

ORIGINAL

State of Florida



# Public Service Commission

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

**DATE:** September 12, 2000  
**TO:** Division of Economic Regulation (Butts)  
**FROM:** Division of Regulatory Oversight (Vandiver) *CV*  
**RE:** Docket No. 000580-WU; Keen Sales, Rentals, and Utilities, Inc.  
 (Alturas System)  
 Audit Report; Staff-assisted Rate Case  
 Audit Control No. 00-171-3-1

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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)  
 Orlando District Office (Winston)  
 Division of Records and Reporting  
 Division of Legal Services

James Ray Keen  
 Keen Sales, Rentals, and Utilities, Inc.  
 (Alturas System)  
 685 Dyson Road  
 Haines City, FL 33844-8587

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FPSC-RECORDS/REPORTING



**FLORIDA PUBLIC SERVICE COMMISSION**

***DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES***

***Orlando District Office***

**ALTURAS SYSTEM OF KEEN SALES, RENTALS AND UTILITIES, INC.**

**STAFF-ASSISTED RATE CASE AUDIT**

**HISTORICAL PERIOD ENDED MARCH 31, 2000**

**DOCKET NO. 000580-WU**

**AUDIT CONTROL NO. 00-171-3-1**

Handwritten signature of Richard F. Brown in cursive script.

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***Richard F. Brown, Audit Manager***

Handwritten signature of Charleston J. Winston in cursive script.

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***Charleston J. Winston, Audit Staff/Supervisor***

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**DIVISION OF REGULATORY OVERSIGHT  
AUDITOR'S REPORT**

**SEPTEMBER 5, 2000**

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

We have applied the procedures described later in this report to audit the accompanying schedule for Net Operating Income for the historical 12-month period ended March 31, 2000, for Alturas System of Keen Sales, Rentals and Utilities, Inc. The attached schedule was prepared by the audit staff as part of our work in the utility's application for a Staff-Assisted Rate Case in Docket No. 000580-WU. Schedules for Rate Base and Capital Structure were not prepared for the utility because of the lack of adequate supporting documentation.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The utility does not maintain its books and records as required by the Uniform System of Accounts (USOA) and Commission rules. Plant-in-service could not be established.

The original cost of land at the time it was devoted to public service could not be established.

Utility wage expenses should be reduced by \$2,079.80.

Utility operating expenses should be reduced by \$2,271.05, and plant-in-service should be reduced by \$17,410.54.

Payroll taxes should be reduced by \$1,117.45.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining the utility's books and records which we believe are sufficient 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 definitions apply when used in this report.

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

**Verified** - The items were tested for accuracy, and substantiating documentation was examined.

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

**RATE BASE:** Scanned and verified 100 percent of utility-provided documents used to identify additions to utility-plant-in-service (UPIS) as of March 31, 2000. Calculated working capital using one-eighth of operations and maintenance expense.

**NET OPERATING INCOME:** Compiled utility revenue and operating and maintenance accounts for the year-ended March 31, 2000. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Chose a judgmental sample of operation and maintenance expenses and verified the invoices and other supporting documentation. Verified support for taxes other than income.

**CAPITAL STRUCTURE:** Determined the amount of customer deposits as of March 31, 2000.

**OTHER:** Read the Board of Directors' Minutes for the 12-month period ended March 31, 2000. Looked for items related to regulatory issues.

## **EXCEPTIONS**

### **Exception No. 1**

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

**Statement of Fact:** Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records by the NARUC, National Association of Regulatory Utility Commissioners, USOA.

NARUC, Class C, Accounting Instruction No. 2. A. states:

The books and accounts of all water utilities shall be kept by the double entry method on an accrual basis. Each utility shall keep its books of accounts monthly and shall close its books at the end of each calendar year.

NARUC, Class C, Accounting Instruction 2. B, requires all water and wastewater utilities to maintain its books and records so that,

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.

An Original Cost Study had to be done to establish rate base for the utility.

The utility keeps its general ledger on the cash basis.

**Recommendation:** Neither the plant nor the expense accounts are maintained according to the NARUC USOA. There was no supporting documentation for the original cost of plant. The utility contracts with a CPA firm to prepare its Annual Report to the Commission. This Annual Report is commingled with all other utility companies owned by Keen Sales, Rentals and Utilities, Inc. The utility companies are not separated out within the Annual Report.

The Commission should order the utility to set up its books and records according to the NARUC USOA. Additionally, the Commission should schedule a USOA compliance audit for the utility.

**Audit Exception No. 2**

**Subject: Utility Plant-in-Service**

**Statement of Fact:** During the 12-month period ended March 31, 2000, the utility reflected plant expenditures of \$1,560.58 recorded in the equipment account.

**Recommendation:** The FPSC engineer is performing an Original Cost Study applicable to the Alturas Water Works Utility System.

Staff recommends that the noted \$1,560.58 should be considered in the Original Cost Study.

**Exception No. 3**

**Subject: Land**

**Statement of Fact:** The present owners of the utility purchased it on December 29, 1998. Their CPA allocated \$2,000 as the land value from the entire purchase price of the utility. The Polk County Property Appraiser's Office established the value of the land in 1998 as \$1,420.

The previous owners of the utility purchased it on November 21, 1936, for \$600.00. The land value was not established at that time.

NARUC Accounting Instruction No. 9, states that "Original Cost, as applied to utility plant, means the cost of such property to the person first devoting it to public service."

The land consists of .069 of an acre.

**Recommendation:** The audit staff researched the land at the Polk County Courthouse but could not establish the true value land of the land when it was first devoted to public service. When the utility was purchased in 1936, the utility plant was already established which indicates that the land value is substantially less than \$600.00.

**Exception No. 4**

**Subject: Revenues**

**Statement of Fact:** The utility records its revenues on the cash basis in the general ledger. For the 12-month period ended March 31, 2000, the utility recorded \$12,904.32 in revenues in its general ledger. For the same period, the utility recorded revenues in the billing registers for \$13,386.34.

**Recommendation:** In accordance with Exception No. 1, the utility should be required to record revenues on the accrual basis. The revenues in the general ledger should be restated to the amount in the billing registers.

The Commission should require the utility to increase its revenues by \$482.02 (13,386.34 - 12,904.32) to equal the amount in the billing registers.

**Exception No. 5**

**Subject:      Bad Debt Expenses**

**Statement of Fact:** The utility's Account Receivable Ledger, reflects \$383.22 for bad debt expenses for the 12-month period ended March 31, 2000. These bad debt expenses were not recorded in the utility's general ledger.

In accordance with NARUC, Account No. 670, Bad Debt Expense, "This account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues."

**Recommendation:** The Commission should allow the utility a bad debt expense of \$383.22.

**Exception No. 6**

**Subject: Wages**

**Statement of Fact:** Mason Uhls, the utility's maintenance engineer and the sole full-time employee of the company, has an annual salary of \$20,800.00 of which \$4,480.00 was charged to Alturas Water Works operations during the 12 months ended March 31, 2000.

Peggy Hairston, a part-time utility office employee, received wages of \$1,152.50 during the 12 months ended March 31, 2000, of which \$163.85 was allocated to Alturas.

The total salary for both employees of \$21,952.50, of which \$4,643.85 was distributed to Alturas operations were allocated by the utility based on the following:

- April 1 through December 31, 1999  
Salaries were distributed equally among the four water systems.
- January 1 through March 31, 2000  
Alturas (10 percent), Sunrise (50 percent), Subdivision (25 percent), and Paradise Island (15 percent)

**Recommendation:** Audit staff determined that the following percentages based on average meters in service during the 12-month period ended March 31, 2000, would more equitably reflect the distribution of common costs among the four water systems.

	<u>Average Meters</u>	<u>Percentage</u>
Alturas	64	11.68%
Sunrise	268	48.90%
Subdivision	129	23.54%
Paradise Island	<u>87</u>	<u>15.88%</u>
Totals	548	100.00%

It is recommended that utility wages of \$4,643.85 be reduced by \$2,079.80 to reflect \$2,564.05 based on staff reallocation of 11.68 percent ( $\$21,952.50 \times 11.68\%$ ) applicable to Alturas. Utility representatives concur with the reallocation percentages

**Exception No. 7**

**Subject: Labor**

**Statement of Fact:** The utility charged the labor account for \$165 applicable to the installation of a new starter, lightning arrestor and conduit. (Dennis Guinn's Electrical Service/April 16, 1999/Check No.1856)

In accordance with NARUC Water Class C Instructions per Account No. 311, Pumping Equipment, all such expenditures should be reflected therein.

**Recommendation:** Audit staff recommends that the labor operating expense account be decreased and pumping equipment increased by \$165 to capitalize the plant labor.

**Exception No. 8**

**Subject: Repairs**

**Statement of Fact:** The utility charged \$260.59 for a 5-HP starter and accessories along with installation to operations during the 12-month period ended March 31, 2000. (Dunham Well Drilling/December 8, 1999/Check No. 1285)

In accordance with NARUC Water Class C Instructions, per Account No. 101-31, Pumping Equipment, all such expenditures should be reflected therein.

**Recommendation:** Audit staff recommends that repairs expense account be decreased and plant Account No. 101-311, Pumping Equipment, be increased by \$260.59 to capitalize the plant installation.

**Exception No. 9**

**Subject: Allocations**

**Statement of Fact:** During the 12-month period ended March 31, 2000, the utility allocated all common costs based on the following:

- April 1 through December 31, 1999  
Equally among the four water systems
- January 1 through March 31, 2000  
Alturas (10 percent), Sunrise (50 percent), Subdivision (25 percent),  
and Paradise Island (15 percent)

**Recommendation:** Audit staff determined that the following percentages based on average meters in service during the 12 months ended March 31, 2000, would more equitably reflect the distribution of common costs among the four water systems. Utility representatives concur with the reallocation percentages.

	<u>Average Meters</u>	<u>Percentages</u>
Alturas	64	11.68%
Sunrise	268	48.90%
Subdivision	129	23.54%
Paradise Island	<u>87</u>	<u>15.88%</u>
Totals	<u>548</u>	<u>100.00%</u>

It is recommended that the account balances on the following page be adjusted as noted based on the staff application of the foregoing allocation percentages.

**Exception No. 9, contd.**

<u>Account</u>	<u>Staff-Allocated Amount</u>	<u>Utility-Allocated Amount (1)</u>	<u>Difference</u>
Phone Expense	\$137.10	\$254.72	(\$117.62)
Postage Expense	155.91	281.55	(125.64)
Gas Expense	416.91	724.47	(307.56)
Office Supplies	164.89	351.35	(186.46)
Computer Expense	245.28	502.49	(257.21)
Miscellaneous Expense	159.33	338.07	(178.74)
Vehicle Payment (2)	0.00	107.63	(107.63)
Vehicle Payment (2)	<u>0.00</u>	<u>990.19</u>	<u>(990.19)</u>
Totals	\$1,279.42	\$3,550.47	(\$2,271.05)
Equipment	215.18	460.58	(245.40)
1999 Ford Van	<u>2,270.03</u>	<u>19,435.17</u>	<u>(17,165.14)</u>
	\$2,485.21	\$19,895.75	(\$17,410.54)

Audit staff recommends that Alturas Water Works operating expenses be reduced by \$2,271.05, and utility plant-in-service should be reduced by \$17,410.54.

NOTES:

- (1) These amounts are what the utility recorded after the allocations shown in the Statement of Fact, except for the capitalized items.
- (2) These amounts were charged directly to the Altura System and should have been recorded in Account 426, Miscellaneous Nonutility Expenses.

**Exception No. 10**

**Subject: Payroll Taxes**

**Statement of Fact:** Alturas Water Works charged \$1,313.60 to payroll taxes during the 12 months ended March 31, 2000.

**Recommendation:** Based on staff-adjusted wages of \$2,564.05 (Exception No. 6), the utility's contribution would be \$196.15 ( $\$2,564.05 * .0765$ ).

Audit staff recommends that payroll taxes be reduced by \$1,117.45 ( $\$196.15 - \$1,313.60$ ).

**Audit Exception No. 11**

**Subject: FICA and Federal Withholding Taxes**

**Statement of Fact:** The utility charged FICA and Federal Withholding Taxes of \$310.43 and \$420.00, respectively, to operations during the 12-month period ended March 31, 2000.

**Recommendation:** The above amounts were for the employees' portion of the FICA and Federal Withholding Taxes. These taxes should not be included in the utility's operating expenses.

Audit staff recommends that taxes other than income be reduced by \$730.43 (\$310.43 + \$420.00).

**Exception No. 12**

**Subject: Capital Structure**

**Statement of Fact:** The utility's tariff indicates that \$35.00 should be charged for customer deposits. The utility charged a deposit of \$20.00 to one of its customers for the period ended March 31, 2000. This is the total customer deposit as of March 31, 2000.

**Recommendation:** In accordance with its tariff, the Commission should require the utility to charge \$35.00 for customer deposits in the future.

The utility's responses to audit staff's inquiries indicate the following:

1. There is no debt associated with utility operations.
2. There is \$20.00 in customer deposits associated with utility operations as of March 31, 2000.

Given the above information, the utility equity should be considered as 100 percent. Audit staff could not determine an equity balance from the information presently available.

The equity amount should be determined when the Original Cost Study is complete. Audit staff defers the issue of determining the utility's capital structure to the analyst in Tallahassee.

**Disclosure No. 1**

**Subject: Acquisition Adjustment**

**Statement of Fact:** The utility is requesting an acquisition adjustment based on the circumstances described in the attached September 5, 2000 memorandum.

**Recommendation:** Audit staff defers to FPSC analyst for disposition.

KSRU

Keen Sales, Rentals and Utilities, Inc.

685 Dyson Road  
Haines City, FL 33844  
Business Phone 941-421-6827

September 5, 2000

Mr. Richard P. Brown  
Regulatory Analyst  
Division of Regulatory Oversight  
Florida Public Service Commission  
Hurston North Tower - Suite N512  
400 W. Robinson Street  
Orlando, Florida 32801-1748

RE: Docket NO. 000580-WU; Keen Sales, Rentals and Utilities, Inc.  
Audit Request; Staff-Assisted Rate Case; Audit Control No: 00-171-3-1

Dear Mr. Brown:

We respectfully request that the lump sum amount paid by our organization to the former owner of Alturas Water Works, \$12,000.00, be deemed as an extraordinary expenditure due to the following reasons:

1. The engineer for the FPSC from Tallahassee has determined that the value of the system is \$0.
2. This system was in serious neglect from the previous owner. Upon our acquisition, we have upgraded the system and realize the need for purchasing another hydropneumatic tank. The one currently in use has been patched many times and could possibly be a hazard in the future.
3. Many leaks exist in this system. We are constantly repairing them to better facilitate the overall efficiency of the system and cut down on the water being wasted.

For informational purposes, the former owner of Alturas Water Works sold his interest due to the fact that he did not want to conform to the directives of the FPSC any longer. Upon our acquisition of the system, we have constantly upgraded the system and strive to maintain it in the top working order necessary to provide satisfactory service to the customers.

If you have any questions, please feel free to contact us.

Sincerely,

  
J. Jay Keen  
President

**Disclosure No. 2**

**Subject: Common Costs**

**Statement of Fact:** On September 27, 1996, per the Minutes of Keen Sales, Rentals and Utilities, Inc., the officers determined that the utility company would be charged \$900.00 monthly for office rent. The officers also decided that the president and vice president/assistant managers would charge the utility weekly salaries of \$600.00 and \$350.00, respectively. They conditioned the payment of the expenses to the profitability of the utility.

On March 2, 1999, per the corporate Minutes, the company decided that the office rental and salaries would continue to be waived until the utility could afford to pay such.

**Recommendation:** No office rent, administrative salaries, office electric or other common costs were charged to utility operations during the 12-month period ended March 31, 2000. The FPSC engineer is determining what, or if any, allowances should be made for the noted costs.

**EXHIBIT I**

**ALTURAS SYSTEM OF KEEN SALES, RENTALS AND UTILITIES, INC.  
DOCKET NO. 000580-WU  
NET OPERATING INCOME  
12-MONTH PERIOD ENDED MARCH 31, 2000**

(a) DESCRIPTION	(b) PER UTILITY 03/31/00	(c) AUDIT EXCEPTION	(d) REFER TO(1)	(e) PER AUDIT 03/31/00
OPERATING REVENUES	\$12,904.32	\$482.02	AE 4	\$13,386.34
OPERATING EXPENSES:				
O&M EXPENSE	\$15,550.01	(\$4,393.22)	AE 5-9	\$11,156.79
DEPRECIATION EXPENSE (2)	\$0.00	\$0.00		\$0.00
CIAC AMORTIZATION (3)	\$0.00	\$0.00		\$0.00
TAXES OTHER THAN INCOME	\$2,143.60	(\$1,847.88)	AE 10-11	\$295.72
INCOME TAX EXPENSE (4)	\$0.00	\$0.00		\$0.00
<b>TOTAL OPERATING EXPENSE</b>	<b>\$17,693.61</b>	<b>(\$6,241.10)</b>		<b>\$11,452.51</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>(\$4,789.29)</b>	<b>\$6,723.12</b>		<b>\$1,933.83</b>

**REQUIRED FOOTNOTES:**

- (1) Audit adjustments do not include audit disclosures.
- (2) Depreciation Expense will be determined when the Original Cost Study is complete.
- (3) CIAC Amortization Expense will be determined when the Original Cost Study is complete.
- (4) The utility is a Sub-Chapter S Corporation. Income tax expense is not considered.  
No income tax information was provided.