

State of Florida



# Public Service Commission

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**DATE:** July 18, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 110061-WS  
 Company Name: Service Management Systems, Inc.  
 Company Code: WS571  
 Audit Purpose: B1c Certificate Transfer  
 Audit Control No: 12-038-1-1

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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 Commission Clerk. There were no confidential work papers associated with this audit.

PD/lmd

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE  
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State of Florida



**Public Service Commission**

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tallahassee District Office

**Auditor's Report**

Service Management Systems, Inc.  
Transfer of Certificate Audit

**As of February 22, 2011**

Docket No. 110061-WS  
Audit Control No. 12-038-1-1

**July 18, 2012**

A handwritten signature in cursive script, appearing to read "Andrew Von Euw".

Andrew Von Euw  
Audit Manager

A handwritten signature in cursive script, appearing to read "Lynn M. Deamer".

Lynn M. Deamer  
Reviewer

DOCUMENT NUMBER-DATE

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## Purpose

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 February 7, 2012. We have applied these procedures to prepare the accompanying schedule of Rate Base for Service Management Systems, Inc. in Docket No. 110061-WS.

This audit 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. The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

The audit period is from December 31, 2002 to February 22, 2011.

The Utility refers to Service Management Systems, Inc., a water and wastewater utility being transferred from Service Management Systems, Inc. to Aquarina Utilities, Inc.

#### History

- The Utility began operations in 1984 under the name Aquarina Developments, Inc. The Utility was granted Certificate Nos. 517-W and 450-S in Commission Order No. 22075, issued October 19, 1989, in Docket No. 880595-WS.
- The Utility reorganized and changed its name to Service Management Systems, Inc. (SMS) in Commission Order PSC-97-0206-FOF-WS, issued February 21, 1997, in Docket No. 960095-WS.
- The Utility's certificates and facilities were transferred from Petrus Group, L.P. to IRD Osprey, LLC d/b/a Aquarina Utilities as per Commission Order No. PSC-03-0787-FOF-WS, issued July 2, 2003, in Docket No. 020091-WS.
- Rate base was last established as of December 31, 2002 when the Commission granted the Utility an increase in rates through a staff assisted rate case in Commission Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS.
- On February 13, 2009, Compass Bank advised Commission Staff that the Utility had an outstanding loan that was in default. Compass bank filed a foreclosure action against the Utility, and on February 3, 2010, Mr. Dennis Basile was appointed Receiver of the Utility by the Eighteenth Judicial Circuit in Brevard County. Commission Order PSC-10-0329-FOF-WS, issued May 24, 2010, acknowledged the appointment of Mr. Dennis Basile as the receiver for the Utility.
- On February 28, 2011, Aquarina Utilities, Inc., filed an application with the Commission for the transfer of certificates 517-W and 450-S, as well as the assets of Service Management Systems, Inc. to Aquarina Utilities, Inc. The sale was closed February 22, 2011.

#### Utility Books and Records

**Objectives:** The objective was 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:** We examined the Utility's general ledger from January 1, 2003 through February 22, 2011 and determined that it was not in substantial compliance with NARUC USOA. The Utility used inconsistent accounting treatment for its capital expenditures from the period prior to the receivership and during the receivership. The ledger was in conformity from the beginning

of the test period through the end of 2008. Beginning in 2009, the general ledger was incomplete and non-NARUC accounts were used.

## **Rate Base**

### Utility Plant in Service

**Objectives:** The objectives were to determine Utility Plant in Service (UPIS) for the period; to determine that additions are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and the NARUC USOA; and to verify that proper retirements were made when a replacement item was put in service.

**Procedures:** We scheduled water and wastewater (UPIS) for the audit period using the Utility's books and records. We traced water and wastewater additions and retirements to source documentation and the general ledger from January 1, 2003 to February 22, 2011. We reconciled the beginning balances of water and wastewater UPIS at December 31, 2002 as per Commission Order PSC-03-1342-PAA-WS, issued November 24, 2003, and made the adjustments. Audit Finding 1 discusses our findings.

### Land & Land Rights

**Objectives:** The objectives were to determine that utility land exists, is used for utility operations, is owned by the Utility or is secured under a long-term lease, and is recorded at the original cost when the land was first dedicated to public service.

**Procedures:** We scheduled utility water and wastewater land using the Utility's books and records. We reconciled the beginning balance at December 31, 2002, as per Commission Order PSC-03-1342-PAA-WS, and noted that the Utility balance matched the Commission ordered balance. We compared a description of the land transferred from the seller to the buyer from the transfer application to a description of the land when it was officially surveyed by the Brevard County Property Appraiser on December 16, 1994. From this, we determined that there were no changes to the land during the audit period, and that the buyer is the rightful owner of Utility land as of February 22, 2011.

### Contributions-in-Aid-of-Construction

**Objectives:** The objectives were to determine if water and wastewater Contributions-in-Aid-of-Construction (CIAC) balances are properly stated and are reflective of service availability charges authorized in the Utility's approved Commission tariff.

**Procedures:** We scheduled water and wastewater CIAC using the Utility's books and records. We reconciled the beginning balances at December 31, 2002, as per Commission Order PSC-03-1342-PAA-WS, and made the Commission ordered adjustments. We verified that the Utility's collection of CIAC agreed with the Commission approved tariff. Audit Finding 2 discusses our findings.

### Accumulated Depreciation

**Objectives:** The objective was to determine that the Utility's accumulated depreciation balances are properly stated and that annual accruals are reflective of depreciation rates authorized by Rule 25-30.140, Florida Administrative Code (F.A.C.)

**Procedures:** We calculated water and wastewater accumulated depreciation for the audit period using depreciation rates from Rule 25-30.140, F.A.C. We reconciled beginning balances to Commission Order PSC-03-1342-PAA-WS, and made the Commission ordered adjustments. Our schedules include: beginning and ending balances by UPIS sub-account, methodology for calculating annual accumulated depreciation accruals, and yearly depreciation. Finally, we traced the audited ending accumulated depreciation balances to the Utility's general ledger. Audit Finding 3 discusses our findings.

### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine that CIAC is amortized in accordance with Commission rules and orders and is consistent with the calculation of depreciation expense.

**Procedures:** We scheduled amortization of water and wastewater CIAC for the audit period. We reconciled the beginning balance at December 31, 2002, as per Commission Order PSC-03-1342-PAA-WS, and made the Commission ordered adjustments. We recalculated the accumulated amortization of CIAC using a composite rate and reconciled ending balances to the general ledger. Audit Finding 4 discusses our findings.

## **Net Operating Income**

### Operating Revenue

**Objectives:** The objective was to verify the extent to which the Utility is charging its authorized service rates, customer deposits, miscellaneous service charges, and service availability charges.

**Procedures:** We reviewed the current Commission approved tariff schedules for the Utility's monthly water services, customer deposits, miscellaneous service charges, and service availability charges. The Utility bills its customers monthly. We obtained the billing register for the month of January, 2012 and reviewed it to determine if the Utility is using Commission approved rates. We also recalculated several customer bills from each rate class for the month of September, 2011. No exceptions noted.

The Utility has not collected customer deposits since 2004, and the auditor could not determine from Utility records the current status of these deposits. In addition, the auditor could not determine from Utility records if the Utility is collecting miscellaneous service charges and service availability charges according to Commission approved tariffs.

## Audit Findings

### **Finding 1: Utility Plant in Service**

**Audit Analysis:** Commission Order PSC-03-1342-PAA-WS established the beginning balances for UPIS as of December 31, 2002. Audit Staff determined that Commission ordered adjustments to UPIS had not been made. To make the adjustments, UPIS should be increased by \$71,010 and \$6,822 for water and wastewater, respectively. Audit staff used annual reports for the Utility balances, as general ledgers were incomplete. The Utility did not provide supporting documentation for any additions or retirements to UPIS for the audit period, so UPIS should be decreased by \$379,728 and \$52,322 for water and wastewater, respectively, to remove all unsupported additions and retirements. Table 1 and Table 2 show Utility and audited account balances for water and wastewater UPIS, respectively.

**Effect on the General Ledger:** The net effect on the general ledger is a decrease of \$308,718 for water UPIS (\$71,010 - \$379,728) and a decrease of \$45,500 for wastewater UPIS (\$6,822 - \$52,322).

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
301	Organization		\$ 14,095
304	Structures and Improvements		\$ 17,232
307	Wells and Springs	\$ 1,076	
309	Supply Mains		\$ 116,536
311	Pumping Equipment		\$ 20,535
320	Water Treatment Equipment		\$ 94,609
330	Distribution Reservoirs and Standpipes		\$ 6,710
331	Transmission and Distribution Mains	\$ 21,127	
333	Services		\$ 43,200
334	Meters and Meter Installations	\$ 13,016	
335	Hydrants		\$ 3,250
339	Other Plant and Miscellaneous Equipment		\$ 26,655
347	Miscellaneous Equipment		\$ 1,115
351	Organization		\$ 14,095
354	Structures and Improvements		\$ 13,516
360	Collection Sewers – Force		\$ 44,790
361	Collection Sewers – Gravity		\$ 175
363	Services to Customers		\$ 215
371	Pumping Equipment	\$ 50,256	
380	Treatment and Disposal Equipment	\$ 23,265	
382	Outfall Sewer Lines		\$ 12,984
389	Other Plant and Miscellaneous Equipment		\$ 13,147
390	Office Furniture and Equipment	\$ 10,200	
397	Miscellaneous Equipment		\$ 29,943
398	Other Tangible Plant		\$ 356
215	Retained Earnings	\$ 354,218	

Table 1 – Water UPIS

Account Description	No.	Balance as per Utility Annual Report 12/31/2010	Audit Adjustments	Balance as per Audit 2/22/2011
Organization	301	\$ 15,145	\$ (14,095)	\$ 1,050
Structures and Improvements	304	33,647	(17,232)	16,415
Wells and Springs	307	230,861	1,076	231,937
Supply Mains	309	141,736	(116,536)	25,200
Pumping Equipment	311	169,028	(20,535)	148,493
Water Treatment Equipment	320	451,115	(94,609)	356,506
Distribution Reservoirs and Standpipes	330	629,183	(6,710)	622,473
Transmission and Distribution Mains	331	281,096	21,127	302,223
Services	333	167,548	(43,200)	124,348
Meters and Meter Installations	334	19,883	13,016	32,899
Hydrants	335	13,300	(3,250)	10,050
Other Plant Miscellaneous Equipment	339	27,916	(26,655)	1,261
Miscellaneous Equipment	347	1,115	(1,115)	-
<b>Total</b>		<b>\$ 2,181,573</b>	<b>\$ (308,718)</b>	<b>\$ 1,872,855</b>

Table 2 – Wastewater UPIS

Account Description	No.	Balance as per Utility Annual Report 12/31/2010	Audit Adjustments	Balance as per Audit 2/22/2011
Organization	351	\$ 15,145	\$ (14,095)	\$ 1,050
Structures and Improvements	354	32,285	(13,516)	18,769
Collection Sewers - Force	360	206,148	(44,790)	161,358
Collection Sewers - Gravity	361	328,569	(175)	328,394
Services to Customers	363	171,175	(215)	170,960
Pumping Equipment	371	-	50,256	50,256
Treatment and Disposal Equipment	380	1,193,560	23,265	1,216,825
Outfall Sewer Lines	382	157,892	(12,984)	144,908
Other Plant Miscellaneous Equipment	389	14,056	(13,147)	909
Office Furniture and Equipment	390	-	10,200	10,200
Miscellaneous Equipment	397	29,943	(29,943)	-
Other Tangible Plant	398	3,805	(356)	3,449
<b>Total</b>		<b>\$ 2,152,578</b>	<b>\$ (45,500)</b>	<b>\$ 2,107,078</b>

## **Finding 2: Contributions-in-Aid-of-Construction CIAC**

**Audit Analysis:** Commission Order PSC-03-1342-PAA-WS established the beginning balances for CIAC as of December 31, 2002. Audit staff determined that the Utility did not make the Commission ordered adjustments to CIAC. To make the adjustments, CIAC should be decreased by \$8,918 and increased by \$91,593 for water and wastewater, respectively.

Audit staff analyzed various schedules of the annual reports. Based on this, \$193,728 of water additions and \$193,393 of wastewater additions may be attributable to an increase in customer base. The customer base increased during the audit period by 118 for water, 29 for irrigation, and 119 for wastewater. \$160,920 of water additions and \$77,780 of wastewater additions may be attributable to contributions from developers in 2006. The 2009 ending balance and the 2010 beginning balance of water CIAC differed by (\$37,120). Audit staff could not determine why. In addition, water and wastewater additions in the annual reports were miscalculated by \$1,937 and \$935, respectively, due to incorrect tariff rates being used in 2004 for water and wastewater capacity charges, and in 2005 for non-potable capacity charges.

Audit staff traced the annual report CIAC balances to the tax return balances of CIAC from 2004 to 2007. The tax returns for 2003, 2009, and 2010 were unavailable. The 2008 tax return did not include \$54,255 of additions that were included on the 2008 annual report.

The Utility did not provide supporting documentation for any additions or retirements to CIAC for the audit period, so CIAC should be decreased by \$319,465 (\$193,728 + \$160,920 - 37,120 + \$1,937) and \$272,108 (\$193,393 + \$77,780 + \$935) for water and wastewater, respectively, to remove all unsupported amounts.

**Effect on the General Ledger:** The net effect on the general ledger is a decrease of \$328,383 for water CIAC (-\$8,918 - \$319,465) and a decrease of \$180,515 for wastewater CIAC (\$91,593 - \$272,108).

### **NARUC**

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
271	CIAC - Water	\$328,383	
271	CIAC - Wastewater	\$180,515	
215	Retained Earnings		\$508,898

### **Finding 3: Accumulated Depreciation and Amortization**

**Audit Analysis:** Commission Order PSC-03-1342-PAA-WS established the beginning balances for accumulated depreciation as of December 31, 2002. Audit staff determined that the Utility did not make the Commission ordered adjustments to accumulated depreciation. Water and wastewater accumulated depreciation should be decreased by \$484,087 and \$157,234 for water and wastewater, respectively, to remove all accumulated depreciation booked by the Utility since December 31, 2002 and to agree the amounts to the last Commission Order. Accumulated depreciation should then be increased by \$404,990 and \$219,438 for water and wastewater, respectively. This adjustment reflects the recalculation of accumulated depreciation from January 1, 2003 to February 22, 2011, using plant balances established in the last Commission Order and depreciation rates as per Rule 25-30.140, F.A.C. Table 3 and Table 4 show Utility and audited account balances for water and wastewater accumulated depreciation, respectively.

**Effect on the General Ledger:** The net effect on the general ledger is a decrease of \$79,097 for water accumulated depreciation (-\$484,087 + \$404,990) and an increase of \$62,204 for wastewater accumulated depreciation (-\$157,234 + 219,438).

NARUC

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108	Accumulated Depreciation - Water	\$ 79,097	
108	Accumulated Depreciation - Wastewater		\$ 62,204
215	Retained Earnings		\$ 16,893

Table 3 – Water Accumulated Depreciation

Account Description	No.	Balance as per Annual Report 12/31/2010	Audit Adjustments	Balance as per Auditor 2/22/2011
Organization	301	\$ -	\$ 703	\$ 703
Structures and Improvements (Potable)	304	16,449	(506)	15,943
Wells and Springs	307	212,020	13,031	225,051
Supply Mains	309	68,987	(58,225)	10,762
Pumping Equipment	311	87,447	(29,831)	57,616
Water Treatment Equipment	320	403,937	(47,431)	356,506
Distribution Reservoirs and Standpipes	330	496,080	3,512	499,592
Transmission and Distribution Mains	331	69,685	43,298	112,983
Services	333	71,309	(773)	70,536
Meters and Meter Installations	334	17,565	4,723	22,288
Hydrants	335	2,875	744	3,619
Other Plant Miscellaneous Equipment	339	8,278	(7,227)	1,051
Miscellaneous Equipment	347	1,115	(1,115)	-
<b>Total</b>		<b>\$ 1,455,747</b>	<b>\$ (79,097)</b>	<b>\$ 1,376,650</b>

Table 4 – Wastewater Accumulated Depreciation

Account Description	No.	Balance as per Annual Report 12/31/2010	Audit Adjustments	Balance as per Auditor 2/22/2011
Organization	351	\$ -	\$ 774	\$ 774
Structures and Improvements	354	20,010	(1,241)	18,769
Collection Sewers	360	123,761	15,539	139,300
Collection Sewers - Gravity	361	96,762	29,712	126,474
Services	363	94,452	11,189	105,641
Pumping Equipment	371	21,330	8,628	29,958
Treatment Equipment	380	1,193,560	23,265	1,216,825
Outfall Lines	382	157,892	(12,984)	144,908
Other Plant & Miscellaneous Equipment	389	6,082	(5,173)	909
Miscellaneous Equipment	397	10,941	(10,941)	-
Other Tangible Plant	398	3,674	(225)	3,449
Services	390	-	3,660	3,660
<b>Total</b>		<b>\$ 1,728,464</b>	<b>\$ 62,204</b>	<b>\$ 1,790,668</b>

#### **Finding 4: Accumulated Amortization of CIAC**

**Audit Analysis:** Commission Order PSC-03-1342-PAA-WS established the beginning balances for accumulated amortization of CIAC as of December 31, 2002. Audit staff determined that the Utility did not make the Commission ordered adjustments to accumulated amortization. Accumulated amortization should be decreased by \$103,546 and \$92,808 for water and wastewater, respectively, to remove all accumulated amortization booked by the Utility since December 31, 2002 and to agree the amounts to the last Commission Order. Accumulated amortization should then be increased by \$98,643 and \$59,214 for water and wastewater, respectively. This adjustment reflects the recalculation of accumulated amortization from January 1, 2003 to February 22, 2011, using CIAC balances established in the last Commission Order and composite rates based on depreciation expense as per Rule 25-30.140, F.A.C.

**Effect on the General Ledger:** The net effect on the general ledger is a decrease of \$4,903 for water accumulated amortization of CIAC (-\$103,546 + \$98,643) and a decrease of \$33,594 for wastewater accumulated amortization of CIAC (-\$92,808 + \$59,214).

NARUC

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
272	Accumulated Amortization - Water		\$ 4,903
272	Accumulated Amortization - Wastewater		\$ 33,594
215	Retained Earnings	\$ 38,497	

Exhibits

**Exhibit 1: Rate Base**

<b>WATER</b>		<b>Balance per Utility 12/31/2010</b>	<b>Audit Adjustments</b>	<b>Balance per Audit 2/22/2011</b>
<b>Description</b>				
<b>Utility Plant in Service</b>		2,181,573	(308,718)	1,872,855
<b>Land</b>		62,080	-	62,080
<b>Accumulated Depreciation</b>		(1,455,747)	79,097	(1,376,650)
<b>Contributions in Aid of Construction</b>		(766,532)	328,383	(438,149)
<b>Accumulated Amortization of CIAC</b>		281,565	(4,903)	276,662
<b>RATE BASE</b>		\$ 302,939	\$ 93,859	\$ 396,798

<b>WASTEWATER</b>		<b>Balance per Utility 12/31/2010</b>	<b>Audit Adjustments</b>	<b>Balance per Audit 2/22/2011</b>
<b>Description</b>				
<b>Utility Plant in Service</b>		2,152,578	(45,500)	2,107,078
<b>Land</b>		33,680	-	33,680
<b>Accumulated Depreciation</b>		(1,728,464)	(62,204)	(1,790,668)
<b>Contributions in Aid of Construction</b>		(763,570)	180,515	(583,055)
<b>Accumulated Amortization of CIAC</b>		332,899	(33,594)	299,305
<b>RATE BASE</b>		\$ 27,123	\$ 39,217	\$ 66,340