

State of Florida



Public Service Commission

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

DATE: June 20, 2002
TO: Division of Economic Regulation (Brady)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 020091-WS; **Company Name:** Service Management Systems, Inc.;
Audit Purpose: Establish Rate Base for transfer purposes as of 12/31/01;
Audit Control No. 02-067-3-1

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, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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Melbourne Beach, FL 32951-3941

DOCUMENT PREPARED BY

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Orlando District Office

SERVICE MANAGEMENT SYSTEMS, INC.

ESTABLISH RATE BASE AT TRANSFER

AS OF DECEMBER 31, 2001

**DOCKET NO. 020091-WS
AUDIT CONTROL NO. 02-067-3-1**

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDING	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
	1. BOOKS AND RECORDS	3
	2. UTILITY-PLANT-IN-SERVICE	4
	3. ACCUMULATED DEPRECIATION	10
	4. CIAC AND RELATED AMORTIZATION	13
	5. WASTEWATER	14
III	EXHIBITS	
	1. WATER RATE BASE	15
	2. NONPOTABLE WATER RATE BASE	16
	3. WASTEWATER RATE BASE	17

**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

June 13, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of rate base as of December 31, 2001, for Service Management Systems, Inc. The attached schedules were prepared by the audit staff as part of our work in Docket No. 020091-WS.

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 books and records of the utility were not maintained in substantial compliance with NARUC Water and Wastewater Class "C" Instruction 2B.

Water and wastewater utility plant-in-service were overstated by \$8,615.17 and \$12,551.14 as of December 31, 2001, respectively.

Water, nonpotable water, and wastewater accumulated depreciation as of December 31, 2001, were understated by \$16,803.33, \$3,110.38, and \$68,994.33, respectively.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances 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 item was tested for accuracy and compared to the substantiating documentation.

RATE BASE: Reconciled rate base balances authorized in Commission Order PSC-97-0918-FOF-WS, issued August 4, 1997, to the January 1, 1997, beginning balances. Verified approximately 95 percent of all plant additions acquired from January 1, 1997 through December 31, 2001. Computed accumulated depreciation as of December 31, 2001. Verified and scanned the utility's records for contributions-in-aid-of-construction (CIAC) additions. Recalculated accumulated amortization of CIAC. Prepared water, nonpotable water, and wastewater rate bases as of December 31, 2001.

OTHER: Recalculated a judgmental sample of customer bills applying FPSC-approved tariff rates. Scanned the 1998 through 2000 corporate income tax returns and the audited financial statements from January 1, 1998 through April 12, 2000.

Exception No. 1

Subject: Books and Records

Statement of Fact: The books and records of Service Management Systems, Inc. were not maintained in compliance with NARUC Water and Wastewater Class "C" Accounting Instruction 2.B., which states as follows:

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. 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.

Recommendation: The utility did not maintain transaction general ledgers for the years 1997 through 2000. The general ledgers that were made available were summary in nature with monthly gaps in activity. In many instances, the preceding months' ending balance did not reconcile to the following month's beginning balance.

The utility could not support contributions-in-aid-of-construction collected based on the amounts compiled on the summarized schedules from December 31, 1997 through December 31, 2001.

The audit staff recommends that the utility comply with the aforementioned Instruction.

Exception No. 2

Subject: Utility-Plant-in-Service

Statement of Fact: The utility reflected water, nonpotable water, and wastewater utility-plant-in-service balances, per general ledger, of \$879,193.25, \$876,235.59, and \$2,048,250.46, respectively, as of December 31, 2001.

Recommendation: The audit staff recommends a reduction of \$8,615.17 and \$12,551.14 to the water and wastewater utility plant balance as of December 31, 2001, based on the adjustments on the following pages. Nonpotable water adjustments did not effect a change in the utility balance. However, it did result in reclassifications among functional plant accounts.

Exception No. 2, continued

	Account	Description		
(1)	333 309	Services/Water Supply Mains/Water	\$4,580.00	\$4,580.00
(2)	363 309	Services/Wastewater Supply Mains/Water	\$1,038.90	\$1,038.90
(3)	363 361	Services/Wastewater Gravity Sewers/Wastewater	\$1,038.89	\$1,038.89
(4)	380 360	Transmission & Distribution Equipment/Wastewater Collection System/Wastewater	\$5,566.88	\$5,566.88
(5)	335 331	Hydrants/Nonpotable water Transmission & Distribution/Nonpotable water	\$3,750.00	\$3,750.00
(6)	380 331	Transmission & Distribution Equipment/Wastewater Transmission & Distribution Equipment/Water	\$2,566.87	\$2,566.87
(7)	363 309	Services/Wastewater Supply Mains/Wastewater	\$4,596.00	\$4,596.00
(8)	363 331	Services/Wastewater Transmission & Distribution Equipment/Wastewater	\$15,992.00	\$15,992.00
(9)	211 360	Other Paid-in-Capital Collection System/Wastewater	\$15,911.00	\$15,911.00
(10)	426 330	Miscellaneous Nonutility Expense Distribution Reservoirs/Water	\$607.40	\$607.40
(11)	426 330	Miscellaneous Nonutility Expense Distribution Reservoirs/Water	\$1,402.00	\$1,402.00
(12)	108-330 330	Accumulated Depreciation/Distribution Reservoir/Water Distribution Reservoirs/Water	\$3,000.00	\$3,000.00

Exception No. 2, continued

	Account	Description		
(13)	331	Transmission & Distribution Equipment/Water	\$19,736.79	
	334	Meter & Meter Installs/Water	1,116.32	
	307	Wells & Springs/Water	1,076.00	
	339	Reject Line/Water	61.00	
	309	Supply Mains/Water		\$21,929.11
	347	Miscellaneous Equipment/Water		61.00
(14)	331	Transmission & Distribution Equipment/Nonpotable water	\$60,317.96	
	334	Meter & Meter Installs/Nonpotable Water	22,705.89	
	330	Storage Tank/Nonpotable water	400.00	
	309	Supply Mains/Nonpotable water		\$67,100.00
	311	Pumping Equipment/Nonpotable Water		16,324.00
	(Rounding)		0.15	
(15)	361	Gravity Sewers/Wastewater	\$19,782.73	
	389	Other Plant & Miscellaneous Equipment/Wastewater	211.00	
	382	Outfall Lines/Wastewater		\$12,984.00
	363	Services/Wastewater		5,480.00
	334	Meter & Meter Installation/Wastewater		1,318.73
	398	Miscellaneous Equipment/Wastewater		211.00
(16)	211	Paid-in-Capital	\$245.91	
	334	Meters-Wastewater		\$245.91

Journal Entries 1 through 8 are applicable to plant misclassified by the utility among functional accounts.

Journal Entry 9 adjusts for the double-booking of PSC-97-0918-FOF-WS Order adjustments.

Journal Entry 10 adjusted for the Documentary Stamps on a loan (\$582.40) and a loan filing fee (\$25.00).

Journal Entry 11 was capitalized interest of which support was not available.

Journal Entry 12 was for the cost of removing a storage tank that should have been charged to accumulated depreciation.

Journal Entries 13 through 15 adjusted the utility's erroneous recording of PSC-97-0918-FOF-WS Order adjustments.

Journal Entry 16 excludes the balance in this account that is applicable to water, not wastewater, and the amount could not be supported by the utility.

Exception No. 2, continued

The following schedules reflect the adjustments to water, nonpotable water, and wastewater plant accounts.

WATER

Account	Description	Balance @12/31/01 Per Utility	Adjustments	Balance @12/31/01 Per Staff
301	Organization	\$1,050.00	\$0.00	\$1,050.00
302	Land	30,160.00	0.00	30,160.00
304	Structures & Improvements	15,765.00	0.00	15,765.00
307	Wells & Springs	115,431.00	1,076.00	116,507.00
309	Supply Mains	27,548.01	(4,580.00)	0.00
			(1,038.90)	
			(21,929.11)	
311	Pumping Equipment	3,235.00	0.00	3,235.00
320	Water Treatment Equipment	356,506.00	0.00	356,506.00
330	Distribution Reservoirs	155,118.52	(607.40)	150,109.12
			(1,402.00)	
			(3,000.00)	
331	Transmission & Distribution Equipment	105,434.58	19,736.79	122,604.50
			(2,566.87)	
333	Services	62,750.78	4,580.00	67,330.78
334	Meters	4,933.36	1,116.32	6,049.68
339	Other Plant & Miscellaneous Equipment	1,200.00	61.00	1,261.00
347	Miscellaneous Equipment	61.00	(61.00)	0.00
		\$879,193.25	\$8,615.17	\$870,578.08

Exception No. 2, continued**NONPOTABLE WATER**

Account	Description	Balance @12/31/01 Per Utility	Adjustments	Balance @12/31/01 Per Staff
303	Land & Land Rights	\$31,920.00	\$0.00	\$31,920.00
304	Structures & Improvements	650.00	0.00	650.00
307	Wells & Springs	115,430.00	0.00	115,430.00
309	Supply Mains	92,300.01	(67,100.00)	25,200.01
311	Pumping Equipment	61,561.00	(16,324.00)	45,237.00
330	Storage Tank	471,964.00	400.00	472,364.00
331	Transmission & Distribution Equipment	35,062.81	(3,750.00)	91,630.77
			60,317.96	
333	Services - Water	48,295.50	0.00	48,295.50
334	Meter & Meter Installs	12,752.27	22,705.89	35,458.16
335	Hydrants	6,300.00	3,750.00	10,050.00
		\$876,235.59	(\$0.15)	\$876,235.44

Exception No. 2, continued

WASTEWATER

Account	Description	Balance @12/31/01 Per Utility	Adjustments	Balance @12/31/01 Per Staff
351	Organization	\$1,050.00	\$0.00	\$1,050.00
353	Land & Land Rights	33,680.00	0.00	33,680.00
354	Structures & Improvements	18,769.00	0.00	18,769.00
360	Collection System	182,835.36	(5,566.88)	161,357.48
			(15,911.00)	
361	Gravity System	280,669.16	(1,038.89)	299,413.00
			19,782.73	
363	Services	140,990.15	1,038.90	158,175.94
			1,038.89	
			4,596.00	
			15,992.00	
			(5,480.00)	
309	Supply Mains	4,596.00	(4,596.00)	0.00
371	Pumping Equipment	2,094.00	0.00	2,094.00
380	Treatment Equipment	1,193,560.22	5,566.88	1,201,693.97
			2,566.87	
382	Outfall Lines	157,892.00	(12,984.00)	144,908.00
389	Other Plant & Miscellaneous Equip.	698.00	211.00	909.00
331	Transmission & Distribution	15,992.00	(15,992.00)	0.00
334	Meter & Meter Installation	1,564.64	(1,318.73)	0.00
			(245.91)	
398	Miscellaneous Equipment	3,659.93	(211.00)	3,448.93
390	Services	10,200.00	0.00	10,200.00
		\$2,048,250.46	(\$12,551.14)	\$2,035,699.32

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: Water, nonpotable water, and wastewater accumulated depreciation balances as of December 31, 2001, per utility records, were \$435,994.00, \$464,418.00 and \$1,500,933.00, respectively.

Recommendation: Due to the numerous plant adjustments reflected via Exception No. 1 and incomplete depreciation records, the audit staff recomputed the balances as of December 31, 2001, in accordance with Rule 25-30.140, Florida Administrative Code, rates. Based on the audit staff's computation, the utility understated water, nonpotable water, and wastewater accumulated depreciation by \$16,803.33, \$3,110.38, and \$68,994.33, respectively.

WATER

Account	Description	Total Accumulated Depreciation Per Staff @12/31/01	Total Accumulated Depreciation Per Utility @12/31/01	Adjustment
301	Organization	\$498.25	\$586.00	(\$87.75)
302	Land & Land Rights	0.00	0.00	0.00
304	Structures & Improvements	10,917.05	11,860.00	(942.95)
307	Wells & Springs	73,093.80	72,139.00	954.80
309	Supply Mains	0.00	4,887.00	(4,887.00)
311	Pumping Equipment	1,424.09	1,426.00	(1.91)
320	Treatment Equipment	310,101.76	293,562.00	16,539.76
330	Storage Tank	10,094.10	11,623.00	(1,528.90)
331	Transmission & Distribution Equipment	23,750.26	17,470.00	6,280.26
333	Services - Water	20,596.79	20,477.00	119.79
334	Meters & Meter Installs	1,846.98	1,453.00	393.98
339	Reject Line	474.25	450.00	24.25
347	Miscellaneous Equipment	0.00	61.00	(61.00)
		\$452,797.33	\$435,994.00	\$16,803.33

Exception No. 3, continued

NONPOTABLE WATER

Account	Description	Total Accumulated Depreciation Per Staff @12/31/01	Total Accumulated Depreciation Per Utility @12/31/01	Adjustment
303	Land & Land Rights	\$0.00	\$0.00	\$0.00
304	Structures & Improvements	151.03	148.00	3.03
307	Wells & Springs	72,874.55	72,137.00	737.55
309	Supply Mains	3,478.15	25,473.00	(21,994.85)
311	Pumping Equipment	19,269.62	21,760.00	(2,490.38)
330	Storage Tank	315,740.15	315,684.00	56.15
331	Transmission & Distribution Equip.	18,525.99	1,098.00	17,427.99
333	Services - Water	18,567.53	18,625.00	(57.47)
334	Meters & Meter Installs	18,198.78	4,093.00	14,105.78
335	Hydrants	722.58	5,400.00	(4,677.42)
		\$467,528.38	\$464,418.00	\$3,110.38

Exception No. 3, continued

WASTEWATER

Account	Description	Total Accumulated Depreciation Per Staff @12/31/01	Total Accumulated Depreciation Per Utility @12/31/01	Adjustment
101	UPIS-Supply Maintenance	\$0.00	\$288.00	(\$288.00)
309	Supply Mains	0.00	0.00	0.00
331	Transmission & Distribution Eqp.	0.00	888.00	(888.00)
334	Meter & Meter Installation	0.00	539.00	(539.00)
351	Organization	591.25	736.00	(144.75)
353	Land & Land Rights	0.00	0.00	0.00
354	Structures & Improvements	13,338.27	15,083.00	(1,744.73)
360	Collection System	82,008.49	77,985.00	4,023.49
361	Gravity Sewers	69,720.41	48,945.00	20,775.41
363	Services	64,381.86	63,228.00	1,153.86
371	Pumping Equipment	762.09	761.00	1.09
380	Treatment Equipment	1,220,099.00	1,152,056.00	68,043.00
382	Outfall Lines	118,274.18	138,383.00	(20,108.82)
389	Other Plant & Misc. Equipment	517.15	308.00	209.15
398	Miscellaneous Equipment	234.63	1,733.00	(1,498.37)
		\$1,569,927.33	\$1,500,933.00	\$68,994.33

Exception No. 4

Subject: Contributions-in-Aid-of-Construction (CIAC) and Related Amortization

Statement of Fact: Water, nonpotable water, and wastewater contributions-in-aid-of-construction balances as of December 31, 2001, per utility records, were \$351,245, \$95,822, and \$491,462, respectively. The related accumulated amortization was \$120,663, \$32,356, and \$207,788, respectively.

Recommendation: The utility could not provide meaningful supporting documentation to substantiate CIAC additions from January 1, 1997 through December 31, 2001, of \$58,768, \$10,017, and \$55,525 for the respective water, nonpotable water, and wastewater systems.

The company did offer copies of \$30.00 checks from approximately 40 customers for water and wastewater connections. Staff could not determine whether the fees collected were properly recorded via revenues or charged as CIAC. The fees, however, were collected in accordance with the company's tariff.

Additionally provided were billings and checks totaling \$19,850 from Certified Builders Corporation for plant and system capacity fees, along with meter installation charges that were collected in accordance with the utility's tariff. It appears that these fees are included in the CIAC account additions balance.

The audit staff did not impute the CIAC balance due to the unreliability of utility records as stated in Audit Exception No. 1.

Representatives of Service Management Systems, Inc. (SMSI) informed the audit staff that they did not maintain CIAC records as was noted in the previous audit report dated May 16, 1997 (Docket No. 970093-WS).

The audit staff reviewed the audit report and work papers of SMSI's external auditors but was unable to establish the validity of the CIAC balances in question.

The audit staff has included the utility's CIAC balances as of December 31, 2001, and accompanying amortization in the appended rate bases, however, defers to the Tallahassee analyst for final disposition.

Exception No. 5

Subject: Wastewater

Statement of Fact: According to the Third Revised Tariff Sheet No. 13.0, effective February 29, 2000, Service Management Systems, Inc.'s wastewater base facility charge for a 1" meter is \$36.48.

Recommendation: The utility is charging a \$36.26 base facility charge to wastewater customers according to the audit staff's review of its billing register. Service Management Systems, Inc. has only five customers billed under this rate class, so no monetary adjustment is recommended based on materiality.

The audit staff does recommend, however, that the utility adjust its billing rate to comply with the tariff.

EXHIBIT I

**SERVICE MANAGEMENT SYSTEMS, INC.
WATER RATE BASE
DOCKET NO. 020091-WS
ESTABLISH RATE BASE AT TRANSFER
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY @ 12/31/01	AUDIT EXCEPTION	REFER TO	PER AUDIT @ 12/31/01
UTILITY PLANT-IN-SERVICE	\$849,033.25	(\$8,615.17)	E2	\$840,418.08
LAND	30,160.00	0.00		30,160.00
ACCUMULATED DEPRECIATION	(435,994.00)	(16,803.33)	E3	(449,797.33)
		3,000.00	E2	
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(351,245.00)	0.00		(351,245.00)
ACCUMULATED AMORTIZATION OF CIAC	<u>120,663.00</u>	<u>0.00</u>		<u>120,663.00</u>
TOTAL	\$212,617.25	(\$22,418.50)		\$190,198.75

EXHIBIT II

**SERVICE MANAGEMENT SYSTEMS, INC.
NONPOTABLE WATER RATE BASE
DOCKET NO. 020091-WS
ESTABLISH RATE BASE AT TRANSFER
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY @12/31/01	AUDIT EXCEPTION	REFER TO	PER AUDIT @ 12/31/01
UTILITY PLANT-IN-SERVICE	\$844,315.59	\$0.00		\$844,315.59
LAND	31,920.00	0.00		31,920.00
ACCUMULATED DEPRECIATION	(464,418.00)	(3,110.38)	E3	(467,528.38)
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(95,822.00)	0.00		(95,822.00)
ACCUMULATED AMORTIZATION OF CIAC	<u>32,356.00</u>	<u>0.00</u>		<u>32,356.00</u>
TOTAL	\$348,351.59	(\$3,110.38)		\$345,241.21

EXHIBIT III

**SERVICE MANAGEMENT SYSTEMS, INC.
WASTEWATER RATE BASE
DOCKET NO. 020091-WS
ESTABLISH RATE BASE AT TRANSFER
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY @ 12/31/01	AUDIT EXCEPTION	REFER TO	PER AUDIT @ 12/31/01
UTILITY PLANT-IN-SERVICE	\$2,014,570.46	(\$12,551.14)	E2	\$2,002,019.32
LAND	33,680.00	0.00		33,680.00
ACCUMULATED DEPRECIATION	(1,500,933.00)	(68,994.33)	E3	(1,569,927.33)
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(491,462.00)	0.00		(491,462.00)
ACCUMULATED AMORTIZATION OF CIAC	<u>207,788.00</u>	<u>0.00</u>		<u>207,788.00</u>
TOTAL	\$263,643.46	(\$81,545.47)		\$182,097.99