

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 24, 2017

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20170114-WU
Company Name: Allen LaFortune and Otis Fonder c/o Tropical Park Water Systems
Company Code: WU556
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2017-170-2-1

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

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

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

Auditor's Report

Allen LaFortune and Otis Fonder c/o Tropical Park Water Systems/A Utility, Inc.
Transfer of Certificate

As of January 1, 2017

Docket No. 20170114-WU
Audit Control No. 2017-170-2-1
September 6, 2017

Tomer Kopelovich
Audit Manager

Ron Mavrides
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated June 15, 2017. We have applied these procedures to the attached schedules prepared by audit staff in support of Allen LaFortune and Otis Fonder c/o Tropical Park Water Systems/A Utility, Inc. in support of request for Transfer of Certificate in Docket No. 20170114-WU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

Background

Definitions

Buyer refers to A Utility, Inc.

Seller refers to Allen LaFortune and Otis Fonder c/o Tropical Park Water Systems.

Utility refers to Tropical Park Water Systems.

Utility Information

Allen LaFortune and Otis Fonder c/o Tropical Park Water Systems is a Class C Utility that serves 116 water customers in Pasco County. Rate base was established as of December 31, 1988 in Order No. 21652, issued August 2, 1989. The buyer and seller executed a purchase agreement on March 27, 2017, for \$117,000. The purchase price included the Utility assets and land.

General

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA).

Procedures: We examined the Utility's books and records and determined that they are not in compliance with the NARUC USOA. Our recommendations are discussed in Finding 1.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments Required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We obtained the beginning balances for UPIS as of December 31, 1988, established in Docket No.19881601-WU, Order No. 21652. We compiled a schedule of water plant additions from January 1, 1989, through January 1, 2017, using the Utility's annual reports. The Utility did not provide us any invoices for plant additions, however the balance of the Plant increased by \$4,467 from the last Order. We left this amount in since it is immaterial. Our recommended adjustments to UPIS are discussed in Finding 2.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement.

Procedures: We determined the land value established in Order No. 21652 and obtained the warranty deed dated April 25, 2017, which transferred ownership to the buyer. We searched the property records of Pasco County and determined that no other pertinent changes to the land occurred. Our recommended adjustments to Land are discussed in Finding 3.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC) is recorded correctly and is in compliance with the Utility's Commission approved service availability charges.

Procedures: Order No. 21652 established the CIAC balance as zero. Audit staff verified that no CIAC has been collected since then.

Accumulated Depreciation

Objectives: The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 - Depreciation, (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We obtained the beginning balances for Accumulated Depreciation as of December 31, 1988, established in Docket No. 19881601-WU, Order No. 21652. The Utility could not provide general ledgers prior to January 1, 2017 therefore, we computed depreciation accruals for all UPIS accounts using the correct depreciation rates from the Rule 25-30.140 - Depreciation, Florida Administrative Code for the period January 1, 1989, through January 1, 2017. Finding 2 provides additional information on this issue.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC accruals are properly calculated and recorded based on Commission rules and the NARUC USOA.

Procedures: Audit staff determined there is no CIAC balance; therefore, no amortization is needed.

Acquisition Adjustment

Objectives: The objective was to determine the Acquisition Adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371 (1), F.A.C.

Procedures: We determined the net book value for this Utility, as of January 1, 2017, to be \$1,000. The buyer has not requested an acquisition adjustment. An acquisition adjustment was not calculated by audit staff. No further work was done.

Other

Customer Deposits

Objectives: The objective was to determine whether the Utility is charging the correct amount set by Commission tariffs.

Procedures: We reviewed the application and noted none were listed. We requested a listing of customer deposits, if any, included in the sale. There were none. No further work was performed.

Billing

Objectives: The objective was to determine that the buyer is billing the customers the correct rates per the last approved tariff.

Procedures: We obtained the billing records for July and August 2017. We recalculated the customers' bills for July 2017 using the approved tariffs. No exceptions were noted.

Audit Findings

Finding 1: Books and Records

Audit Analysis: 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 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.”

The buyer provided a general ledger for Tropical Park Water Systems. The buyer had not recorded the rate base components in the general ledger as set in the last Commission Order. The buyer did record the purchase price of the assets. The buyer should record the ordered balances in the general ledger when the final amounts are reflected in the Commission Order at the end of this Docket. The general ledger provided by the buyer does not show account numbers for rate base components. Expenses have been recorded but were not assigned NARUC accounts. The Utility's annual reports account numbers for rate base components appear to be in compliance with NARUC USOA.

Effect on the General Ledger: This is provided for informational purposes.

Effect on the Filing: This is provided for informational purposes.

Finding 2: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: We compiled a schedule of water plant additions which included beginning balances as set in the last Commission Order No. 198821652 from January 1, 1990 through January 1, 2017, using the Utility's annual reports. We started with a balance of \$30,250 as set in the last Commission Order. From 1989 through 1998 the Utility added 4,467 of plant assets. The assets that were added were for these amounts: Supply Mains (309) \$2,104, Pumping Equipments (311) \$675, Water Treatment Equipment (320) \$1,252, Distribution Reservoirs & Standpipes (330) \$19, Other Plant & Misc. Equipment \$365 and Tools, Shop & Garage Equipment for \$51. We did not write it off because it would be fully depreciated prior to the transfer.

Table 2-1

As of 1/1/2017		Plant in Service	Audit	Plant in Service
Acc#	Account Description	Balance per Audit 1/1/2017	Adjustment	Utility Bal 1/1/2017
301.00	Organization	\$0	\$0	\$0
302.00	Franchises	\$0	\$0	\$0
304.00	Structures & Improvements	\$1,200	\$9,840	\$11,040
305.00	Collecting & Impounding Reservoirs	\$0	\$0	\$0
306.00	Lake, River & Other Intakes	\$0	\$0	\$0
307.00	Wells & Springs	\$1,674	\$33,617	\$35,291
309.00	Supply Mains	\$8,989	\$10,155	\$19,144
310.00	Power Generation Equipment	\$0	\$0	\$0
311.00	Pumping Equipment (SubPumps)	\$6,990	\$1,911	\$8,901
311.00	Pumping Equipment (Electric)	\$0	\$0	\$0
320.00	Water Treatment Equipment	\$1,958	\$4,307	\$6,265
330.00	Distribution Reservoirs & Standpipes	\$153	\$16,136	\$16,289
331.00	Transmission & Distribution	\$0	\$0	\$0
333.00	Services	\$4,640	(\$4,640)	\$0
334.00	Meters & Meter Installations	\$0	\$770	\$770
335.00	Hydrants	\$0	\$0	\$0
336.00	Backflow Prevention Devices	\$0	\$0	\$0
339.00	Other Plant & Miscellaneous	\$365	(\$365)	\$0
340.00	Office Furniture & Equipment	\$0	\$0	\$0
341.00	Transportation Equipment	\$0	\$0	\$0
343.00	Tools, Shop, & Garage Equipment	\$51	(\$51)	\$0
345.00	Power Operated Equipment	\$0	\$0	\$0
348.00	Other Intangible Plant	\$8,698	(\$8,698)	\$0
Total Utility Plant in Service		\$34,717	\$62,982	\$97,700

We compiled a schedule of accumulated depreciation balances from January 1, 1989 which included the beginning balances as set in the last Commission Order No. 21652. We calculated yearly

accumulated depreciation expense using the rates from Rule 25-30.140- Depreciation, (F.A.C.), 2) and the UPIS balances discussed in this finding. The plant was fully depreciated in 2007.

Table 2-2

Account	Description	Acc/Dep Balance per Audit 1/1/17	Audit Adjustment	Acc/Dep Balance per Last Order 12/31/88
301	Organization	\$0	\$0	\$0
302	Franchises	\$0	\$0	\$0
304	Structures & Improvements	\$1,200	\$841	\$359
305	Collecting & Impounding Reservoirs	\$0	\$0	\$0
306	Lake, River & Other Intakes	\$0	\$0	\$0
307	Wells & Springs	\$1,674	\$1,179	\$495
309	Supply Mains	\$8,989	\$7,072	\$1,917
310	Power Generation Equipment	\$0	\$0	\$0
311	Pumping Equipment (SubPump)	\$6,990	\$5,663	\$1,327
311	Pumping Equipment (Electric)	\$0	\$0	\$0
320	Water Treatment Equipment	\$1,958	\$1,551	\$407
330	Distribution Reservoirs & Standpipes	\$153	\$147	\$6
331	Transmission & Distribution Mains	\$0	\$0	\$0
333	Services	\$4,640	\$3,383	\$1,257
334	Meters & Meter Installations	\$0	\$0	\$0
335	Hydrants	\$0	\$0	\$0
336	Backflow Prevention Devices	\$0	\$0	\$0
339	Other Plant & Miscellaneous Equipment	\$365	\$365	\$0
340	Office Furniture & Equipment	\$0	\$0	\$0
341	Transportation Equipment	\$0	\$0	\$0
343	Tools, Shop, & Garage Equipment	\$51	\$51	\$0
345	Power Operated Equipment	\$0	\$0	\$0
348	Other Tangible Plant	\$8,698	\$7,877	\$821
	Total	\$34,717	\$28,128	\$6,589

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: The UPIS balance should be \$34,717 and Accumulated Depreciation Balance should be \$34,717 as of January 1, 2017.

Finding 3: Land

Audit Analysis: We searched for support showing all sales or purchases of land since January 1, 1999. We obtained the warranty deed dated April 25, 2017 between the seller/grantor and grantee. The prior order reflected the original cost of the land at \$1,000. The Utility recorded \$19,300 for land on the balance sheet based on purchase price.

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: We determined that the land is owned by the Utility and adjusted the value to what was set in the last rate proceeding.

Exhibits

Exhibit 1: Net Book Value

**Tropical Park Systems
Net Book Value
As of January 1, 2017**

Description	Balance per Utility	Adjustment	Balance per Audit
Utility Plant in Service	\$97,700	(\$62,983)	\$34,717
Land	\$19,300	(\$18,300)	\$1,000
Accumulated Depreciation	(\$30,452)	(\$4,265)	(\$34,717)
Contribution in Aid of Construction	\$0	\$0	\$0
Accumulated Amortization of CIAC	\$0	\$0	\$0
Net Book Value	\$86,548	(\$85,548)	\$1,000