

MEMORANDUM

June 11, 1997

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 970093-WU -- AQUARINA DEVELOPMENTS, INC.  
CERTIFICATE OF TRANSFER AUDIT REPORT - PERIOD ENDED DECEMBER 31, 1996  
AUDIT CONTROL NO. 97-029-3-1

.....

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:

Aquarina Developments, Inc.  
(Service Management Systems, Inc.)  
James Bate:  
235 Hammock Shore Drive  
Melbourne Beach, FL 32951-3941

DNV/sp

Attachment

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

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

05812 JUN 11 97

FRSC RECORDS/REPORTING

**FLORIDA PUBLIC SERVICE COMMISSION**

**AUDIT REPORT**

**AS OF DECEMBER 31, 1996**

**FIELD WORK COMPLETED**

**MAY 16, 1997**

**AQUARINA DEVELOPMENTS, INC.**

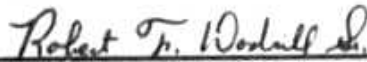
**MELBOURNE BEACH, FLORIDA**

**BREVARD COUNTY**

**CERTIFICATE OF TRANSFER AUDIT**

**DOCKET NO. 970093-WU**

**AUDIT CONTROL NO. 97-029-3-1**



---

**ROBERT F. DODRILL, SR.**  
**AUDIT MANAGER**



---

**IAN J. FORBES**  
**REGULATORY ANALYST SUPERVISOR**  
**ORLANDO DISTRICT OFFICE**

## TABLE OF CONTENTS

	<u>Page</u>
<b>I. EXECUTIVE SUMMARY</b>	
<b>AUDIT PURPOSE</b> .....	1
<b>SCOPE LIMITATION</b> .....	1
<b>DISCLAIM PUBLIC USE</b> .....	1
<b>OPINION</b> .....	1
<b>SUMMARY FINDINGS</b> .....	1
<b>II. AUDIT SCOPE</b>	
<b>RATE BASE</b> .....	2
<b>GENERAL</b> .....	2
<b>III. AUDIT EXCEPTIONS</b>	
1. <b>UTILITY BOOKS AND RECORDS</b> .....	3
2. <b>NON-UTILITY ADDITIONS</b> .....	4
3. <b>DOUBLE-CHARGING OF CONSTRUCTION RETAINAGE</b> .....	5
4. <b>MISCLASSIFIED 1996 PLANT ADDITIONS</b> .....	6
5. <b>CONTRIBUTED PROPERTY</b> .....	7
6. <b>AMORTIZATION OF CIAC</b> .....	8
7. <b>ACCUMULATED DEPRECIATION</b> .....	9
<b>IV. AUDIT DISCLOSURES</b>	
1. <b>RATE BASE COMPONENTS FOR TRANSFER</b> .....	10

**V. EXHIBITS**

1. WATER RATE BASE .....	11
2. NON-POTABLE WATER RATE BASE .....	12
3. WASTEWATER RATE BASE .....	13

## I. EXECUTIVE SUMMARY

**Audit Purpose:** We have applied the procedures described in Section II of this report and have prepared the appended water, non-potable water, and wastewater rate base exhibits for Aquarina Developments, Inc., Docket No. 970093-WU, as of December 31, 1996.

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

**Opinion:** Subject to the procedures described in Section II of this report, the attached three rate base exhibits represent the utility's books and records as of December 31, 1996, which have not been maintained in substantial compliance with Commission directives.

### Summary Findings:

Utility included non-utility additions to the wastewater rate base in the amount of \$2,835.

Utility double-charged construction retainage to the wastewater rate base in the amount of \$4,239.

Utility misclassified various utility plant additions. This resulted in an increase in the water rate base by \$1,076. It also decreases the non-potable water and wastewater rate bases by \$2,507 and \$12,767, respectively.

Utility additions did not include contributed property in the amounts of \$18,845 and \$7,821 for the non-potable water and wastewater utilities, respectively

## II. AUDIT SCOPE

This report is based on the audit work described below. When used in this section of the report, **REVIEWED** describes completed audit work as:

**REVIEWED:** Means that the audit staff reconciled exhibit amounts with the general ledger; traced general account balances to subsidiary ledgers; applied selective analytical review procedures; and disclosed any unresolved error, irregularity or inconsistency observed.

**RATE BASE:** Read prior audit report and associated work papers. Computed materiality levels for plant review purposes.

Obtained company general ledgers from January 1, 1995 through December 31, 1996.

## **PLANT**

Scheduled plant activity from general ledger for 1995 and 1996. Obtained and read vendor invoice files for plant additions.

Computed accumulated depreciation of utility plant-in-service based on depreciation rates used in the last rate case.

## **CONTRIBUTIONS**

Scheduled contributions from the general ledger for the two-year period which ended December 31, 1996. Reviewed CIAC documentation. Scanned 1995 and 1996 monthly journal entries looking for contributions not included on this listing.

Scheduled revenue directly from general ledger looking for out-of-trend amounts which may indicate CIAC booked as revenue. Computed amortization of CIAC amounts.

**OTHER:** Toured the Aquarina plant. Obtained an understanding of the non-potable water distribution system. Read the 1995 and 1996 financial statements which were respectively reviewed and compiled by outside audit firms for management. Did not review billing records.

## **AUDIT EXCEPTION NUMBER ONE**

### **SUBJECT: UTILITY BOOKS AND RECORDS**

**FACTS:** The company provided the audit staff with two general ledgers. One ledger was for a division of Aquarina Developments, Inc., and the other was for Service Management System, Inc., as a stand alone company. The plant balances were not continuous, and the Aquarina CPA firm reconciled the two general ledgers. When vendor invoices showed more plant additions than the company included on its books, the utility provided a third general ledger. This one was from the asset section of the development company general ledger.

Three sets of vendor files were used to document the plant additions found in these general ledgers.

The utility booked all average rate base components from Order No. PSC-95-1417-FOF-WS. These adjustments included plant held for future use which is addressed separately in Disclosure No. 1.

**OPINION:** The plant and CIAC additions found on the various general ledgers were scheduled and verified, but the beginning balances were not relied upon.

**RECOMMENDATION:** The Commission should direct the utility to maintain its books in compliance with the NARUC Uniform System of Accounts.

**AUDIT EXCEPTION NO. TWO**

**SUBJECT: NON-UTILITY ADDITIONS**

**FACTS:** While the utility was a division of Aquarina Developers, Inc., it maintained its own general ledger. Water, non-potable water, and sewer plant assets occasionally were not properly posted on the developer's books. See Exception No. 1 concerning utility books and records.

During this transfer audit, the developer's general ledger was presented as one source of plant additions. Two sewer plant additions were determined not to be utility-related.

Guettler and Sons, Inc.	\$1,500.00	General Testing
Briel & Associates	\$1,335.00	Road surveying

**OPINION:** These items should be disallowed as utility plant additions. The total of these items or \$2,835 (\$1,500 + \$1,335) should be deducted from the company additions to plant.

**RECOMMENDATION:** Reduce the sewer plant additions by \$2,835.



**AUDIT EXCEPTION NO. THREE**

**SUBJECT: DOUBLE-CHARGING OF CONSTRUCTION RETAINAGE**

**FACTS:** The utility charged Guettler and Sons construction payments as the work was being completed. These correct charges were offset by credits to cash for the check and to retainage payable.

When the retainage check was finally paid, this was partially charged to the utility plant in the amount of \$4,238.76.

**OPINION:** This double charge of utility construction retainage should be disallowed from utility plant additions.

**RECOMMENDATION:** Reduce the sewer plant additions for 1995 by \$4,238.76.

**AUDIT EXCEPTION NO. FOUR**

**SUBJECT: MISCLASSIFIED 1996 PLANT ADDITIONS**

**FACTS:** The Service Management Systems, Inc. general ledger for 1996 contains charges to utility plant which did not meet the criteria for plant additions as classified.

**OPINION:** After reading the documentation for the following plant additions, the following disposition is noted:

Davis Meters	\$ 2,289	Double-counted NPW Plant
Briel and Associates	\$ 820	Sewer cost charged to NPW should be reclassified.
US Filter	\$ 202	Meter costs charged to sewer Reclass to non-potable water.
Post Buckley Engineers	\$ 1,476	Sewer charges - Reclass \$1,076 to water and \$ 400 to non-potable water.
Guettler and Sons	\$12,984	Storm sewer work non-utility
Briel and Associates	\$ 1,075	Sewer survey charges omitted

**RECOMMENDATION:** The water plant should be increased by \$1,076. The non-potable water plant should be decreased by \$2,507 ( $-\$2,289 - \$820 + \$202 + \$400$ ). The sewer plant should be decreased by \$12,767 ( $-\$12,984 + \$820 - \$202 - \$1,476 + \$1,075$ ) as a result of these corrections.

**AUDIT EXCEPTION NO. FIVE**

**SUBJECT: CONTRIBUTED PROPERTY**

**FACTS:** The financial statement reviewed by the Aquarina external accounting firm of Bray, Beck & Koetter, CPAs, indicated there were costs of utility assets contributed by developers in the amount of \$26,666.

The utility management recommended that audit staff contact the accounting firm for details concerning this transaction.

The CPA firm stated that Caravel Development allowed a credit on a closing document for the non-potable water and the wastewater lines which were installed by Aquarina. This credit was in the amounts of \$18,845 and \$7,821.38, respectively, for the non-potable water and wastewater utilities.

**OPINION:** CIAC in the amounts of \$18,845 and \$7,821 should be added to the utility CIAC accounts for non-potable water and wastewater, respectively.

**AUDIT EXCEPTION NUMBER SIX**

**SUBJECT: AMORTIZATION OF CIAC**

**FACTS:** The utility booked the average CIAC balances which appeared in the previous order. (See Exception No. 1.)

**OPINION:** The amortization of CIAC additions per audit was computed using the test year ended balances per PSC Order No. PSC-95-1417-FOF-WS and all of the verified CIAC additions since that last order.

The amortization of CIAC additions per company is the difference between its 12/31/96 trial balance and the previous order.

Those amortization of CIAC adjustments for the water, non-potable water, and wastewater utilities as of 12/31/96, are calculated below.

	<u>WATER</u>	<u>NON-POTABLE</u>	<u>WASTEWATER</u>
Added per company	\$11,713	\$4,187	\$19,517
Added per audit	<u>22,067</u>	<u>5,565</u>	<u>38,842</u>
TOTAL ADJUSTMENT	\$10,354	\$1,378	\$19,325

**RECOMMENDATION:** Adjust the company additions to accumulated amortization of CIAC by \$10,354, \$1,378, and \$19,325 for the water, non-potable water, and wastewater utilities, respectively.

**AUDIT EXCEPTION NUMBER SEVEN**

**SUBJECT: ACCUMULATED DEPRECIATION**

**FACTS:** The utility booked the average accumulated depreciation balances which appeared in the previous order. (See Exception No. 1.)

**OPINION:** The accumulated depreciation balances per audit were computed using the test year ended balances per PSC Order No. PSC-95-1417-FOF-WS and the two-year depreciation on the utility plant subaccounts.

The accumulated depreciation additions per company are the difference between its 12/31/96 trial balance and the previous year-end order.

Those accumulated depreciation adjustments water, non-potable water, and wastewater utilities as of 12/31/96, are listed below.

	<u>WATER</u>	<u>NON-POTABLE</u>	<u>WASTEWATER</u>
Added per company	\$50,843	\$44,563	\$180,330
Added per audit	<u>50,930</u>	<u>52,224</u>	<u>179,216</u>
TOTAL ADJUSTMENTS	(\$ 87)	(\$ 7,661)	\$ 1,114

**RECOMMENDATION:** Adjust the company additions to accumulated depreciation by (\$87), (\$7,661), and \$1,114 for the water, non-potable water, and the wastewater utilities, respectively.

**AUDIT DISCLOSURE NO. 1**

**SUBJECT: RATE BASE COMPONENTS FOR TRANSFER**

**FACTS:** The three rate bases associated with this audit (water, non-potable water, and wastewater) each contains line items which are normally considered for ratemaking purposes only. The two items are plant held for future use, which represents the engineer's used and useful adjustments, and the working capital allowance.

**OPINION:** These two items have been removed from the transfer rate bases shown on Exhibits 1 through 3.

Used and useful adjustments are not appropriate for this transfer as the plant associated with this engineering adjustment is being transferred.

Working Capital Allowances listed in the prior rate case order were based upon one-eighth operations and maintenance (O&M) expense for the test year. Although the components of working capital are being transferred, a new working capital allowance was not calculated.

Exhibit for Certificate of Transfer  
 Aquarina Developments, Inc.  
 Docket No. 970093-WS  
 Water Rate Base  
 Period End December 31, 1996

Description	Year End Order # PSC-95 1417-FOF-WS @12/31/84	Additions Per Company to 12/31/96	Audit Adjustments	Refer to	Per Transfer Audit @12/31/96
Utility Plant in Service	\$590,729	\$26,166	\$1,076	E-4	\$617,971
Land	30,160	0	0		\$30,160
Plant Held for Future Use	(157,672)	0	157,672	D - 1	\$0
CWIP	0	15,075	0		\$15,075
CIAC	(244,445)	(48,032)	0		(\$292,477)
Amortization of CIAC	53,579	11,713	10,354	E-6	\$75,646
Accumulated Depreciation	(236,348)	(50,843)	(87)	E-7	(\$287,278)
Working Capital	5,063	0	(5,063)	D - 1	\$0
	*****	*****	*****		*****
Totals	\$41,066	(\$45,921)	\$163,952		\$159,097

Exhibit for Certificate of Transfer  
 Aquarina Developments, Inc.  
 Docket No. 970093-WS  
 Non-Potable Water Rate Base  
 Period End December 31, 1996

Description	Year End Order # PSC-95 1417-FOF-WS @12/31/84	Additions Per Company to 12/31/96	Audit Adjustments	Refer to	Per Transfer Audit @12/31/96
Utility Plant in Service	\$709,203	\$71,669	(\$2,507)	E-4	\$778,365
Land	31,920	0	0		31,920
Plant Held for Future Use	(174,993)	0	174,993	D - 1	0
CWIP	0	12,915	0		12,915
CIAC	(66,275)	(685)	(18,845)	E-5	(85,805)
Amortization of CIAC	11,298	4,187	1,378	E-6	16,863
Accumulated Depreciation	(276,105)	(44,563)	(7,661)	E-7	(328,329)
Working Capital	871	0	(871)	D - 1	0
Totals	\$235,919	\$43,523	\$146,487		\$425,929



Exhibit for Certificate of Transfer  
 Aquarina Developments, Inc.  
 Docket No. 970093-WS  
 Wastewater Rate Base  
 Period End December 31, 1996

Description	Year End Order # PSC-95 1417-FOF-WS @12/31/84	Additions Per Company to 12/31/96	Audit Adjustments	Refer to	Per Transfer Audit @12/31/96
Utility Plant in Service	\$1,763,882	\$192,076	(\$19,841)	E-2, E-3 & E-4	\$1,936,117
Land	33,680	0	0		\$33,680
Plant Held for Future Use	(626,881)	0	626,881	D - 1	\$0
CWIP	0	15,911	0		\$15,911
CIAC	(386,634)	(41,482)	(7,821)	E-5	(\$435,937)
Amortization of CIAC	108,161	19,517	19,325	E-6	\$147,003
Accumulated Depreciation	(856,672)	(180,330)	1,114	E-7	(\$1,035,888)
Working Capital	3,931	0	(3,931)	D - 1	\$0
<b>Totals</b>	<b>\$39,467</b>	<b>\$5,692</b>	<b>\$615,727</b>		<b>\$660,886</b>

State of Florida

Commissioners:

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



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

## Public Service Commission

June 12, 1997

Mr. James Bates  
Aquarina Developments, Inc.  
(Service Management Systems, Inc.)  
235 Hammock Shore Drive  
Melbourne Beach, Florida 32951-3951

Re: Docket No. 970093-WU -- Aquarina Developments, Inc.  
Certificate of Transfer Audit Report - Period Ended December 31, 1996  
Audit Control # 97-1029-3-1

Dear Mr. Bates:

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,

  
Blanca S. Bayo

BSB/DNV/cls  
Enclosure  
cc: Public Counsel