

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED OCTOBER 31, 1995

FIELD WORK COMPLETED

JANUARY 5, 1996

ARREDONDO UTILITY COMPANY, INC.

GAINESVILLE, FLORIDA

ALACHUA COUNTY

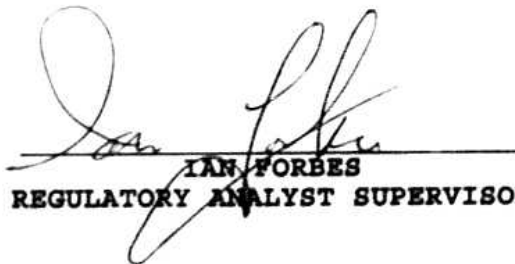
STAFF ASSISTED RATE CASE AUDIT

DOCKET NO. 951234-WS

AUDIT CONTROL NUMBER 95-339-3-1



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AUDIT MANAGER



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FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to prepare proposed schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending October 31, 1995 for the Arredondo Utility Company, Inc. petition for staff assisted rate case, FPSC Docket 951234-WS.

SCOPE LIMITATION: The last day of field work was January 5, 1995. There are no confidential workpapers in this audit.

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 audit work would have to be performed to satisfy generally accepted audit standards and produce financial statements for public use.

OPINION: The schedules of Rate Base, Net Operating Income, and Capital Structure represent Arredondo Utility Company, Inc.'s books and records, which are not maintained in substantial compliance with Commission directives. The expressed opinions extend only to the scope of work described in Section II of this report.

SUMMARY FINDINGS:

(1) There were reclassifications to the plant and expense accounts that result in an increase of \$2,962 to the water plant and \$5,121 to the wastewater plant.

(2) The Utility did not record the proceeds received from a third party for the replacement of a fire hydrant as C.I.A.C. Along with other adjustments, water C.I.A.C. should be increased \$4,191.

(3) Recalculation of amortization results in increasing water amortization expense \$1,347 and wastewater \$1,180. Water accumulated amortization should be increased \$4,396 and wastewater increased \$5,373.

(4) Depreciation expense, net of C.I.A.C., should be decreased \$1,675 for the water plant and \$534 for the wastewater plant. Accumulated depreciation would increase \$11,810 for water and \$8,280 for wastewater.

(5) The Utility is allocating revenue from connection fees and premise visits between water and wastewater. This, along with the correction of a posting error results in an increase to water revenue of \$2,746 with an equal decrease to wastewater.

(6) The Utility is paying a related company monthly fees for rent and bookkeeping services in excess of the amount allowed under FPSC Order No. PSC-93-0509-FOF-WS. Water contract service expenses should be decreased \$15,837 and wastewater decreased \$8,159.

(7) An employee of the Utility is also an employee of a related company. Some of the hours he worked for the Utility were not paid directly by the Utility, but billed through the related company at a significantly higher rate. This excess is being disallowed reducing water expenses \$473 and wastewater expenses \$571.

(8) Officer's are being paid in excess of the allowance provided by FPSC Order No. PSC-93-0509-FOF-WS. Water expenses should be reduced \$5,802 and wastewater reduced \$3,534.

(9) Current rate case expenditures were included in contract services; \$791 should be removed from water and \$408 from wastewater. The Utility is not amortizing expenses from the prior rate case. Amortization of expenses from both cases would be \$324 for water and \$89 for wastewater.

(10) The Utility can no longer justify use of a mobile phone. Miscellaneous expenses should be reduced \$484 for water and \$249 for wastewater to remove this expense.

(11) A charitable contribution of \$35 and \$200 paid for a Christmas party are being disallowed from wastewater expenses.

(12) Insurance expense included premiums that covered a three year period. Annualizing the costs results in a decrease of \$1,423 to water expense and \$733 to wastewater.

(13) The Utility currently expensed a \$1,000 payment to Dept. of Environmental Protection for a 5 year permit for the wastewater plant. Allowing for current period amortization, wastewater expenses should be reduced a net amount of \$917.

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report COMPILED means that audit work includes:

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 otherwise noted performed no other audit work.

RATE BASE: Reconciled beginning rate base to prior Order No. PSC-93-0509-FOF-WS establishing Rate Base as of June 30, 1992. Scheduled and tested 100% of plant and CIAC additions for the period July 1, 1992 through October 31, 1995. Computed and scheduled accumulated depreciation (plant) and accumulated amortization (CIAC) based upon staff adjusted balances for plant and CIAC using rates that were approved during prior rate proceedings for same period. Made appropriate adjustments to same. Computed Working Capital at 1/8 O&M expenses.

NET OPERATING INCOME: Scheduled Net Operating Income for the test year. Recomputed customer billings on a randomly selected basis and performed a reasonableness test on revenues. Scheduled all cash disbursements for the test year and randomly selected 25% of all vendor invoices to test for correctness as determined by pre-selected attributes. Recalculated Depreciation and Amortization of CIAC expenses per rule 25-30.140 since last audit. Recomputed Taxes Other Than Income for the test year.

CAPITAL STRUCTURE: Compiled equity capital and liability account balances as of October 31, 1995.

OTHER: Obtained and reviewed copies of federal tax returns per ASR. Toured wastewater plant and both water plants with Utility Operator and PSC Water and Wastewater Engineer.

AUDIT EXCEPTION NO. 1

SUBJECT: BOOKS & RECORDS OF UTILITY

STATEMENT OF FACT:

The Uniform System of Accounts for Class "C" Water and Wastewater Utilities requires:

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

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

The Utility does not use an accrual system of accounting.

Effective December 31, 1994, the Utility has begun to maintain their plant accounts utilizing NARUC account numbers; however, NARUC account numbers are not being utilized for income and expense accounts.

The Utility also began to separate expenses between the water and wastewater systems as of December 31, 1994.

AUDITOR'S OPINION:

Arredondo Utility Company, Inc. should maintain their records in accordance with the Uniform System of Accounts.

COMPANY COMMENTS:

AUDIT EXCEPTION NO. 2

SUBJECT: CUSTOMER DEPOSITS

STATEMENT OF FACT:

FAC 25-30.311 requires that a utility pay interest on customer deposits annually. Arredondo Utility Company, Inc.'s tariff specifies that interest will be paid at 8% per year in August. The Utility paid interest to their customers in August, 1994 at a rate of 6%. No interest was paid in August, 1995

FAC 25-30.311 also requires that when deposits are refunded accrued interest will be paid on those deposits. The Utility is not paying interest when they are refunding deposits.

AUDIT OPINION:

Interest was not correctly calculated in August, 1994 and was not paid at all in August, 1995. Additionally, interest is not being paid, when applicable, on refunds.

RECOMMENDATION:

The Utility be ordered to immediately pay corrected interest amounts on all current deposits and previously refunded deposits in addition to paying interest that was due August, 1995.

AUDIT DISCLOSURE NO. 1

SUBJECT: PLANT IN SERVICE

STATEMENT OF FACT:

Prior to December 31, 1994, the Utility did not utilize plant accounts as required by NARUC. The Utility now is utilizing the NARUC plant account numbers; however, as of October 31, 1995, they still have assets listed in a generic "depreciable plant" account.

On December 31, 1994 the Utility made a lump-sum adjustment of \$58,350 to the combined water and wastewater plant account in their books to reconcile their plant balance to the balance per Order NO. PSC-93-0509-FOF-WS.

At the end of 1992, the Utility added three items to plant that had been considered operating expenses in the prior audit for the test period ended June 30, 1992.

When developing the water plant balance of \$174,541 authorized in FPSC Order. No. PSC-93-0509-FOF-WS, a land value of \$1,238 was not removed from depreciable plant. It was, however, also included in the total for land in the order.

The Utility did not capitalize payments for services rendered in obtaining a revised permit due to replacing the digester at the wastewater plant. These invoices totaled \$2,600.

In 1994 a fire hydrant was replaced. The Utility expensed the \$4,356 paid for the fire hydrant and recorded the proceeds received as an offset against the expense.

Prior to 1994, the Utility did not capitalize labor costs associated with meter installations, unless billed by an unrelated third party.

The Utility paid for a new software program in June 1, 1995; however, the software was not actually placed in service until December 1, 1995. The Utility allocated the cost 66% water and 34% wastewater.

A payment was made to Home Depot on July 16, 1993 for \$139.96 for a pump for the water plant. The Utility listed it as plant; however, they are unable to locate any supporting documentation for this payment.

The Utility calculated a CPI index of 119 to use in determining original cost for retirements. When applying the index, 219 was utilized.

AUDITOR'S OPINION:

The Utility made an adjustment of \$58,350 to their books to bring them into compliance with the prior order; however, the adjustment should have been for \$61,770. An additional adjustment of \$3,420 is needed in order to agree with the prior order.

Presented on Schedule 3 is a listing of all invoices that were not capitalized by the Utility that the auditor has included in plant. The fire hydrant that was replaced should be capitalized with the payment that the Utility received being treated as C.I.A.C. (See Disclosure 4).

Schedule 4 lists those items that the Utility capitalized that should be considered operating expenses and/or lack proper documentation of the expenditure.

Schedule 5 provides an analysis of the variance between retirements as calculated by the Utility and the auditor.

There were several reclassifications among plant account numbers in addition to the above adjustments. In summary, schedules 1 and 2 show a comparison between the Utility balances and the audited balance by plant account.

The Utility should adjust their records to indicate a water plant balance of \$275,539 and a wastewater plant balance of \$182,647 as of October 31, 1995.

COMPANY COMMENTS:

Company may respond at a later date.

AUDIT DISCLOSURE NO. 1
 SCHEDULE 1

	WATER	WASTE - WATER
UTILITY BALANCE PER G/L AT 10/31/95	272,577	177,526
ADDITIONAL ITEMS CAPITALIZED IN AUDIT SEE SCHEDULE 4	5,545	3,179
ADJUST RETIREMENTS - SEE SCHEDULE 6	(538)	(83)
NET ADJUSTMENT FROM PRIOR AUDIT AND FOR REMOVAL OF EXPENSE ITEMS	(2,045)	2,025
TOTAL ADJUSTMENT	2,962	5,121
ADJUSTED G/L BALANCE	275,539	182,647
AUDIT BALANCES	275,539	182,647
VARIANCE	0	0

AUDIT DISCLOSURE NO. 1
 SCHEDULE 2

WATER PLANT BY ACCOUNT NUMBER

ACCT NO	DESCRIPTION	AUDIT BALANCE 10/31/95	BALANCE PER BOOKS 10/31/95	VARIANCE
301	ORGANIZATION COST	0		0
304	STRUCTURE AND IMPROVEMENTS	5,856	4,905	951
307	WELLS AND SPRINGS	9,519	9,519	0
309	SUPPLY MAINS	8,157	3,398	4,759
310	POWER GENERATING EQUIPMENT	29,117	30,068	(951)
311	PUMPING EQUIPMENT	9,685	10,304	(619)
320	WATER TREATMENT PLANT	15,039	15,359	(320)
330	DIST. RESERVOIR & STANDPIPES	20,520	20,520	0
331	TRANSMISSION & DIST. MAINS	71,285	76,531	(5,246)
333	SERVICES	23,383	23,383	0
334	METERS	63,963	59,618	4,345
335	HYDRANTS	6,199	2,288	3,911
339	OTHER PLANT & MISC. EQUIPMENT	668	668	0
340	OFFICE FURNITURE & EQUIP	330		330
341	TRANSPORTATION EQUIPMENT	8,104	8,023	81
343	TOOLS, SHOP & GARAGE EQUIP	1,764	151	1,613
345	POWER OPERATED EQUIPMENT	0		0
348	OTHER TANGIBLE PLANT	1,950	2,944	(994)
	PLANT ACCT NOT DEFINED BY UTILITY		4,898	(4,898)
		275,539	272,577	2,962

AUDIT DISCLOSURE NO. 1
SCHEDULE 3

WASTEWATER PLANT IN SERVICE BY ACCOUNT

ACCT NO.	DESCRIPTION	AUDIT BALANCE 10/31/95	BALANCE PER UTILITY G/L	VARIANCE
351	ORGANIZATION	0	0	0
354	STRUCTURES & IMPROVEMENTS	11,979	11,106	873
360	COLL SEWERS - FORCE	19,604	0	19,604
361	COLL SEWERS - GRAVITY	78,665	78,881	(216)
362	SPECIAL COLL STRUCTURES	0	0	0
363	SERVICES TO CUSTOMERS	2,135	2,135	0
364	FLOW MEASURING DEVICES	0	0	0
365	FLOW MEASURING INSTALL.	0	635	(635)
370	RECEIVING WELLS	15,010	0	15,010
371	PUMPING EQUIPMENT	0	18,713	(18,713)
380	TREATMENT & DISPOSAL EQUIP	49,278	59,965	(10,687)
382	OUTFALL SEWER LINES	382	0	382
389	OTHER PLANT & MISC EQUIP	261	483	(222)
390	OFFICE FURNITURE & EQUIP	170	0	170
391	TRANSPORTATION EQUIP	4,158	4,011	147
393	TOOLS, SHOP & GARAGE EQUIP	0	76	(76)
395	POWER OPERATED EQUIPMENT	0	0	0
398	OTHER TANGIBLE PLANT	1,005	1,521	(516)
	TOTAL DEPRECIABLE PLANT	182,647	177,526	5,121

AUDIT DISCLOSURE NO. 1
 SCHEDULE 4

THE FOLLOWING INVOICES WERE ORIGINALLY EXPENSED, EITHER IN PART OR COMPLETELY, BY THE UTILITY. IT IS THE OPINION OF THE AUDITOR THAT THESE INVOICES SHOULD BE INCLUDED AS PLANT.

DATE	INVOICE NUMBER	PAYEE	AMOUNT	EXPENSED TO ACCT NO	BY UTILITY DESCRIPTION
12/28/92	70904	Sunstate Meter & Supply	83.74		Water
12/9/92	70937	Sunstate Meter & Supply	155.65		Water
2/10/94	76509	Sunstate Meter & Supply	249.10		Water
12/29/94	7769	Myers Bros., Inc.	68.90	730	Wastewater CONTRACT SVC
1994		Labor Costs on 20 replacement meters	700.00		Water
1/19/95		D.E.P.	250.00	775	Wastewater MISC. EXP.
9/29/95	15027	Reno & Wilson	160.45	720	Wastewater MATERIAL/SUPP
3/14/95		Hydrotech	1,500.00	730	Wastewater CONTRACT SVC
6/8/95		Hydrotech	500.00	730	Wastewater CONTRACT SVC
9/15/95		Hydrotech	600.00	730	Wastewater CONTRACT SVC
9/7/95	15007	Reno & Wilson	4,356.07		Water SEE DISCLOSURE NO. 4
9/15/95		D.E.P.	100.00	775	Wastewater MISC. EXP.
TOTAL ADDITIONAL ITEMS CAPITALIZED			8,723.91		

			=====		
Water Plant			5,544.56		
Wastewater Plant			3,179.35		

			8,723.91		

			=====		

AUDIT DISCLOSURE NO. 1
 SCHEDULE 5

THE FOLLOWING INVOICES WERE ORIGINALLY CAPITALIZED, EITHER IN PART OR COMPLETELY BY THE UTILITY. IT IS THE OPINION OF THE AUDITOR THAT THESE INVOICES SHOULD BE REMOVED FROM PLANT.

DATE	INVOICE NUMBER	PAYEE	AMOUNT	REASON
1/20/92		Grimm Electric	872.55	Expensed in prior rate case
8/20/93	74127	Sunstate Meter & Supply	111.30	Materials/supplies
7/16/93		Home Depot	139.96	No supporting documentation.
12/10/93	958104	Century Rain Aid	53.66	Materials/supplies
6/1/95	59500029	Dynasty Software	2,260.00	CWIP OF \$1750 until 12/1/95 when it was placed in service \$500 is prepaid asset
TOTAL ITEMS TO REMOVE FROM PLANT			3,437.47	

AUDIT DISCLOSURE NO. 1
SCHEDULE 6

THE FOLLOWING IS A SCHEDULE OF THE ADJUSTMENTS TO PLANT AND ACCUMULATED DEPRECIATION RESULTING FROM ERRORS IN COMPUTING BASIS:

PLANT ACCT.	DESCRIPTION	PER AUDIT	PER UTILITY	VARIANCE	
311	Pump	153	140	13	Utility retired pump purchased the prior year that was disallowed in the audit due to lack of documentation; auditor is retiring original pump that utility did not retire
311	Pump	176	96	80	Incorrect CPI Index
335	Fire Hydrant	445	0	445	See Addition on Audit Disclosure Schedule 3

Total Adjustment to Water – Increase Plant in Service; Decrease Accumulated Depreciation – Water				538	=====
380	Valves	182	99	83	Incorrect CPI Index

Total Adjustment to Wastewater – Decrease Plant in Service; Increase to Accumulated Depreciation – Wastewater				83	=====

AUDIT DISCLOSURE NO. 2

SUBJECT: PRO FORMA ADJUSTMENT - PLANT AND ACCUMULATED DEPRECIATION

STATEMENT OF FACT:

In January, 1994 the Utility purchased a pick-up truck for use by their on-staff Operator and the maintenance worker. Effective August, 1995 the Utility began contracting out for their Operator and in September, 1995 entered into an agreement with an unrelated third party to provide repairs and maintenance on the water and wastewater plants and to do the meter readings.

AUDITOR'S OPINION:

The pick-up truck was originally purchased to provide transportation for the Utility's Operator and the maintenance man. Since the functions provided by these former employees are now contracted out, the need for the pick-up truck no longer exists. Therefore, a proforma adjustment at October 31, 1995, should be made to remove the pick-up truck from plant in service, thereby decreasing water plant in service by \$6,976 and wastewater plant in service \$3,594 with equal decreases to accumulated depreciation.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 3

SUBJECT: LAND

STATEMENT OF FACT:

FPSC Order No. PSC-93-0509-FOF-WS established the Utility's land for the water plant at a cost of \$1,474 and the wastewater plant land to have a cost of \$5,500. The Utility's General Ledger balance for the water plant agrees with the order. The land for the wastewater plant is recorded in the General Ledger at \$5,450.

AUDITOR'S OPINION:

The Utility should adjust their records to reflect a cost of \$5,500 for the wastewater plant's land.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 4

SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION (C.I.A.C.)

STATEMENT OF FACT:

In September, 1995, Clayton Mobile Home Park, Inc., an unrelated third party, was billed \$4,356 for a replacement fire hydrant. The Utility did not capitalize the new fire hydrant (See Audit Disclosure No. 1) nor did they record the receipt of funds as C.I.A.C.; the transaction was treated as an offset through the repairs and maintenance account.

In May, 1994, \$65 of repairs billed to and paid by Clayton Mobile Home park was included in Meter Installation fees.

In July, 1994, Arredondo Utility Company, Inc. billed Clayton Mobile Home Park, Inc. \$220 for a meter installation at Lot 2832 and posted \$210 of their payment to the Meter Installation account. This fee is in excess of the \$110 allowed per FPSC Order. No. PSC-93-0509-FOF-WS.

The Utility has a balance of \$69,350 in their General Ledger for Water C.I.A.C. and \$77,430 for Wastewater C.I.A.C. as of October 31, 1995.

AUDITOR'S OPINION:

Adjustments should be made to the records of the Utility to include the \$4,356 contributed for the replacement fire hydrant less the \$65 repair fee that was included and the \$100 that was posted to the Meter Installation account that was in excess of the approved rate. This would result in a net increase of \$4,191 to C.I.A.C. for the water plant.

Water C.I.A.C. per G/L as of 10/31/95	\$69,350.
Proceeds received for fire hydrant	4,356.
Less repair charges	(65.)
Less excess hook-up fee	(100.)
Water C.I.A.C. per Audit as of 10/31/95	<u>\$73,541.</u>
	=====

There is no change to C.I.A.C. for the wastewater plant.

AUDITOR'S RECOMMENDATION:

The Utility should be ordered to refund the excess \$110 that was billed to Clayton Mobile Home Park, Inc. for the meter installation at Lot 2832.

The Utility should record the above adjustments to their books.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 5

SUBJECT: AMORTIZATION EXPENSE AND ACCUMULATED AMORTIZATION OF CIAC

STATEMENT OF FACT:

The Utility records amortization of C.I.A.C. annually as a year end adjustment at December 31. For 1994 the Utility recorded amortization expense of \$1,845 for the water plant and \$1,936 for the wastewater plant. Their general ledger reflects accumulated amortization balances of \$44,787 for water and \$43,249 for wastewater as of October 31, 1995.

AUDITOR'S OPINION:

The auditor calculated amortization expense for the test period of November 1, 1994 through October 31, 1995 to be \$3,192 for the water plant and \$3,116 for the wastewater plant. For rate making purposes, this results in a \$1,347 (\$3,192 - \$1,845) increase for water and \$1,180 (\$3,116 - \$1,936) for wastewater.

Accumulated amortization as of October 31, 1995 for water should be increased \$4,396 to \$49,183 and wastewater should be increased \$5,373 to \$48,622.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 6

SUBJECT: DEPRECIATION EXPENSE & ACCUMULATED DEPRECIATION

STATEMENT OF FACT:

The Utility records depreciation expense annually as a year end adjustment and calculates depreciation expense in accordance with FAC 25-30.140. At December 31, 1994 the Utility recorded \$10,964 of depreciation expense, net of amortization of C.I.A.C. for the water plant and \$4,769 for the wastewater plant. The balances for accumulated depreciation in the general ledger are \$125,350 for water and \$96,790 for wastewater as of October 31, 1995.

AUDITOR'S OPINION:

For the test period of November 1, 1994 through October 31, 1995, the auditor calculated depreciation expense (net of amortization of C.I.A.C.) of \$9,288 (depreciation of \$12,480 - amortization of \$3,192) for the water plant and \$4,235 (\$7,351 depreciation - \$3,116 amortization) for the wastewater plant. For rate making purposes, this results in a decrease of \$1,675 (\$10,963 - \$9,288) for water depreciation expense and an decrease of \$534 (\$4,769 - \$4,235) to wastewater depreciation expense.

In order to bring accumulated depreciation balances current, the Utility needs to increase the water account balance by \$11,810 to \$137,160 and the wastewater account balance by \$8,280 to \$105,070.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 7

SUBJECT: REVENUE

STATEMENT OF FACT:

Arredondo Utility Company, Inc. services two distinctly separate areas. Arredondo Farms, called "the Farms" is a mobile home park that is provided water and wastewater services by the Utility. The second service location, known as "the Estates", receives water services only.

In January, 1995, the Utility had water and wastewater revenue from the "Farms" of \$2,960 and \$2,702, respectively, according to the monthly billing register. When posted to the General Ledger, these items were reversed resulting in water revenue being understated \$258 and wastewater revenue being overstated this same amount.

When the Utility posts revenue from connection fees and premise visits to the General Ledger, the revenue is split evenly between water and wastewater. In accordance with the tariff, wastewater customers are charged connection or premise visit fees only if they do not receive water service. For the test period ended October 31, 1995 there was \$2,488 recorded as water revenue and \$2,488 as wastewater revenue from these fees.

The Utility reported water revenue of \$75,898 and wastewater revenue of \$35,536 for the test period ended October 31, 1995.

AUDITOR'S OPINION:

Water revenue should be increased \$258 and wastewater revenue should be decreased by an equal amount to adjust for the misposting that occurred in January, 1995.

Hook-up and premise visit revenue should be considered water revenue unless the customer receives wastewater services only. The total adjustment to correctly allocate this revenue would be to increase water revenue \$2,488 and decrease wastewater revenue proportionately.

For rate making purposes, water revenue for the test period should be increased \$2,746 (258 + 2,488) from \$75,898 to \$78,644 and wastewater revenue decreased \$2,746 from \$35,536 to \$32,790.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 8

SUBJECT: CONTRACT SERVICES - ANNUAL ALLOWANCE

STATEMENT OF FACT:

FPSC Order No. PSC-93-0509-FOF-WS established an annual allowance of \$8,004 (\$667 a month) for a billing clerk/secretary and \$2,400 (\$200 a month) for rent of office space. This equates to an annual allowance of \$10,404, or \$867 per month. Loan Services, Inc., a related company of the Utility was billing the Utility \$867 per month for "management fees" until January, 1995. Effective January, 1995, the Utility began accruing a monthly "management fee" of \$4,046 payable to Loan Services, Inc. The only change to the services being provided is that the workload of the billing clerk/secretary doubled when "the Farms" became metered. Individual bills are now prepared and collected for all customers, approximately 450, where as at the time of the above cited order, approximately 230 bills were prepared on a monthly basis.

AUDITOR'S OPINION:

The Utility should be allowed an additional \$667 per month, or \$8,004 a year, to provide for a full time billing clerk/secretary. The additional \$23,996 that the Utility has accrued should be disallowed for rate making purposes.

Costs per Utility	
Nov - Dec, 1994 (\$867 x 2)	\$ 1,734
Jan - Oct, 1995 (\$4,067 x 10)	<u>40,670</u>
Total per Utility	42,404
Allowed per PSC Order (\$867 x 12)	(10,404)
Additional allowance by auditor	<u>(8,004)</u>
Total excess costs not allowed	\$23,996

This \$23,996 is allocated \$15,837 to the water plant and \$8,159 to the wastewater plant.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 9

SUBJECT: CONTRACT SERVICES - LABOR FEES

STATEMENT OF FACT:

Claudell Johnson was a employee of Arredondo Utility Company, Inc. and was paid an hourly rate of \$7.00/hour. At the same time, he was also an employee of Brice Construction, Inc., a related company to the Utility. He received W-2's from both companies. On occasion the Utility would be billed for some of the hours that he worked at the Utility through their related company, Brice Construction, Inc. The hours billed through Brice Construction were billed at a rate of \$15.00 per hour, plus a 20% surcharge labeled "management fee." From November, 1994 through June, 1995, 104.5 hours that Mr. Johnson worked for the Utility were billed indirectly through the related Brice Construction, Inc.

The Utility is paying Brice Construction, Inc. a hourly rate of \$15.00 per hour, plus a surcharge labeled "management fee" that was 20% from March through August, 1995, 30% in September, 1995, and 40% in October, 1995. This calculates out to hourly rates of \$18.00 per hour from March through August, \$19.50 an hour for September and \$21.00 an hour for October, 1995. The work provided, with the exception of 16 hours each in August and September for meter reading, is miscellaneous maintenance work on the plants and surrounding grounds.

AUDITOR'S OPINION:

All hours worked by Claudell Johnson should have been paid directly by the Utility and only those amounts should be considered in determining allowable expenses for rate making purposes. At an hourly rate of \$7.00 per hour, plus 10% for the Utilities portion of the applicable payroll taxes, \$805 should be allowed for the 104.5 hours that Mr. Johnson worked for the Utility that were billed through Brice Construction. The Utility included \$1,849 of contract labor costs that were paid to their related company for Mr. Johnson's services. The difference of \$1,044 should be disallowed for rate making purposes; water expenses reduced \$473 and wastewater expenses reduced \$571.

The fees being paid to a related company for use of their employees should be reviewed for prudence.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 10

SUBJECT: OFFICER'S SALARIES

STATEMENT OF FACT:

FPSC Order. No. PSC-93-0509-FOF-WS established annual salaries for the president and treasurer of the utility at \$3,989 for the water system and \$1,510 for the wastewater system. For the test period, the Utility paid the officer's \$2,645 and accrued an additional \$7,146, representing a total of \$9,791 of salary expense for the water system. For the wastewater system the officer's were paid \$1,363, with an additional \$3,681 of salaries being accrued, for a total of \$5,044 of wastewater officer's salary expense.

AUDITOR'S OPINION:

The Utility is recognizing officer's salaries in excess of the amounts allowed under PSC Order. Water system officer's salaries should be reduced \$5,802 (9,791 - 3,989) and the wastewater officer's salaries should be reduced \$3,534 (5,044 - 1,510) in order to comply with the above referenced order.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 11

SUBJECT: REGULATORY COMMISSION EXPENSE

STATEMENT OF FACT:

Rate case expenditures should be deferred and amortized over a four year period. During the test period, the Utility hired outside consultants to help them in preparing for their application for a rate increase. The following invoices specifically state their purpose as pertaining to this rate case.

Invoice Date	Paid to	Rate Case Expense
5/17/95	Rose, Sundstrom & Bentley	270.00
10/13/95	Rose, Sundstrom & Bentley	555.00
7/14/95	Cronin, Jackson, Nixon	152.07
4/21/95	Cronin, Jackson, Nixon	140.00
9/7/95	Cronin, Jackson, Nixon	<u>81.82</u>
	TOTAL	1,198.89 *****

The Utility has not been amortizing the expenditures from the previous rate case in accordance with FPSC Order No. PSC-93-0509-FOF-WS.

AUDITOR'S OPINION:

The Above fees totaling \$1,199 should be removed from contract services, \$791 from water plant and \$408 from the wastewater expenses, for the test period. They should be amortized over a four year period, with a half year of amortization, \$99 for water and \$51 for wastewater, allowed for the test period. This would be in addition to the annual amortization from the previous rate case.

	Water	Wastewater
Amortization from Prior Rate Case	\$ 225	\$ 38
Amortization from current Rate Case	<u>99</u>	<u>51</u>
TOTAL	\$ 324 *****	\$ 89 *****

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 12

SUBJECT: TAXES OTHER THAN INCOME

STATEMENT OF FACT:

Arredondo Utility Company, Inc. does not segregate all of their taxes between water and sewer; an allocation is done for payroll taxes only. The total taxes in the general ledger for the test period is \$12,583.

The Utility's 1994 Tangible Property Tax assessment due November, 1994 was \$4,681. The Utility paid \$4,876 in March, 1995, failing to take the maximum discount available.

Payroll taxes were accrued on the accrued officer's salaries that are in excess of the amount allowed under FPSC Order No. PSC-93-0509-FOF-WS (See Audit Disclosure No. 10).

AUDITOR'S OPINION:

The difference of \$195 (4,876 - 4,681) on the Tangible Property Tax bill should be disallowed for rate making purposes. Furthermore, the \$4,681 that is allowable should be allocated based upon the taxable value of the assets in relation to the total assets of the water and wastewater plants.

The total allowable expense for taxes, other than income taxes, is \$11,485 (this total includes the accrual adjustment noted in Audit Disclosure 15) and should be allocated \$7,588 to water and \$3,897 to wastewater.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 13

SUBJECT: MISCELLANEOUS EXPENSES - MOBILE PHONE CHARGES

STATEMENT OF FACT:

Arredondo Utility Company, Inc. had the use of a mobile phone and was responsible for usage charges only. For the test period ended October 31, 1995, the water division incurred \$484 of charges for the mobile phone and the wastewater division incurred \$249 of charges. The Utility had an Operator on staff through June, 1995 who utilized this phone. Effective July, 1995 the Utility contracts out for an Operator and for repairs and maintenance work.

AUDITOR'S OPINION:

The Utility no longer has an Operator on staff and it is the responsibility of the contracted Operator to provide his own means of communication. Therefore, a proforma adjustment should be made to remove the mobile phone usage charges of \$484 for the water division and \$249 for the wastewater division.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 14

SUBJECT: NON-DEDUCTIBLE EXPENSES

STATEMENT OF FACT:

The Utility made charitable contributions of \$35 for the test period ended October 31, 1995.

On December 1, 1994, the Utility issued Check No. 3905 to Cash for \$200. The stated purpose of the check was for a Christmas party.

Both of these payments were included in miscellaneous expenses for the wastewater plant.

AUDITOR'S OPINION:

The above payments of \$35 and \$200 do not provide a benefit for the rate payers and should be disallowed for rate making purposes.

Wastewater miscellaneous expenses should be decreased \$235.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 15

SUBJECT: ACCOUNTS PAYABLE ADJUSTMENTS

STATEMENT OF FACT:

Arredondo Utility Company, Inc. does not maintain their books and records on an accrual basis. Schedule 1 presents a listing of invoices that were payable by the Utility as of October 31, 1994 and October 31, 1995.

AUDITOR'S OPINION:

Schedule 1 presents a listing of all invoices that would be considered accounts payable as of October 31, 1994 and 1995.

In order to convert the Utility's records to an accrual basis, the following adjustments should be made:

Acct No.	Description	Adjustment
618	Chemicals	20
675	Miscellaneous Expenses	(175)
620	Materials/Supplies	(167)
630	Contract Services (588 - 191)	<u>397</u>
	Net Adjustment	75 =====
730	Contract Services (295 - 99)	196
720	Materials/Supplies	26
718	Chemicals	<u>10</u>
	Net Adjustment	232 =====
408	Taxes - Other	(176) =====

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 15
SCHEDULE 1

ACCOUNTS PAYABLE AS OF 10/31/94

CHECK NUMBER	PAYEE	AMOUNT	EXPENSED ACCT NO	DESCRIPTION
3874	Stephanie Wallen	107.62	675	Misc. Exp.
3875	Sherrie McIver	67.13	675	Misc. Exp.
	Sub-Total	174.75		
3887	Lowes Business Acct.	8.22	620	Materials/Supplies
3899	Sunstate Meter & Supply	167.18	620	Materials/Supplies
	Sub-Total	175.40		
3882	Gainesville State Bank	188.18	408	Taxes - Other
3884	Brice Construction	191.40	630	Contract Services
3884	Brice Construction	98.60	730	Contract Services
	TOTAL	828.33		

ACCOUNTS PAYABLE AS OF 10/31/95

INVOICE NUMBER	PAYEE	AMOUNT	EXP TO ACCT NO	DESCRIPTION
15039	Reno & Wilson	120.00	730	Contract Service
6161	Reno & Wilson	40.00	730	Contract Service
19290	ABC Research	35.00	730	Contract Service
19093	ABC Research	15.00	730	Contract Service
19407	ABC Research	65.00	730	Contract Service
	Sub-Total	295.00		
06W006187	Ring Power	517.60	630	Contract Services
19526	ABC Research	40.00	630	Contract Services
19525	ABC Research	30.00	630	Contract Services
	Sub-Total	587.60		
	Lowe's	25.83	720	Materials/Supplies
	Apperson Chemicals	19.80	618	Chemicals
	Apperson Chemicals	10.20	718	Chemicals
	TOTAL	938.43		

AUDIT DISCLOSURE NO. 16

SUBJECT: INSURANCE

STATEMENT OF FACT:

In November, 1994, the Utility paid Howard Hall Insurance Agency \$2,161 towards their package insurance policy. This payment covers premiums for a two year period, \$1,218 for March, 1993 through March 1994 and \$936 for March, 1994 through March, 1995. On March 15, 1995 premiums of \$943 were paid that covered the period March, 1995 through March, 1996.

The Utility has \$4,998 of insurance expense for the water system and \$2,059 for the wastewater system recorded in their general ledger for the test period.

AUDITOR'S OPINION:

The auditor recalculated insurance expense so as to include only 12 months on premiums in the test period.

11/94 - 2/95 (936 x 4/12)	\$ 312
3/95 - 10/95 (943 x 8/12)	<u>629</u>
Total Expense	\$ 941
	=====

Expense included by Utility	\$3,097
Allowed per audit	<u>941</u>
Reduction in total expense	\$2,156
	=====

Water expense reduction	\$1,423
Wastewater expense reduction	<u>733</u>
Total	\$2,156
	=====

Water insurance expense for the test year period should be reduced by \$1,423 to \$3,575 and wastewater insurance expense reduced \$733 to \$1,326 to properly reflect 12 months of coverage.

COMPANY COMMENTS:

AUDIT DISCLOSURE NO. 17

SUBJECT: DEFERRED EXPENSES

STATEMENT OF FACT:

On March 13, 1995, the Utility paid \$1000 to the Florida Department of Environmental Protection for a 5 year operating permit that was for the period June 1, 1995 through June 1, 2000. The Utility expensed the entire amount in the test year.

AUDITOR'S OPINION:

The cost of this permit, \$1,000, should be removed from current period expenses and amortized over the life of the permit. This would allow for 5 months of amortization, \$83, to be included for the test period. The net result is a reduction of wastewater miscellaneous expenses by \$917.

COMPANY COMMENTS:

ARREDONDO UTILITY COMPANY, INC.
 STAFF ASSISTED RATE CASE
 DOCKET # 951234-WS
 RATE BASE - WATER
 TEST YEAR ENDED 10/31/95

EXHIBIT 1

DESCRIPTION	PER GENERAL LEDGER 10/31/95	AUDIT ADJUST.	REF	PER AUDIT 10/31/95	TEST YEAR SIMPLE AVERAGE
UTILITY PLANT IN SERVICE	\$272,577	\$2,962	AD-1		
		(6,976)	AD-2	268,563	270,570
LAND	1,474			1,474	\$1,474
CIAC	(69,350)	(4,191)	AD-5	(73,541)	(71,445)
AMORTIZATION OF CIAC	44,787	4,396	AD-6	49,183	46,985
ACCUMULATED DEPRECIATION	(125,350)	(11,810)	AD-4	(137,160)	(131,255)
WORKING CAPITAL	0	9,339	NOTE 1	9,339	9,339
TOTALS	\$124,138	(\$6,280)		\$117,858	\$125,668

NOTES:

1. WORKING CAPITAL FORMULA : 1/8 OPERATING AND MAINTENANCE EXPENSE.

ARREDONDO UTILITY COMPANY, INC.
 STAFF ASSISTED RATE CASE
 DOCKET NO. 951234-WS
 RATE BASE - WASTEWATER
 TEST YEAR ENDED 10/31/95

EXHIBIT 2

DESCRIPTION	PER GENERAL LEDGER 10/31/95	AUDIT ADJUST.	REF	PER AUDIT 10/31/95	TEST YEAR SIMPLE AVERAGE
UTILITY PLANT IN SERVICE	\$177,526	5,121	AD-1		
		(3,594)	AD-2	179,053	178,290
LAND	5,450	50	AD-3	5,500	\$5,500
CIAC	(77,430)			(77,430)	(\$77,430)
AMORTIZATION OF CIAC	43,249	5,373	AD-6	48,622	45,936
ACCUMULATED DEPRECIATION	(96,790)	(8,280)	AD-4	(105,070)	(100,930)
WORKING CAPITAL	0	6,694	NOTE 1	6,694	6,694
TOTALS	\$52,005	5,364		\$57,369	\$58,059

NOTES:

1. WORKING CAPITAL FORMULA : 1/8 OPERATING AND MAINTENANCE EXPENSE.

ARREDONDO UTILITY COMPANY
 STAFF ASSISTED RATE CASE
 DOCKET NO. 951234-WS
 NET OPERATING INCOME - WATER
 TEST YEAR ENDED 10/31/95

EXHIBIT 3

DESCRIPTION	PER GENERAL LEDGER 10/31/95	AUDIT ADJUST.	REF	PER AUDIT 10/31/95
OPERATING REVENUES	75,898	2,746	AD-7	78,644
OPERATING EXPENSES:				
O & M EXPENSE	82,248	(15,837)	AD-8	
		(473)	AD-9	
		(5,802)	AD-10	
		(791)	AD-11	
		324	AD-11	
		(484)	AD-13	
		75	AD-15	
		(1,423)	AD-16	57,837
DEPRECIATION EXPENSE	10,963	(1,675)	AD-6	9,288
TAXES OTHER	8,305	(593)	AD-12	
		(124)	AD-16	7,588
INCOME TAX EXPENSE	0	0		0
TOTAL OPERATING EXPENSE	101,516	(26,803)		74,712
NET OPERATING INCOME	(\$25,618)	\$29,549		\$3,932

ARREDONDO UTILITY COMPANY
 STAFF ASSISTED RATE CASE
 DOCKET NO. 951234-WS
 NET OPERATING INCOME - WASTEWATER
 TEST YEAR ENDED 10/31/95

EXHIBIT 4

DESCRIPTION	PER GENERAL LEDGER 10/31/95	AUDIT ADJUST. REF	PER AUDIT 10/31/95
OPERATING REVENUES	35,536	(2,746)AD-7	32,790
OPERATING EXPENSES: O & M EXPENSE	59,902	(8,159)AD-8 (571)AD-9 (3,534)AD-10 (408)AD-11 89 AD-11 (249)AD-13 (235)AD-14 232 AD-15 (733)AD-16 (917)AD-17	45,417
DEPRECIATION EXPENSE	4,769	(534)AD-6	4,235
TAXES OTHER	4,278	(317)AD-12 (64)AD-16	3,897
INCOME TAX EXPENSE	0	0	0
TOTAL OPERATING EXPENSE	68,949	(15,400)	53,549
NET OPERATING INCOME	(\$33,413)	\$12,654	(\$20,759)

ARREDONDO UTILITY COMPANY, INC.
 STAFF ASSISTED RATE CASE
 DOCKET # 951234-WS
 CAPITAL STRUCTURE
 TEST YEAR ENDED 10/31/95

EXHIBIT 5

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
DESCRIPTION	PER GENERAL LEDGER 10/31/95	AUDIT DISCL.	REF.	PER AUDIT 10/31/95	RATIO	COST RATE	WEIGHTED COST OF CAPITAL
COMMON EQUITY NET	(208,553)	208,553	NOTE D	0	0.00%	11.88%	0.00%
LONG TERM DEBT	327,677			327,677	98.10%	10.00%	9.81%
CUSTOMER DEPOSITS	6,350			6,350	1.90%	8.00%	0.15%
TOTALS	\$125,474	\$208,553		\$334,027	100.00%		9.96%

NOTES:

- A. EQUITY INCLUDES STOCK AND RETAINED EARNINGS
- B. EQUITY RATE PER FPSC ORDER PSC-95-0982-FOF-WS
- C. LONG TERM DEBT IS WITH THE 100% SHAREHOLDER AND WITH A RELATED PARTY.
- D. UTILITY HAS A NEGATIVE EQUITY; AN AUDIT ADJUSTMENT WAS MADE TO SHOW EQUITY AT ZERO

State of Florida

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

January 25, 1996

Arredondo Utility Company, Inc.
Thomas P. Hicks, Jr.
5517 S. W. 69th Terrace
Gainesville, Florida 32608-4541

Dear Mr. Hicks:

RE: Docket No. 951234-WS -- Arredondo Utility Company, Inc.
Staff-assisted Rate Case Audit Report - Period Ended October 31, 1995
Audit Control #95-339-3-1

The enclosed audit report is forwarded for your review. 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,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn
Chief, Bureau of Records

KF/mas
Enclosure
cc: Public Counsel
Rose Law Firm

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MEMORANDUM

January 24, 1996

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) W

RE: DOCKET NO. 951234-WS -- ARREDONDO UTILITY COMPANY, INC.
STAFF-ASSISTED RATE CASE AUDIT REPORT - PERIOD ENDED 10/31/95
AUDIT CONTROL NO. 95-339-3-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a 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:

Arredondo Utility Company, Inc.
Thomas P. Hicks, Jr.
5517 S. W. 69th Terrace
Gainesville, FL 32608-4541

DNV/sp

Attachment

cc: Chairman Clark
Commissioner Deason
Commissioner Johnson
Commissioner Kiesling
Commissioner Garcia
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Okome)
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER DATE

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