

ORIGINAL

MEMORANDUM

July 27, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 980536-WU -- ALTURAS WATER WORKS  
AUDIT REPORT - TRANSFER - PERIOD ENDED JUNE 30 1998  
AUDIT CONTROL NO. 98-132-3-1

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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:

Alturas Water Works  
B. B. Register  
P. O. Box 257  
Alturas, FL 33820-0257

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 of Water and Wastewater (Clapp)  
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

**07915** JUL 28 88

FPSC-RECORDS/REPORTING

ORIGINAL



**FLORIDA PUBLIC SERVICE COMMISSION**  
*DIVISION OF AUDITING AND FINANCIAL ANALYSIS*  
**BUREAU OF AUDITING**

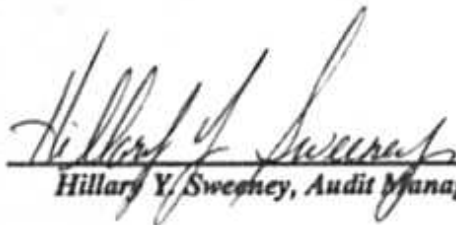
*Orlando District Office*

**ALTURAS WATER WORKS**

**CERTIFICATE OF TRANSFER AUDIT**

**PERIOD ENDED JUNE 30, 1998**

**DOCKET NO. 980536-WU**  
**AUDIT CONTROL NO. 98-132-3-1**

  
\_\_\_\_\_  
*Hillary Y. Sweehey, Audit Manager*

  
\_\_\_\_\_  
*Ian J. Forbes, Audit Supervisor*

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

**June 30, 1998**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described in this report and were unable to prepare a rate base schedule for Alturas Water Works for the reasons discussed later. There is no confidential information associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, because of the findings noted below, the utility's books and records are not maintained in conformity with the accounting practices prescribed by Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

## **SUMMARY OF SIGNIFICANT FINDINGS:**

The utility does not keep its books in conformity with NARUC.

The utility charges rates not authorized by the Commission.

The utility assesses a base facility charge on residential units not individually metered.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

**Scanned** - The documents were read quickly looking for obvious errors.

**Verified** - The item was tested for accuracy, and substantiating documentation was examined.

**RATE BASE:** Interviewed buyer and obtained seller's representations of plant-in-service, contributions-in-aid-of-construction, assets being transferred to the buyer, and any extraordinary circumstances justifying an acquisition adjustment. We also researched the utility's land to determine ownership and obtained a copy of the warranty deed and service area map. Confirmed that all assets related to the utility are being transferred to the buyer.

**TARIFF:** Verified the authorized tariff charges to utility customers' bills.

**OTHER:** Obtained copies of available federal tax returns from the seller. Determined there were no extraordinary circumstances surrounding the purchase and transfer of utility assets which would necessitate an acquisition adjustment.

**Exception No. 1**

**Subject: Seller's Books and Records**

**Statement of Fact:** Rule 25-30.115, Florida Administrative Code, requires Florida utilities to keep their books and records in conformity with the NARUC Uniform System of Accounts.

The utility was previously exempt from Polk County regulation. Therefore, it was not required to maintain books and records.

**Recommendation:** The utility does not have any records. An original cost study should be performed in conjunction with the next rate proceeding for this utility.

**Exception No. 2**

**Subject: Free Water Agreement**

**Statement of Fact:** The indenture to Brooks B. Register dated January 3, 1972, includes an agreement to furnish water to Wynette R. Register and Ruby S. Register free of charge by the utility for and during their lifetime.

Mrs. Wynette R. Register is now deceased. However, Mrs. Ruby S. Register is still a resident of the utility's service area and receives water from the utility free of charge.

Prior Commission Order No. 11241-A determined " . . . the practice of providing free water to be discriminatory, . . ." and required " . . . the utility to perform meter readings and charge these customers, . . . for all water consumption."

**Recommendation:** The utility should be required to perform meter readings and charge the customer for monthly services consistent with the rates authorized in its tariffs.

**Exception No. 3**

**Subject: Unauthorized Rates and Charges**

**Statement of Fact:**

**Overbillings -**

The utility charges a \$2.00 late fee. The utility's current tariffs, approved in Commission Order No. PSC-97-0513-FOF-WU, do not support a late fee. However, the owner contends that they have always charged a late fee of \$2.00, and the sample bill sent to the Commission included a late fee of \$2.00.

Another customer owns a house and two trailers. There is a meter on the house and one other meter used for both trailers. The utility represents that the customer had a meter installed when the first trailer was built and that when the second trailer was built, the customer did not wish to pay to have a third meter installed. The utility bills the customer for three base facility charges as though there were three meters.

**Underbilling -**

One customer owns two buildings. One of the buildings is a store, and the other is used for storage. Both are metered. Because the usage is very minimal, the utility charges the customer the authorized tariffed rate for the store and \$2.00 for the storehouse.

**Recommendation:** The utility should be required to perform meter readings and charge the customer monthly services consistent with the rates authorized in its tariffs.



**Exception No. 4**

**Subject: Rate Base Schedule**

**Statement of Fact:** The utility has been in operation since 1928 under the ownership of one family. The utility was previously exempt from Polk County's regulation. Therefore, the owners have not maintained any historical records necessary to establish rate base.

On May 14, 1996, Polk County transferred jurisdiction over utilities to the Florida Public Service Commission. On May 5, 1997, by Order No. PSC-97-0513-FOF-WU, the Commission granted Alturas Water Works a Grandfather Certificate. The order does not address the issue of the maintenance of the utility's books and records. However, it did order the utility to file a 1996 Annual Report.

In compliance with the Commission's order, the utility filed a 1996 Annual Report and has since filed one for 1997. The utility owner expenses all costs incurred from the utility on his federal tax returns. Consequently, the sections in the annual report related to rate base were left blank.

**Recommendation:** The audit staff was unable to prepare a rate base schedule for Alturas Water Works. See Audit Exception One for further discussion on books and records.

STATE OF FLORIDA

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING  
BLANCA S. BAYO  
DIRECTOR  
(850) 413-6770

## Public Service Commission

July 28, 1998

Michael B. Register, Owner  
Alturas Water Works  
Post Office Box 257  
Alturas, Florida 33820-0257

Re: Docket No. 980536 - WU - Alturas Water Works  
Audit Report - Transfer - Period Ended June 30, 1998  
Audit Control # 98-132-3-1

Dear Mr. Register:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case 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

KF/ABF

Enclosure

cc: Public Counsel  
Division of Audit and Financial Analysis  
Monte J. Tillis, Jr.