

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:** August 31, 2010  
**TO:** Shannon Hudson, Regulatory Analyst IV, Division of Economic Regulation  
**FROM:** Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis CP  
**RE:** Docket No.: 100104-WU  
Company Name: Water Management Services, Inc.  
Company Code: WS236  
Audit Purpose: Rate Case  
Audit Control No: 10-159-1-1

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Attached are revised pages 7 and 8 for the audit report issued by memo dated August 9, 2010. Please insert these corrected pages into the audit report previously issued.

CP/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER DATE

07337 SEP-10

FPSC-COMMISSION CLERK

**III. AUDIT FINDINGS**

**AUDIT FINDING NO. 1**

**SUBJECT: UTILITY PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE**

**AUDIT ANALYSIS:** The utility participated in a lawsuit pertaining to a performance refund for pipe coating, and received proceeds after a settlement agreement in 2008. The following journal entry in June 2008 notes how the utility recorded the receipt of the proceeds.

<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$800,000	
Contractual Services-Legal	\$ 80,663	
Supply Mains		\$719,337

On page 14 of Mr. Brown’s testimony filed with this Commission (Document No. 04389), it states:

“The new 12 inch ductile iron supply main is suspended under the new bridge by approximately 550 plastic/stainless steel hangers. It was painted with a three coat system required to meet Department of Transportation (DOT ) specs. This is a fragile system that is out of normal view and needs to be constantly inspected, repaired or adjusted, and repainted over time, starting with sections that have already experienced substantial paint failure. This is a 10 year contract which requires quarterly inspections and payments. It also requires the contractor to make any necessary repairs or adjustments to prevent a catastrophic failure. Under the contract, the pipe will be completely refurbished and recoated during the first six years and the pipe and coating system will be appropriately maintained for the full 10 year contract.”

This contract is noted on MFR Schedule B-11. The proceeds of the settlement should be placed in an escrow account to offset the future costs of the contract which will be \$48,000 annually for ten years. In addition, \$13,500 should be removed from the current test year O&M expenses and \$36,000 removed from the Schedule B-3 adjustments to normalize the expense detail for the Bridge Maintenance Contract. Furthermore, the deferred credit of \$705,837 should be reviewed for either a reduction in working capital or cost free debt in the utility’s capital structure.

**EFFECT ON THE GENERAL LEDGER:** The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2009.

<u>NARUC Acct. No</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$ 11,989	
309	Supply Mains	\$719,337	
403	Depreciation Expense	\$ 23,978	

108	Accumulated Depreciation	\$ 35,967
253	Other Deferred Credits	\$705,837
633	Contractual Services – Legal	\$ 1,500
636	Contractual Services – Other	\$ 12,000

**EFFECT ON THE FILING:** The Account 101 Plant in Service 13-month average balance should be increased by \$719,337, Account 108 Accumulated Depreciation 13-month average balance should be increased by \$23,855, Account 403 Depreciation Expense should be increased by \$23,978, and Operation and Maintenance Expenses should be reduced by \$13,500. This issue's effect on the filing and revenue requirement should be addressed at the discretion of the Commission.