

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 6, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 110200-WU
Company Name: Water Management Services, Inc.
Company Code: WS236
Audit Purpose: Limited Scope
Audit Control No: 16-130-1-1

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 a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Water Management Services, Inc.
Limited Scope Audit

As of May 10, 2016

Docket No. 110200-WU
Audit Control No. 16-130-1-1
May 24, 2016

A handwritten signature in black ink, appearing to read "Dobiac", written over a horizontal line.

Debra M. Dobiac
Audit Manager

A handwritten signature in black ink, appearing to read "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated May 5, 2016. We have applied these procedures to the quarterly reports filed by Water Management Services, Inc. pursuant to Order No. PSC 13-0197-FOF-WU, issued May 16, 2016, in Docket No. 110200-WU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The Utility or WMSI refers to Water Management Services, Inc., which is a C Corporation for tax purposes.

BMG refers to Brown Management Group, Inc.

Gene D. Brown is the President of the Utility and BMG.

Background

WMSI is a Class A utility providing service to approximately 1872 water customers in Franklin County. On November 7, 2011, the Utility filed its application for a proposed agency action (PAA) rate increase. By Order No. PSC-12-0435-PAA-WU, issued August 22, 2012, the Commission approved certain pro forma plant projects proposed by the Utility and provided that WMSI should secure financing and complete the pro forma plant projects within 18 months of issuance of the Consummating Order. Additionally, the PAA Order above provided that within 12 months of completion of the pro forma projects, the Utility should submit data, such as final invoices and cancelled checks, enabling staff to perform a true-up of all prudently incurred investments and costs associated with the pro forma plant projects.

On May 16, 2013, Order No. PSC-13-0197-FOF-WU was issued whereby the Commission approved rates designed to generate total water revenue of \$1,905,203. Pursuant to this Order, the Utility has filed quarterly reports delineating all advances, loans, investments, notes receivables and accounts receivable between WMSI and its President and associated companies. Also, the issuance of this Final Order became the commencement date of the 18-month deadline for securing financing and completing the pro forma plant projects. According to this Order, the 18-month period would end on November 16, 2014, and the deadline for filing pro forma plant documentation would be 12 months later on November 16, 2015.

On September 22, 2014, the Utility filed a motion for extension of time to complete the financing and construction requirements of pro forma plant projects due to unforeseen delays in securing financing. On December 22, 2014, the Utility filed an amended motion which included a scheduled closing date for a loan with Ameris Bank. The Utility closed on its loan with Ameris Bank on March 12, 2015, and provided its supporting documentation.

By Order No. PSC-15-0191-PCO-WU, issued May 8, 2015, the Commission granted the Utility's amended motion for extension of time to complete financing and construction requirements. However, since the Utility had acquired the property, the permitting was in place, and work had commenced, the Order found that the twelve months allowed in our prior order to provide documentation was unduly lengthy. Accordingly, the time to provide documentation was reduced. The Order stated that WMSI shall provide support documentation for its pro forma plant projects to the Commission within 60 days of the issuance of the letter of clearance from the Florida Department of Environmental Protection.

The Utility submitted the letter of clearance from the Florida Department of Environmental Protection on April 5, 2016.

Land

Objectives: The objective was to review the transactions for the 24 lots that the Utility purchased from Centennial Bank.

Procedures: We reviewed the Utility's schedule of land transactions from January 1, 2011 through April 30, 2016, and traced the transactions to the general ledger. We obtained copies of the warranty deeds from the Franklin County Clerk of Courts and tax records from the Franklin County Property Appraiser's website. We recalculated the land values based on the methodology used in the Summary Appraisal Report and compared it to the Utility's land balances. Finding 1 discusses land.

Quarterly Reports

Objectives: The objective was to agree the Utility's books with the quarterly reports filed with this Commission regarding affiliate transactions.

Procedures: We traced the quarterly reports to the Utility's general ledger. Finding 2 discusses the affiliate transactions.

Business Relationships

Objectives: The objective was to determine the current status the of business relationship between the Utility and BMG.

Procedures: We reviewed the 2015 annual report and traced the Parent/Affiliate Organization Chart to the Utility's status report. We also reviewed the status of the Utility and BMG with the Florida Department of State – Division of Corporations. We noted that the Utility still owns 100 percent of BMG.

Audit Findings

Finding 1: Land

Audit Analysis: On October 11, 2012, a Purchase and Sale Agreement was executed between the Utility and Centennial Bank. The Utility agreed to purchase 24 lots on St. George Island for a purchase price of \$190,000 with \$15,000 monthly deposits beginning November 15, 2012 until closing. The Utility paid seven deposits for a total of \$105,000 ($\$15,000 \times 7$), six of which were withdrawals from the escrow account that was established as per Order No. PSC-12-0435-PAA-WU, issued August 22, 2012.

On May 31, 2013, a Mortgage and Security Agreement was executed between the Utility and Citizens State Bank for \$150,000, which was applied to the remaining balance due for the 24 lots of \$85,000. At closing, the Utility received loan proceeds of \$62,639 ($\$150,000 - \$85,000 - \$2,361$) after loan fees and property taxes of \$2,361. This was a Balloon Mortgage with one final balloon payment due on the Maturity Date of June 10, 2015. Audit staff noted that this note was paid off on March 12, 2015 through the consolidation loan from Ameris Bank.

At the time of closing on May 31, 2013, the Utility recorded the purchase of the lots in the general ledger. The tax records assessed each of the lots at \$20,000 for tax purposes. WMSI used this assessed value to determine the amount for eight lots (lots 12-19) needed for the storage tank construction project at \$160,000 ($\$20,000 \times 8$) and recorded this in Account 103 - Land Held for Future Use. Therefore, the Utility took the remainder of \$30,000 ($\$190,000 - \$160,000$) and applied it to the remaining 16 lots (lots 1-7 and 22-30), and this was recorded in Account 121 - Non-utility Land. The Utility sold the 16 lots to BMG for \$30,000 on October 31, 2013.

The President of Citizens State Bank requested Cureton-Johnson & Associates, LLC Real Estate Services to perform an appraisal for the 24 lots sold to the Utility. A Summary Appraisal Report, dated March 25, 2013, was provided to the bank President. The subject of the valuation report consists of vacant, non-contiguous commercial lots, each measuring 25 feet by 130 feet. These lots consisted of lots 1-7, 12-19, and 22-30 of Block 3 west, St. George Island, Unit 1. The appraiser noted that lots 1-5 and 26-30 are wetlands, and will carry a lot value at 25 percent of each of the remaining "upland" lots.

Based on the methodology of the appraiser applied to the purchase price of \$190,000, audit staff determined that the 10 wetland lots would be valued at \$2,879 each, for a total of \$28,790, and the 14 upland lots would be valued at \$11,515 each, for a total of \$161,210. As stated above, the 16 lots sold to BMG consisted of the 10 wetland lots for a total of \$28,790 ($\$2,879 \times 10$) and six upland lots (lots 6, 7, and 22-25) for a total of \$69,090 ($\$11,515 \times 6$). The total sale price for the 16 lots should have been \$97,880 ($\$28,790 + \$69,090$), which would be an increase of \$67,880 ($\$97,880 - \$30,000$). This also means that the eight upland lots (lots 12-19) used for the storage tank construction project should be valued at \$92,120 ($\$11,515 \times 8$), which would be a decrease of \$67,880 ($\$160,000 - \$92,120$).

In its response to an audit request, the Utility stated that BMG sold four of the 16 lots back to WMSI for \$10,000 on May 10, 2016 to be used for pipe storage including the construction of pipe racks and a security fence. These lots consisted of two wetland lots (lots 4 and 5) and two upland lots (lots 6 and 7). The Utility provided a copy of a Warranty Deed dated May 10, 2016

for the purchase of the four lots. However, as of May 23, 2016, the warranty deed had not been filed with the Franklin County Clerk of Courts. Audit staff applied the methodology used by the appraiser to determine that for the lots transferred back to WMSI, the value of lots 4 and 5 should be \$5,758 ($\$2,879 \times 2$) and the value of lots 6 and 7 should be \$23,030 ($\$11,511 \times 2$) for a combined total of \$28,788 ($\$5,758 + \$23,030$).

Effect on the General Ledger: None.

Effect on the Filing: The staff analyst and staff engineer should determine the effect of this issue in this proceeding.

Finding 2: Quarterly Reports

Audit Analysis: The Utility filed 11 quarterly reports with this Commission from September 30, 2013 through March 31, 2016. Audit staff noted that six of the reports did not agree with the general ledger balances as shown in Table 2-1.

Table 2-1

Quarter	Report Amount	GL				Total	Variance
		145.10	145.30	233.00	233.26		
30-Sep-13	\$(36,917.28)	\$ -	\$20,641.16	\$ -	\$(52,217.28)	\$(31,576.12)	\$(5,341.16)
31-Mar-14	\$(31,473.94)	\$ -	\$ -	\$(24,984.80)	\$(3,000.00)	\$(27,984.80)	\$(3,489.14)
30-Jun-14	\$(10,000.00)	\$ -	\$ -	\$(12,829.42)	\$(6,000.00)	\$(18,829.42)	\$ 8,829.42
30-Sep-14	\$(2,218.13)	\$ -	\$ -	\$(5,047.55)	\$(9,000.00)	\$(14,047.55)	\$11,829.42
31-Dec-15	\$ -	\$ -	\$ -	\$ -	\$(7,600.00)	\$(7,600.00)	\$ 7,600.00
31-Mar-16	\$ -	\$ -	\$ -	\$ -	\$(2.26)	\$(2.26)	\$ 2.26

We also noted that year-end balances for 2013 and 2014 were \$-0-, which was correctly reported to the Commission.

The Utility provided support for the variances noted above. The Utility stated that adjustments related to the reclassification of affiliate expenses from non-utility to BMG, the increase and decrease of legal fees, the booking of property taxes, and a deposit of a bank refund were recorded subsequent to submitting the quarterly reports.

Effect on the General Ledger: None.

Effect on the Filing: The staff analyst should determine the effect of this issue in this proceeding.