

STATE OF FLORIDA

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**Public Service Commission**

July 16, 1999

Mr. James D. Ditullio  
Inglewood Water System  
P. O. Box 72  
Chiefland, FL 32644-0072

**Re: Docket No. 990253-WU; Inglewood Water System  
Audit Report; Establish Rate Base as of June 30, 1998  
Audit Control No. 99-089-3-1**

Mr. Ditullio:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver  
Bureau Chief - Auditing Services

DNV: sp

- cc:  Division of Records and Reporting
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- Orlando District Office (Winston)
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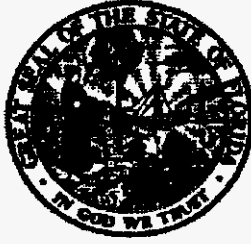
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
BUREAU OF AUDITING SERVICES*

*Orlando District Office*

INGLEWOOD WATER SYSTEM

RATE BASE DETERMINATION

AS OF JUNE 30, 1998

DOCKET NO. 990253-WU

AUDIT CONTROL NO. 99-089-3-1

*Robert F. Dodrill, Sr.*

*Robert F. Dodrill, Sr., Audit Manager*

*Charleston J. Winston*

*Charleston J. Winston, Audit Supervisor*

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT**

**JUNE 16, 1999**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to prepare the accompanying schedule of Rate Base as of June 30, 1998, for Inglewood Water System (utility). This schedule was prepared by the auditor pursuant to a transfer of certificate audit under Docket No. 990253-WU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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 auditing standards and produce audited financial statements for public use.

In our opinion, the schedule referred to above, presents fairly, in all material respects, the utility's books and records not maintained in conformity with accounting practices prescribed by the Florida Public Service Commission. The expressed opinion extends only to the scope of work described in this report. The attached findings discuss all differences and other matters which were noted during our examination.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The company did not follow the NARUC Uniform System of Accounts.

The depreciable plant should be decreased by \$2,586.

The land account should be decreased by \$1,000.

Accumulated amortization of CIAC should be increased by \$11,548.

Accumulated depreciation should be decreased by \$9,855.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by comparing, on a test basis, certain company accounts and account balances which we believe are significant to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definition applies when used in this report.

**Scanned** - The documents or accounts were read quickly looking for obvious errors.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Verify** - The item was tested for accuracy, and substantiating documentation was examined.

**RATE BASE:** Compiled plant additions and retirements and verified each item to company documentation. Recomputed missing retirement entries. Updated the Commission-ordered plant and depreciation subaccount balances using the verified plant and retirement activity and the composite depreciation rate of 4.2 percent established in Order No. 17588 dated May 14, 1987.

Scanned deposit slips for CIAC deposits. Verified the lack of customer additions for CIAC determination. Recalculated the amortization of CIAC using the composite depreciation rate of 4.2 percent.

**OTHER:** Toured utility plant to obtain an understanding of plant additions. Observed utility land, old and new filtration systems, and the corrosion control system.

## **EXCEPTIONS**

### **Exception No. 1**

#### **Subject: Books and Records**

**Statement of Fact:** Rule 25-30.115, Florida Administrative Code, requires Florida utilities to maintain their books and records by the NARUC Uniform System of Accounts.

Order No. 17558 used an Original Cost Study for the Inglewood Water System's rate base determination. These balances were used as the beginning balances for this audit.

Miscellaneous original invoices and canceled checks were used to verify plant additions for this rate base update.

**Opinion:** Mr. James Ditulio (the seller) stated that he did not maintain a general ledger for the utility during his years of ownership.

Discussions with the utility during fieldwork emphasized the utility's benefits of using a Uniform System of Accounts. The utility was given the address to purchase the NARUC Uniform System of Accounts.

**Recommendation:** The Commission should order the utility to set up its books and records according to the NARUC System.

**Exception No. 2**

**Subject: Depreciable Utility Plant**

**Statement of Fact:** The utility filed Annual Reports from 1987 through 1997 but did not maintain a general ledger. (See Exception No. 1.) The 1997 Annual Report indicated that the ending depreciable plant balance was \$54,117.

The Commission established depreciable plant balances in Order No. 17558 as of December 31, 1986.

**Opinion:** The new utility owner indicated that there were no plant additions or retirements during the first half of 1998. A schedule of the utility plant additions and retirements from the Annual Reports was verified to utility documentation. The audited additions were added to the utility plant balances included in Order No. 17558, resulting in a balance of \$51,531.

	Balance Per Company	Amount Per Audit	Adjustment Required
Utility Plant	\$54,117	\$51,531	(\$2,586)

**Recommendation:** The Commission should reduce the June 30, 1998 Inglewood Water System depreciable utility plant balance by \$2,586 to the audited balance of \$51,531.

**Exception No. 3**

**Subject: Land**

**Statement of Fact:** Commission Order No.17558 indicated that the land account balance was \$3,307.

The 1997 Annual Report prepared by the seller indicated that \$1,000 was added to the land account for an ending balance of \$4,307.

**Opinion:** As indicated in Exception No. 1, Inglewood does not maintain a general ledger. A telephone conference with the seller of Inglewood Water System disclosed the fact that the above \$1,000 addition to the land account was a major repair to a structure after a storm. The buyer also stated that there were no land additions through June 30, 1998.

	Balance Per Company	Amount Per Audit	Adjustment Required
Land	\$4,307	\$3,307	(\$1,000)

**Recommendation:** The Commission should reduce the land account by \$1,000 which represents a major repair as opposed to a land addition.



**Exception No. 4**

**Subject: CIAC and Amortization of CIAC**

**Statement of Fact:** Order No. 17558 established the CIAC balance to be \$14,464 as of December 31, 1986. The amortization of CIAC balance was set at \$5,207 as of that date.

**Opinion:** There have been no customer additions since 1986.

The 1997 Annual Report balances, extended to June 30, 1998, indicated that the CIAC and amortization of CIAC balances were (\$14,628) and \$645, respectively. Staff calculated accumulated amortization at June 30, 1998, at the composite depreciation rate used in the last Order. This resulted in an accumulated amortization of CIAC balance of \$12,193.

	Balance Per Company	Amount Per Audit	Adjustment Required
CIAC	(\$14,628)	(\$14,464)	\$164
Amortization of CIAC	\$645	\$12,193	\$11,548

**Recommendation:** The Commission should decrease the June 30, 1998 CIAC balance by \$164 and increase the amortization of CIAC balances by \$11,548.

**Exception No. 5**

**Subject: Accumulated Depreciation**

**Statement of Fact:** The utility filed continuing Annual Reports from 1987 through 1997.

**Opinion:** The utility filed continuing Annual Reports from 1987 through 1997 but did not maintain a general ledger. (See Exception 1.) The Inglewood 1997 accumulated depreciation was extended to June 30, 1998. This was used as the balance per company below.

The audit staff used the 4.2 percent composite rate from Order No. 17558 to depreciate the audited UPIS balances from 1987 through June 30, 1998. This resulted in a balance of \$27,329.

	Balance Per Company	Amount Per Audit	Adjustment Required
Accumulated Depreciation	(\$37,184)	(\$27,329)	\$9,855

**Recommendation:** The Commission should decrease the utility accumulated depreciation by \$9,855.

**EXHIBIT I**

**INGLEWOOD WATER SYSTEM  
DOCKET NO. 990253-WU  
RATE BASE  
AS AT JUNE 30, 1998**

(a) DESCRIPTION	(b) PER COMPANY	(c) AUDIT EXCEPTION <sup>(1)</sup>	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$54,117	(\$2,586)	AE 2	\$51,531
LAND	\$4,307	(\$1,000)	AE 3	\$3,307
CIAC	(\$14,628)	\$164	AE 4	(\$14,464)
AMORTIZATION OF CIAC	\$645	\$11,548	AE 4	\$12,193
ACCUMULATED DEPRECIATION	(\$37,184)	\$9,855	AE 5	(\$27,329)
TOTAL	\$7,257	\$17,981		\$25,238

**REQUIRED FOOTNOTES:**

(1) Small differences are due to rounding.