FOF-WU, Order Approving Transfer of Majority Organizational Control. Audit Finding No. 1 discusses our findings and recommended CIAC balance 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 Uniform System of Accounts.

Procedures: We compiled accumulated amortization of CIAC for the period December 31, 1991 through December 31, 2008 to determine the utility's accumulated amortization of CIAC balance for this proceeding. Audit Finding No. 1 discusses our findings and recommended accumulated amortization of CIAC balance as of December 31, 2008.

NET OPERATING INCOME

Net Cash Operating Income (NCOI)

Objective: To document the utility's cash balance from operations.

Procedures: We obtained the utility's end of year financials for the years 2007 and 2008. We recalculated the utility's NCOI without noncash items and non utility expenses. We traced the operating losses to the retained earnings. We determined that the utility's current asset balance for 2008 and 2007 are \$25,695 and \$101,315 respectively. Audit Finding No. 2 discusses our findings and recommended NCOI balance for each 12-month period beginning January 1, 2007 and ending December 31, 2008.

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 revenues for each 12-month period beginning January 1, 2005 to December 31, 2008, using the utility's billing register. We recalculated the utility's guaranteed revenues using the Commission approved tariff rates and the number of developer vacant lots obtained from the utility. Audit Finding No. 3 discusses our findings and recommended revenue balance for each 12-month period beginning January 1, 2005 and ending December 31, 2008.

Operation and Maintenance Expenses (O&M)

Salaries and Wages

Objective: To determine that salaries and wages are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We compiled salaries and wages expense items from the utility's general ledger and compared the balances to the utility's quarterly Federal Employment Taxes filing amount. We reviewed selected pay stubs and employment contracts to ensure payments were in compliance with the employment contracts. Audit Finding No. 4 discusses our findings and recommended salaries and wages expense balance for the periods under review.

Pensions and Benefits

Objective: To determine that pensions and benefits are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We reviewed the general ledger details for pensions and benefits expense accounts. We reviewed selected amounts and traced payments to bank statements and invoices. We reviewed invoices for proper amount, period, classification, and recurring nature. We examined the employment contracts to ensure payments were in compliance with the employment

contracts. Audit Finding No. 4 discusses our findings and recommended pensions and benefits expense balance for the periods under review.

Rental Expenses

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

Procedures: We reviewed the utility's rental lease agreement to verify monthly payment amounts. We examined general ledger details and selected samples for testing. We obtained cancelled checks and bank statements for the selected amounts. We traced the selected amounts to monthly rental payments.

Contractual Services-Other

Objective: To determine that contractual services – other are properly recorded and in compliance with Commission rules and were reasonable in relation to current utility operations.

Procedures: We reviewed the utility's general ledger details and randomly selected samples for testing. We obtained invoices for the selected amounts. We reviewed the invoices for proper amount, period, classification, and recurring nature. Audit Finding No. 4 discusses our findings and recommended contractual services - other expense balance for the periods under review.

Miscellaneous Expenses

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

Procedures: We reviewed the utility's general ledger details and selected samples for testing. We obtained invoices for the selected amounts. We reviewed invoices for proper amount, period, classification, and recurring nature. We determined the proper allocation of invoices and expenses that included services for non-utility operations. Audit Finding No. 4 discusses our findings and recommended miscellaneous expense balance for the periods under review.

AUDIT FINDING NO. 1

SUBJECT: CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)

AUDIT ANALYSIS: Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC balances as of December 31, 2008 are \$6,737,512 and \$840,519, respectively, based on our findings discussed below.

The utility's 2008 Annual Report, filed with the Commission, indicates a CIAC balance of \$5,438,442 and accumulated amortization of CIAC of \$604,773 as of December 31, 2008.

We compiled CIAC additions for the period June 30, 1991 through December 31, 2008. We determined the utility's proper CIAC balance as of December 31, 2008 is \$6,737,512. The utility did not record correct CIAC additions to their books from June 30, 1991 through December 31, 2008. In addition the utility did not use the commission approved beginning balance for CIAC, per order No. PSC-92-0204-FOF-WU.

We compiled accumulated amortization of CIAC accruals for the period June 30, 1991 through December 31, 2008 to determine the utility's accumulated amortization of CIAC balance as of December 31, 2008, based on our audited amount. We used the composite depreciation rates established by Rule 25-30.140, F.A.C. We determined the proper accumulated amortization of CIAC and CIAC amortization expense as of December 31, 2008 is \$840,519 and \$199,449, respectively. Our CIAC schedule is displayed below.

Ending Balance	Additions	Retirements	CIAC Balance	Annual Amortization Expense	CIAC Accumulated Amortization
Jun-91			\$60,741	-	(\$3,155)
Dec-91	-	-	\$60,741	(\$1,063)	(\$4,218)
Dec-92	\$22,865	-	\$83,606	(\$2,526)	(\$6,744)
Dec-93	\$8,865	-	\$92,471	(\$3,081)	(\$9,825)
Dec-94	\$6,895	-	\$99,366	(\$3,357)	(\$13,183)
Dec-95	\$3,940	-	\$103,306	(\$3,547)	(\$16,729)
Dec-96	\$4,925	-	\$108,231	(\$3,702)	(\$20,431)
Dec-97	\$8,865	-	\$117,096	(\$3,943)	(\$24,374)
Dec-98	\$40,985	-	\$158,081	(\$4,816)	(\$29,190)
Dec-99	\$10,000	-	\$168,081	(\$5,708)	(\$34,898)
Dec-00	\$3,000	-	\$171,081	(\$5,935)	(\$40,833)
Dec-01	\$6,000	-	\$177,081	(\$6,093)	(\$46,926)
Dec-02	\$212,502	-	\$389,583	(\$9,917)	(\$56,843)
Dec-03	\$1,442,628	-	\$1,832,211	(\$38,881)	(\$95,724)
Dec-04	\$636,323	-	\$2,468,534	(\$59,161)	(\$154,885)
Dec-05	\$3,538,930	-	\$6,007,464	(\$114,995)	(\$269,881)
Dec-06	\$415,971	-	\$6,423,435	(\$180,730)	(\$450,611)
Dec-07	\$252,727	-	\$6,676,162	(\$190,459)	(\$641,070)
Dec-08	\$61,350	-	\$6,737,512	(\$199,449)	(\$840,519)

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

304 Structures and Improvements	\$169,009	
331 Transmission and Distribution Mains	\$830,495	
334 Meters and Meters Installations	\$299,566	
271 CIAC		\$1,299,070
272 Accumulated Amortization of CIAC	\$235,746	
215 Retained Earnings		\$235,746

AUDIT FINDING NO. 2

SUBJECT: NET CASH OPERATING INCOME

AUDIT ANALYSIS: We recalculated the utility's NCOI without non-cash expenses and non-utility expenses for 2008 and 2007 based on the utility's ending book balance. We determined a profit and a loss of \$24,013 and (\$146,844), respectively. See exhibit I.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None. Informational.

AUDIT FINDING NO. 3**SUBJECT: REVENUES**

AUDIT ANALYSIS: The utility's revenues are \$1,150,142 for the 12-month period ended December 31, 2008. The utility's average customer base included 1,960 billed customers, with 1,951 residential and nine commercial customers, during the 12-month period ended December 31, 2008. The utility's charges were based on Commission approved tariffs.

We compiled the utility's residential revenues from the billing system from January 1, 2005 through December 31, 2008. The total adjustment in revenues over the five-year period amounts to \$28,428. The table below shows the revenues per year and the total adjustment.

Year	Book Revenues	Audit Revenues	Adjustments
2005	\$619,039	\$654,846	\$35,807
2006	\$1,098,350	\$1,101,482	\$3,132
2007	\$1,110,909	\$1,087,609	(\$23,300)
2008	\$1,137,354	\$1,150,142	\$12,789
			<u>\$28,428</u>

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

141 Accounts Receivable	\$28,428	
215 Retained Earnings		\$28,428

AUDIT FINDING NO. 4

SUBJECT: SELECTED OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

AUDIT ANALYSIS: The selected operation and maintenance (O&M) expense accounts reviewed in this audit are: Rental Expenses, Salary and Wages, Employee Pension and Benefits, Contractual Services-Other and Miscellaneous Expense. We reviewed these accounts for any inconsistencies and determined the trend increases and decreases, from January 1, 2005 to December 31, 2008, as well as related-party transactions. We randomly selected amounts from the general ledger details and traced them to the supporting documentation. We reviewed the supporting documentation for proper amounts, period, classification, and recurring nature.

1. **Salary Expense:** The utility has four full time employees. Jack Olsen, who is the husband of the trustee of the majority stockholder, serves as the president of the utility. He is responsible for the daily managerial operations of the utility. The president's salary as supported by his employment contract is \$7,500 per month. The other three employees serve as the residential billing manager, commercial billing manager and a receptionist. Bonnie Olsen is the trustee for the majority stockholder and serves as the receptionist for the utility. Elissa Olsen is the daughter-in-law of the trustee of the majority stockholder and serves as the commercial billing manager and assistant residential billing manager. Heather Elliott serves as the residential billing manager. Each employee works a 40-hour week schedule. Jack Olsen stated, employees do not receive overtime payment but rather get compensated hours for overtime hours. Elissa Olsen receives additional payment, for "field support". This payment is in addition to her regular weekly salary. The utility president stated this work was done outside her regular work hours. Elissa Olsen was paid \$2,500 for office painting in 2007. The director's fees for 2008 amounting to \$30,000 were not paid. However, it was recorded as a note payable instead of account payable.

2. **Employee Pensions and Benefits:** The president of the utility is the only employee that receives benefits from the utility. The total benefits paid by the utility in 2008 are \$9,459. The utility was not able to provide invoices supporting this amount. We traced the payments from the general ledger to the utility's bank statements. Checks were written to Jack Olsen. Jack Olsen stated he has, over the years, paid about 30 to 50 percent of the medical insurance expenses out of pocket to ease the burden on O & S's cash flows. Hence, the check payments to him are reimbursement of the prior payments he made on his health insurance. Jack Olsen's employment contract requires the utility to pay his health insurance.

3. **Contractual Services-Other:** The utility's contractual services- other account totaled \$369,480 for 12-months period ending December 31, 2008. The utility recorded all transactions they could not classify under the major contractual accounts such as accounting, engineering, etc. into this account. All materials related to the performance of these transactions were also recorded as contractual other. For instance, fuel used in generating power, which should be recorded in the fuel for power production account, were recorded in contractual services-other. The utility's plant operation is under a private contractor Ashlee Services; they recorded all transactions as contractual services-other. The utility has another private contractor for managerial duties; these expenses are also recorded in contractual services-other, instead of contractual services-management. The utility contracts with Mike Olsen, the son of the president as an information

technology consultant for the office equipment. He receives \$2,500 monthly as a consultation fee from the utility. During 2005 and 2006 the utility contracted Angelic Olsen the daughter-in-law of the trustee of the majority stockholder, to perform human relations services for the utility. The parents of Elissa Olsen were hired to provide mailing of customers bills. For instance in January 2008, they received a monthly fee of \$2,050 for stuffing customers' bills into envelopes. The breakdown of the \$2,050 was \$1,300 for field invoicing and \$750 for envelope reimbursement. The invoice for mailing services is issued in the name of Elissa Olsen for her parents. Office equipment such as routers and information systems were also expensed in the contractual services-other account. An information management system was procured on February 03, 2005 for \$8,290 this amount was expensed in contractual services-other.

4. Miscellaneous Expenses: The utility's miscellaneous expense for the 12-month ending December 31, 2008 was \$58,234. This is about a 13 percent decrease from the prior year. A trend analysis revealed a reduction from 2006 to 2008. The utility recorded some contractual services transactions in the miscellaneous account. For instance, Mike Olsen's contract payments were recorded in the miscellaneous account for the entire 2005 year. There were instances where Jack Olsen, received reimbursement for purchases made for plant. On April 12, 2007, there was a reimbursement of \$1,251 labeled "Jack Olsen-Reimb Plant & office Exp". The utility was not able to provide invoices for this transaction. Contractual services such as site services were also recorded in the miscellaneous account. A plant asset totaling \$23,864 in 2006 was expensed and recorded in the miscellaneous account.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

347 Miscellaneous Equipment	\$8,290	
334 Meters and Meter Installations	\$23,864	
215 Retained Earnings		\$32,154

Miscellaneous Expenses

<u>Year</u>	<u>Book Expenses</u>	<u>Audit Expenses</u>	<u>Adjustments</u>
2006	\$90,862	\$66,998	<u>(\$23,864)</u>

Contractual Services- Other

<u>Year</u>	<u>Book Expenses</u>	<u>Audit Expenses</u>	<u>Adjustments</u>
2005	\$132,021	\$123,731	<u>(\$8,290)</u>

EXHIBIT I

COMPANY: O & S WATER COMPANY INC.

SUBJECT: NOI WITHOUT NONCASH EXPENSES

PERIOD: DECEMBER 31, 2007-DECEMBER 31, 2008

AUDITOR: DANIEL ACHEAMPONG

DOCKET: 090322-WS

		2008	2007
Net Operating Income (loss)	Per Book	(\$79,375)	(\$148,819)
Amortization Expenses	Per Book	(\$156,405)	(\$147,935)
Non-Utility Expenses	Per Book	\$73,732	\$7,158
Depreciation Expenses	Per Book	\$173,272	\$166,312
Net Cash Operating Income without Non-Cash and Non-Utility Expenses	Per Book	\$11,224	(\$123,284)
Revenue Difference	Per Audit	\$12,789	(\$23,610)
Net Cash Operating Income without Non-Cash and Non-Utility Expenses	Per Audit	\$24,013	(\$146,894)