

M E M O R A N D U M

October 9, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 980778-SU -- CROOKED LAKE PARK SEWERAGE COMPANY
AUDIT REPORT - STAFF-ASSISTED RATE CASE - PERIOD ENDED JULY 31, 1998
AUDIT CONTROL NO. 98-204-3-1

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 audit report to:

Crooked Lake Park Sewerage Company
Kenneth J. Knowlton
227 Caloosa Lake Circle, North
Lake Wales, FL 33853-8605

DNV/sp

Attachment

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

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

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SPEC-REC03400/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

Orlando District Office

CROOKED LAKE PARK SEWAGE COMPANY, INC.

STAFF-ASSISTED RATE CASE

PERIOD ENDED JULY 31, 1998

DOCKET NO. 980778-SU

AUDIT CONTROL NO. 98-204-3-1

Handwritten signature of Richard F. Brown in cursive.

Richard F. Brown, Audit Manager

Handwritten signature of Ian J. Forbes in cursive.

Ian J. Forbes, Audit Supervisor

DOCUMENT NUMBER-DATE

11319 OCT 12 88

FPSC-RECORDS/REPORTING

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

SEPTEMBER 21, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended July 31, 1998, for Crooked Lake Park Sewage Company, Inc. These schedules were prepared by the auditor as part of the utility's petition for a Staff-Assisted Rate Case in Docket No. 980778-SU. 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 schedules referred to above present 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 PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions 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: Prepared Crooked Lake Park Sewage Company, Inc.'s wastewater rate base for the period ended July 31, 1998. Compiled all plant and contributions-in-aid-of-construction (CIAC) additions acquired from October 18, 1988 through July 31, 1998, and traced all to supporting documentation. Recomputed the depreciation reserve for the period ended July 31, 1998.

NET OPERATING INCOME: Compiled utility revenue and operating and maintenance accounts for the period ended July 31, 1998. Traced approximately 95 percent of operation and maintenance expense to invoices and other supporting documentation. Recalculated depreciation expense. Verified taxes other than income.

CAPITAL STRUCTURE: Compiled capital structure balance at July 31, 1998.

OTHER: Scanned the federal income tax returns from 1990 through 1996.

EXCEPTIONS

Exception No. 1

Subject: Books and Records

Facts: The utility did not adhere to the numbering and the appropriate account descriptions and classifications per the Class "C" Wastewater Uniform System of Accounts.

The utility utilizes a cash receipts and disbursements ledger maintained on a cash basis to record all financial activity of the company.

Opinion/Recommendation: The deficiencies did not impact nor impede the audit process due to the utility's full cooperation with staff in expeditiously making available all requested information.

Request that the utility maintain its books and records in compliance with NARUC Wastewater Class "C" instructions.

Exception No. 2

Subject: Utility Plant-in-Service

Facts: Staff compiled and traced to supporting documentation all utility plant acquired from October 18, 1988 through July 31, 1998.

Staff determined, based on the compilation from the cash disbursements ledger, that the utility added plant of \$42,391.16 during the aforementioned period.

Depreciation expense on the additions for the 12-month period ended July 31, 1998, computed per Rule 25-30.140, F.A.C., was \$3,259.61. Accumulated depreciation for the period ended July 31, 1998, was \$13,861.75.

Opinion/Recommendation: Staff recommends that the utility adjust its books and records to reflect respective plant, accumulated depreciation, and depreciation expense for the stated periods as \$42,391.16, \$13,861.75, and \$3,259.61.

Exception No. 3

Subject: Operating Revenues

Facts: The utility did not receive nor record wastewater operating revenues from the College Park Mobile Home Park in December 1997 and January 1998.

The mobile home park is billed \$1,076.70 monthly for wastewater services (97 customers @ \$11.10).

Opinion/Recommendation: Crooked Lake Park Sewage Company's president, Mr. Ken Knowlton, informed staff that the utility received a loan of \$2,334.00 on November 26, 1997, from the mobile home park in order to pay a wastewater bill.

Repayment of the loan was effected by fully crediting the park for wastewater services provided in December 1997 and January 1998 which totaled \$2,153.40 ($\$1,076.70 \times 2$). The difference of \$180.60 ($\$2,334.00 - \$2,153.40$) exists as a payable to the park on the utility's books.

Staff recommends that wastewater operating revenue and net operating income for the period ended July 31, 1998, be increased by \$2,153.40.

Exception No. 4

Subject: Undocumented Charges

Facts: The utility could not support the following charges:

<u>Payee</u>	<u>Source</u>	<u>Amount</u>
K. Knowlton	Ck. 2547	\$300.00
	Ck. 2552	500.00
	Ck. 2556	350.00
	Ck. 2559	240.00
	Ck. 2569	200.00
	Ck. 2576	440.00
	Ck. 2582	400.00
	Ck. 2583	200.00
	Ck. 2595	200.00
	Ck. 2596	400.00
	Ck. 2647	300.00
	Ck. 2651	300.00
	Ck. 2652	300.00
	Ck. 2657	300.00
	Ck. 2659	400.00
	Ck. 2682	<u>568.38</u>
	\$5,398.38	

Opinion/Recommendation: According to utility president and owner, Mr. Ken Knowlton, the disbursements to him were to pay for utility-related expenditures such as labor and supplies.

Staff recommends that the undocumented \$5,398.38 be charged to Account 426, Miscellaneous Nonutility Expenses until such time that the utility can provide documentation for all or part of the total to the FPSC analyst.

Exception No. 5

Subject: Professional Services

Facts: The utility retained the firm of Hartman & Associates, Inc. (HAI) which provides engineering, hydrogeology, surveying, and management consulting services to assist with the rate case and Florida Department of Environmental Protection (FDEP) compliance. The utility and firm agreed per contract on March 4, 1998, that the latter would provide the services for \$21,500.00, excluding the cost of some services that could not be estimated.

The utility, as of July 31, 1998, has been billed \$16,322.50 of the said \$21,500.00 as follows:

<u>Invoice No.</u>	<u>Description of Work</u>	<u>Amount</u>
1	Grandfather Certificate, preparation of Annual Reports, and Rate Application	\$8,262.50
2	FDEP compliance	3,522.50
3	FDEP compliance	2,420.00
4	Grandfather Certificate, preparation of Annual Reports and Rate Application	<u>2,117.50</u>
		<u>\$16,322.50</u>

The services provided for assistance in attaining utility compliance with FDEP involve an estimate to correct the inflow and infiltration of the wastewater system. HAI estimated that it would cost approximately \$169,580.00 for the necessary expansion of the collection, treatment, and disposal facility. This project will begin as soon as financing is secured. (See Audit Disclosure No. 1.)

In accordance with NARUC Wastewater Class "C" instructions per Account 183, Preliminary Survey and Investigation Charges, the cost of services provided to assist the utility in complying with FDEP mandates should be reflected therein.

Rate case expense, in accordance with F.S. 367.0816, should be apportioned for recovery over a four-year period.

In accordance with NARUC Wastewater Class "C" instructions per Account 101/352, Franchises, the costs of the Grandfather Certificate should be reflected therein.

Exception No. 5, contd.

Opinion/Recommendation: Invoices One and Four were not costed by function but in total for the services in connection with the Grandfather Certificate, Rate Case, and preparation of the Annual Reports. Staff, for rate purposes, distributed the cost equally among the three areas.

During the period ended July 31, 1998, the utility paid HAI \$4,000.00 on the \$16,322.50 balance which was charged to Account 731, Consulting Services-Professional.

Staff recommends that the utility record the following journal entry to reflect the NARUC classification of the HAI costs.

	<u>Debit</u>	<u>Credit</u>
Acct. 183-Preliminary Survey & Investigation Charges (\$3,522.50 + \$2,420.00)	\$5,942.50	
Acct. 101/352-Franchises ((\$8,262.50 + \$2,117.50)/3)	3,460.00	
Acct. 765-Regulatory Commission Expense ((\$8,262.50 + \$2,117.50)/3)	3,460.00	
Acct. 231-Accounts Payable (\$16,322.50 - \$4,000.00)		\$12,322.50
Acct. 731-Consulting Svs.-Professional ((\$8,262.50 + \$2,117.50)/3) - \$4,000.00		540.00

Exception No. 6

Subject: CIAC and Related Amortization

Facts: Staff compiled and traced to supporting documentation all contributions received from October 18, 1988 through July 31, 1998.

Staff determined, based on the compilation from the cash receipts ledger, that the utility received \$16,800.00 of contributions during the said period.

Amortization on the additions for the 12-month period ended July 31, 1998, computed per Rule 25-30.140, F.A.C., was \$1,452.36. Accumulated amortization for the period ended July 31, 1998, was \$7,353.95.

Opinion/Recommendation: Staff recommends that the utility adjust its books and records to reflect respective CIAC, accumulation amortization, and amortization for the stated periods as \$16,800.00, \$7,353.95, and \$1,452.36.

Exception No. 7

Subject: Legal Fees

Facts: The utility retained the law firm of Oertel, Hoffman, Fernandez & Cole, P.A., to process its Grandfather Certificate and conduct preliminaries applicable to the filing of its Staff-Assisted Rate Case.

The law firm, as of April 30, 1998, had billed the utility \$1,982.00 for the Grandfather Certificate, \$594.00 for the rate case preparation, \$18.00 for a FDEP matter, and \$3.06 for a miscellaneous charge for a total of \$2,597.06. The utility, as of July 31, 1998, has paid and charged to operations \$1,000.00 on the \$2,597.06 balance (\$500.00/6-26-98/Ck. 2686+\$500.00/7-24-98/Ck. 2698).

In accordance with NARUC Wastewater Class "C" instructions per Account 101/352, Franchises, the costs of the Grandfather Certificate should be reflected therein.

Rate case expenditures should be apportioned for recovery over a four-year period as supported by F.S. 367.0816.

Opinion/Recommendation: Staff recommends that the utility record the following journal entry to reflect NARUC classification of the legal costs.

	<u>Debit</u>	<u>Credit</u>
Acct. 101/352 - Franchises	\$1,982.00	
Acct. 186 - Deferred Debits ($\$594.00 \times .75$)	445.50	
Acct. 231 - Accounts Payable ($\$2597.06 - \$1,000.00$)		\$1597.06
Acct. 731 - Contractual Svcs. - Professional ($\$1,000.00 - (\$594.00/4 = \$148.50) - \$18.00 - \$3.06$)		830.44

Exception No. 8

Subject: Regulatory Assessment Fees

Facts: The utility reflected 1996 Regulatory Assessment Fees (RAFs) of \$1,447.02 on staff-extrapolated wastewater operating revenues of \$32,156.00 ($\$1,447.02/.045$). (Utility could not locate RAF return.)

The utility's 1997 filed return reflected a RAF of \$3,245.34 based on wastewater operating revenues of \$58,160.24.

Opinion/Recommendation: Staff determined, based on a recomputation of wastewater operating revenues reflected per the utility's cash receipt ledger, that 1996 revenues were understated by \$3,214.53 ($\$35,370.53 - \$32,156.00$).

Staff discovered that 1997 wastewater operating revenues were understated by \$1,076.70 which represented the utility's non-billing of December services for customers of the College Park Mobile Home Park. During the year the utility had previously borrowed funds from the mobile home park and arranged to reimburse the latter through an offset in services billed.

Staff recommends that the utility remit an additional RAF of \$193.11 ($(\$35,370.53 - \$32,156.00 + \$1,076.70) * .045$), exclusive of interest and penalties, to reflect the adjusted operating revenues in 1996 and 1997.

Staff additionally recommends that Account 408, Taxes Other Than Income be increased by \$48.45 ($\$1,076.70 * .045$) during the period ended July 31, 1998.

Exception No. 9

Subject: Rate Case Expense

Facts: The utility remitted its SARC filing fee of \$1,000.00 on August 20, 1998, via Check 2704.

In accordance with F.S. 367.0816, all rate case expense should be apportioned for recovery over a four-year period.

Opinion/Recommendation: Staff recommends that Account 765, Regulatory Commission Expense be increased by \$250.00 and the deferred portion of \$750.00 charged to Account 186, Deferred Debits.

Exception No. 10

Subject: Purchased Power Expense

Facts: The utility which maintains its books and records on a cash basis reflected purchased power expense of \$6,762.32 during the period ended July 31, 1998.

Staff determined, based on accrual accounting, that purchased power expense for the same period was \$6,916.73.

In accordance with NARUC Wastewater Class "C" Instruction 2.A., all wastewater utilities should maintain their books on an accrual basis.

Opinion/Recommendation: Staff recommends that purchased power expense for the period ended July 31, 1998, be increased by \$154.41 and net operating income reduced by the same.

Exception No. 11

Subject: Working Capital Allowance

Facts: The working capital allowance has been computed based on the one-eighth formula method to comply with Commission Rule 25-30.433(2), Florida Administrative Code.

The wastewater working capital allowance was computed as \$5,621.03 based on staff-adjusted operation and maintenance expense of \$44,968.21.

Opinion/Recommendation: Staff recommends that wastewater rate base be increased by \$5,621.03 to reflect the working capital allowance.

Disclosures

Disclosure No. 1

Subject: FDEP Violations

Facts: The Florida Department of Environmental Protection (FDEP) has informed Crooked Lake Park Sewage Company, Inc. that its inspection of the utility's wastewater system disclosed inflow and infiltration irregularities.

According to Mr. Knowlton, utility president, the utility will be operating under a consent order in the immediate future.

The utility retained the engineering firm of Hartman & Associates, Inc. to evaluate the system and to estimate the cost to effectuate FDEP compliance.

The firm concluded that it would cost approximately \$126,700.00 to repair the facilities and an additional \$42,880.00 to CCTV (closed circuit television) and smoke test the system for a total estimated amount of \$169,580.00.

Mr. Knowlton informed staff that the work will begin as soon as the utility can secure financing.

Opinion/Recommendation: Staff defers to FPSC analyst and engineer.

Disclosure No. 2

Subject: Wastewater System Purchase

Facts: The utility purchased its wastewater system for \$20,000.00 from Warner Southern College, Inc. on October 18, 1988.

The seller could not document its investment in the wastewater system. However, a depreciation schedule was provided that reflected a respective plant and accumulated depreciation balance at October 31, 1988, of \$51,590.03 and \$51,355.65.

Opinion/Recommendation: Crooked Lake Park Sewage Company, Inc. is requesting that the utility be accorded an acquisition adjustment of \$19,765.62 (\$20,000- (\$51,590.03-\$51,355.65)).

Staff defers to FPSC analyst and engineer for disposition.

Disclosure No. 3

Subject: Management Agreement

Facts: Mr. Knowlton, utility president and owner, withdrew \$2,934.00 (gross \$4,000.00) from the company during the period ended July 31, 1998, that was charged to Salaries & Wages.

Mr. Knowlton submitted a Management Agreement, effective September 1, 1998, that requests a monthly salary of \$1,500.00.

The duties and responsibilities per the agreement are as follows:

1. Maintain all accounting records exclusive of quarterly reports.
2. Work with state and federal employees regarding utility compliance.
3. Conduct all maintenance of the utility within the realm of his expertise.
4. To have someone on call 24 hours a day

Opinion/Recommendation: Staff defers to FPSC analyst for disposition.

Disclosure No. 4

Subject: Sludge Hauling

Facts: During the period ended July 31, 1998, the utility incurred \$1,181.04 of sludge hauling expense.

According to utility books, there was no sludge hauling expense charged during the August 1, 1997 through February 5, 1998 period.

Opinion/Recommendation: Staff recommends that the FPSC engineer determine whether the expense charged during the test year is representative for the period. The utility's hauler, Brooker Septic Service, increased its rates effective January 1, 1998, from \$190.00 to \$300.00 per 4,000 gallons hauled.

Disclosure No. 5

Subject: Common Expense

Facts: Crooked Lake Park Sewage Company, Inc. and affiliated College Park Mobile Home Park maintain their offices in the home of utility president, Mr. Ken Knowlton.

The office space occupies approximately 10 percent of the resident's area.

Opinion/Recommendation: Staff did not allocate a portion of the total cost to the utility (5 percent) as the amount was deemed negligible.

Disclosure No. 6

Subject: WWTP Operation and Lab Testing

Facts: During the period ended July 31, 1998, the utility charged \$892.00 to Account 735, Contractual Services-Testing.

According to the attached statement from Son Glow Lab & Assc. Inc., operation of the wastewater treatment plant which includes monthly effluent testing will be \$125.00 weekly, effective July 6, 1998. In addition, there will be an annual charge of \$355.00 for sludge and influent testing.

Opinion/Recommendation: The annualized laboratory charges of \$6,855.00 ($\$125.00 \times 52 + \355.00) are \$5,963.00 in excess of that charged during the period ended July 31, 1998, ($\$6,855.00 - \892.00).

Staff defers to FPSC engineer and analyst for disposition.



SON GLOW LAB & ASSC. INC.

Environmental Testing

P.O. Box 798 • Babson Park, FL 33827
Tel. 941-638-3255
Fax 941-638-3637

July 6, 1998

Crooked Lake Park Sewerage Company
227 Caloosa Lake Circle North
Lake Wales, FL 33853

WWTP

Weekly Operation of WWTP	\$125.00
Includes Monthly- Effluent:	
1 CBOD	
1 TSS	
1 Nitrate, as N	
1 Fecal Coliform	

DEP Reporting: Original to DEP
Copy to Ken Knowlton

Annually

EPA 503 Sludge	\$290.00
Influent : 1CBOD,1 TSS	\$ 40.00
<i>MCS -</i>	<i>\$25.00</i>


Linda G. Fisher / Laboratory Director


Ken Knowlton / Owner

EXHIBIT I

**CROOKED LAKE PARK SEWAGE COMPANY, INC.
DOCKET NO. 980778-SU
WASTEWATER RATE BASE
PERIOD ENDED JULY 31, 1998**

(a) DESCRIPTION	(b) PER COMPANY	(c) AUDIT EXCEPTION	(d) REFER TO (1)	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$0.00	\$42,391.16	AE-2	\$47,833.16
		3,460.00	AE5	
		1,982.00	AE7	
ACCUMULATED DEPRECIATION	0.00	(13,861.75)	AE-2	(13,861.75)
CIAC	0.00	(16,800.00)	AE-6	(16,800.00)
ACCUMULATED AMORTIZATION	0.00	7,353.95	AE-6	7,353.95
WORKING CAPITAL (2)	0.00	5,621.03	AE-11	5,621.03
RATE BASE	<u>\$0.00</u>	<u>\$30,146.39</u>		<u>\$30,146.39</u>

REQUIRED FOOTNOTES:

(1) Audit adjustments do not include audit disclosures.

(2) Working Capital was calculated at 1/8 O&M expense per Commission policy.

EXHIBIT II

**CROOKED LAKE PARK SEWAGE COMPANY, INC.
DOCKET NO. 980778-SU
WASTEWATER NET OPERATING INCOME
PERIOD ENDED JULY 31, 1998**

(a) DESCRIPTION	(b) PER COMPANY	(c) AUDIT EXCEPTION (1)	(d) REFER TO (2)	(e) PER AUDIT
OPERATING REVENUES	\$56,436.63	\$2,153.40	AE3	\$58,590.03
	-----	-----		-----
OPERATING EXPENSES:				
O&M EXPENSE	42,474.24	3,460.00	AE5	44,968.21
		(540.00)	AE5	
		(830.44)	AE7	
		250.00	AE9	
		154.41	AE10	
DEPRECIATION EXPENSE	0.00	3,259.61	AE2	1,807.25
		(1,452.36)	AE6	
TAXES OTHER THAN INCOME	6,156.24	48.45		6,204.69
INCOME TAX EXPENSE (3)	0.00	0.00		0.00
	-----	-----		-----
TOTAL OPERATING EXPENSE	\$48,630.48	\$4,349.67		\$52,980.15
	=====	=====		=====
NET OPERATING INCOME(LOSS)	\$7,806.15	(\$2,196.27)		\$5,609.88

REQUIRED FOOTNOTES:

- (1) *Small differences are due to rounding.*
- (2) *Audit adjustments do not include audit disclosures.*
- (3) *Form 1120-Class "C" - Loss carry forward.*

EXHIBIT III

**CROOKED LAKE PARK SEWAGE COMPANY, INC.
DOCKET NO. 980778-SU
CAPITAL STRUCTURE (1)
PERIOD ENDED JULY 31, 1998**

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
DESCRIPTION	PER COMPANY	AUDIT EXCEPTION (1)	REFER TO	PER AUDIT	RATIO	COST RATE	WEIGHTED COST OF CAPITAL
COMMON EQUITY	\$24,525.36			\$24,525.36			8.57%
TOTAL	\$24,525.36			\$24,525.36			8.57%

REQUIRED FOOTNOTES:

(1) *Audit adjustments do not include audit disclosures.*