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MEMORANDUM

October 19, 1990

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDIT AND FINANCE (DOUD)

RE: DOCKET NO. 900525-WS -- EARL W. STOCKWELL (PINE HARBOUR)
AUDIT - TRANSFER CERTIFICATE

**ORIGINAL
FILE COPY**

Forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit findings disclose information that may influence the decision process.

Audit was prepared using micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Earl W. Stockwell (Pine Harbour)
Attn: Mr. Earl W. Stockwell, Manager
Post Office Box 447
Fruitland, FL 34731-0447

FD/sp

Attachment

cc: Chairman Wilson
Commissioner Beard
Commissioner Easley
Commissioner Gunt er
Commissioner Messersmith
Bill Talbott, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin)
Division of Water and Sewer (Hand)
Orlando District Office (Forbes)

Mr. Don Hale
Office of Public Counsel
624 Fuller Warren Building
202 Blount Street
Tallahassee, FL 32301

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TPSC-RECORDS/REPORTING

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Florida Public Service Commission

90 OCT 19 PM 2:49

Audit Report

AUDITING &
FINANCIAL ANALYSIS DIV

As of Transfer Date April 12, 1990

Field Work Completed

October 4, 1990

Earl Stockwell

(Pine Harbour)

Lake County, Florida

Transfer Certificate Audit

Docket Number 900525-WU

Audit Control No. 90-178-2-1

Robert F. Dodrill Sr.

Robert F. Dodrill Sr.
Audit Manager

Ian J. Forbes

Ian J. Forbes
Regulatory Analyst Supervisor
Orlando District Office

DOCUMENT NUMBER-DATE
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I. Executive Summary

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to the books and records of Pine Harbour Water Utility, in support of Docket Number 900525-WU. This was done to determine rate base at the time of transfer, April 12, 1990, and to determine that those records are maintained in compliance with Commission orders and directives.

SCOPE LIMITATION: Tax handling of water system costs were not verified to filed tax returns which were unavailable during field work. Verifying schedules are now being mailed directly to the water and sewer department in Tallahassee.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted audit standards and to produce audited financial statements for public use.

OPINION: Subject to the scope limitation described in Section I, the procedures described in Section II, Audit Exception No. 1 and Audit Disclosures 1 thru 3, the appended partial Water Rate Base as of April 12, 1990, represent utility records maintained in substantial compliance with Commission directives.

SUMMARY FINDINGS: Only the partial cost of the utility plant in service should be considered Contributions in-Aid-of Construction since the seller charged only a portion of these costs to cost of goods sold for tax purposes.

II. Audit Scope

This report is based on the audit work described below. When used in this section of the report, COMPILED defines completed audit work as:

COMPILED: means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity or inconsistency; and, except as noted, performed no other audit work.

RATE BASE: Requested utility investment documentation from buyer of water system and contacted seller's tax accountant requesting cost of goods sold workpapers. Compiled UPIS invoices for Water and Sewer Division engineer as basis for his original cost study of Pine Harbour. Obtained utility representation letter concerning its policy on collection of customer deposits and collection of hook - up fees. Verified utility land costs and Pine Harbour subdivision plat at the Lake County Courthouse.

Toured utility service area with contract operator (who also happens to be the current buyer) and the FPSC engineer.

AUDIT EXCEPTION NO. 1

SUBJECT: NON-COMPLIANCE WITH UNIFORM SYSTEM OF ACCOUNTS

STATEMENT OF FACTS:

1. The Uniform System of Accounts, General Accounting Instruction 2, requires utilities to maintain double entry books of account and to keep supporting documentation for all entries.
2. Pine Harbour does not have a continuing set of accounts concerning utility investments or operations.
3. The utility is currently maintaining vendor files, a checkbook and customer records.

AUDITOR OPINION AND CONCLUSION:

1. If the utility had been maintaining its books and records according to the Uniform System of Accounts, the verification of Utility Plant-in Service would have been accomplished in a more timely manner.

RECOMMENDATION

The commission should order the utility to set up its records in conformity with the NARUC Uniform System of Accounts.

COMPANY COMMENT:

The buyer indicated that it will begin using the NARUC Uniform System of Accounts immediately for NOI activity and will set up its Balance Sheet accounts when the FPSC Order is issued.

AUDIT DISCLOSURE NO. 1

SUBJECT: UTILITY PLANT IN SERVICE - DEPRECIABLE

STATEMENT OF FACTS:

1. Earl Stockwell was the developer of Pine Harbour and has previously stated that he wrote off his development costs.
2. Mr. Stockwell's tax accountant, Mr. Harry Bach, provided the audit staff with a workpaper indicating that \$37,343 of original costs were not expensed but were reserved for the water system.
3. The original cost of the Pine Harbour Water System is being determined by a Water and Sewer Division original cost study. The engineer is computing this cost by using a set of as-built drawings and a partial set of original vendor invoices, both obtained by the buyer.

AUDITOR OPINION AND CONCLUSION:

1. When the staff engineer determines the depreciable plant total, the entire balance over \$37,343, should be considered contributed by the developer.
2. The accumulated depreciation, C.I.A.C. and accumulated amortization of C.I.A.C. should be computed after the original cost study balances are considered.

COMPANY COMMENT: The company may comment at a later date.

AUDIT DISCLOSURE NO. 2

SUBJECT: UTILITY PLANT IN SERVICE - LAND

STATEMENT OF FACTS:

1. Earl Stockwell purchased the land for Pine Harbour subdivision from Pine Island Land Company and subdivided the purchase into 63 lots including the two lots dedicated to water service.
2. Mr. Stockwell's tax accountant, Mr. Harry Bach, provided the audit staff with a closing statement indicating that the land cost \$157,500.
3. The land cost of the Pine Harbour Subdivision was verified at the Lake County Courthouse by finding the warranty deed with document stamps equating to \$157,500.
4. The original plat of Pine Harbour was reviewed at and the courthouse records department and was found to contain 61 lots and Tract A dedicated to the water system.

AUDITOR'S OPINION AND CONCLUSION:

1. Based on independent verification of the company proposed land cost, the \$5,000 balance (\$2,500 per lot) for land cost should be approved for the April 12, 1990 rate base.

COMPANY COMMENT: The company may comment at a later date.

AUDIT DISCLOSURE NO. 3

SUBJECT: UTILITY REVENUE

STATEMENT OF FACTS:

1. Pine Harbour Water Utilities is billing its customers a base facilities charge plus \$1.43 per thousand gallons after four (4) free thousand gallons of water consumption.
2. This practice was carried over from previous years.
3. The previous FPSC Order No.16936 Issued 12-9-86 did set a gallonage charge of \$1.43 per 1,000 gallons but was silent as to free gallons.

AUDITOR OPINION AND CONCLUSION:

1. The Water and Sewer Division Rates and Tariff Section should address this practice during these certificate transfer proceedings.

COMPANY COMMENT: The company indicated that it will continue to bill free gallons until the commission instructs otherwise.

Pine Harbour Water Utilities
 TRANSFER CERTIFICATE AUDIT
 RATE BASE BALANCES - WATER
 TRANSFER DATE 4-12-90

EXHIBIT 1

DESCRIPTION	(a) BALANCE PER PREVIOUS AUDIT ORDER #16936 AS OF 12-9-86	(b) AUDIT DISCLOSURES	(c) BALANCE PER AUDIT B 4-12-90
UTILITY PLANT IN SERVICE	\$0	\$0 D-1	0
LAND/NON DEPRECIABLE ASSETS	0	5,000 D-2	5,000
PLANT HELD FOR FUTURE USE	0		0
C. I. A. C.	0	0 D-1	0
C. I. A. C. --- LAND	0		0
C. W. I. P.	0		0
ACCUMULATED DEPRECIATION	0	0 D-1	0
AMORTIZATION - C. I. A. C.	0	0 D-1	0
ACQUISITION ADJUSTMENTS	0		0
ACCLM. AMORT. OF ACQ. ADJUST.	0		0
WORKING CAPITAL	0		0
TOTALS	\$0	\$5,000	\$5,000

FOOTNOTES:

D-1 To be determined only after engineers cost study
 D-2 Land cost verified per Disclosure No 2

Commissioners:
MICHAEL M. WILSON, Chairman
GERALD L. (JERRY) GUNTER
THOMAS M. BEARD
BETTY EASLEY
FRANK S. MESSERSMITH

State of Florida



STEVE TRIBBLE, Director
Division of Records & Reporting
(904) 488-8371

Public Service Commission

October 23, 1990

Earl W. Stockwell (Pine Harbour)
Attn: Mr. Earl W. Stockwell, Manager
Post Office Box 447
Fruitland, FL 34731-0447

Dear Mr. Stockwell:

Docket No. 900525-WU -- Earl W. Stockwell (Pine Harbour)
Audit - Transfer Certificate

The enclosed report is forwarded for your review.

The audit report and any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Steve Tribble

ST/FD/sp
Enclosure