

State of Florida



Public Service Commission

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

DATE: February 21, 2001
TO: Division of Regulatory Oversight (Johnson)
FROM: Division of Regulatory Oversight (Vandiver) *ON*
RE: Docket No. 001501-WS; Connecticut General Development Utilities, Inc.
d/b/a CGD Utilities
Audit Report; Establish Rate Base as of August 28, 2000
Audit Control No. 00-299-3-1

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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
Orlando District Office (Winston)
✓ Division of Records and Reporting
Division of Legal Services

Robert Roth
Connecticut General Development, Inc.
d/b/a CGD Utilities
7600 U.S. 1
Micco, FL 32976-7437

Rose Law Firm
Martin Friedman
2548 Blaiirstone Pines Drive
Tallahassee, FL 32301

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FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Orlando District Office

**CONNECTICUT GENERAL DEVELOPMENT
UTILITIES, INC.
D/B/A CGD UTILITIES**

**RATE BASE DETERMINATION AUDIT
AS OF AUGUST 28, 2000**

DOCKET NO. 001501-WS

AUDIT CONTROL NO. 00-299-3-1

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, District Office Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

FEBRUARY 8, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedule of rate base as of August 28, 2000, for CGD Utilities, Inc. The schedules were prepared by audit staff as part of our work in Docket No. 001501-WS.

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.

SUMMARY OF SIGNIFICANT FINDINGS

Water and wastewater accumulated amortization of contributions-in-aid-of-construction (CIAC) at August 28, 2000, were understated by \$12,523.58 and \$3,717.44.

Water and wastewater service availability fees in the amounts of \$15,020.60 and \$13,519.40 were collected by the utility from 1993 through 1996, contrary to Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, that directed CGD Utilities, Inc. to discontinue all such collections.

Water and wastewater accumulated amortization of acquisition adjustments at August 28, 2000, were understated by \$2,784.37 and \$5,479.25, respectively.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient 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 definitions apply 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.

Verified - The items were tested for accuracy and compared to the substantiating documentation.

RATE BASE Compiled account balances for utility-plant-in-service (UPIS), land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and accumulated amortization of acquisition adjustment. Reconciled rate base balances authorized in Commission Order No. PSC-93-0011-FOF-WS to the December 31, 1991 general ledger balance. Verified approximately 95 percent of plant additions for proper amount, period, and classification. Recomputed accumulated depreciation and amortization through August 28, 2000, in accordance with FPSC Rule 25-30.140, Florida Administrative Code (F.A.C.). Verified CIAC additions and agreed to FPSC-approved tariff amounts. Tested and recomputed accumulated amortization of acquisition adjustment.

OTHER: Scanned the utility's federal corporate income tax returns (1120s) from 1995 through 1999. Toured the water and wastewater treatment plants. Scanned the asset purchase agreement between Connecticut General Development Utilities, Inc. (seller) and Burkim Enterprises, Inc. (purchaser).

Exception No. 1

Subject: Books and Records

Statement of Fact: In accordance with NARUC, Class C, Accounting Instruction 2.B., as stated below.

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

Recommendation: The following deficiencies were noted during the course of the examination.

- There was an inadequate trail between utility records and source documentation.
- Supporting documentation (invoices) did not reflect the account charged, check number in remittance, nor a description of the charge, when applicable.
- Depreciation and amortization schedules were incomplete and not reconcilable to booked amounts.
- There were numerous misclassifications of utility data.
- There was an absence of consistency for the account treatment of utility data.

CGD Utilities, Inc. is not in compliance with NARUC, Class C, Accounting Instruction 2.B.

Exception No. 2

Subject: Accumulated Amortization of CIAC

Statement of Fact: CGD Utilities, Inc. reflected water and wastewater accumulated amortization of CIAC balances of \$125,204 and \$154,250 as of August 28, 2000, per utility books.

Recommendation: The utility was not able to make available schedules reconciling to the recorded CIAC accumulated amortization.

Audit staff calculated the accumulated amortization based on the composite depreciation rate in effect at the time of contribution.

The utility's water and wastewater CIAC accumulated amortization balances as of August 28, 2000, are understated by \$12,523.58 and \$3,717.44, respectively.

The utility should record the following correcting journal entry.

Accumulated amortization of CIAC/water	\$12,523.58	
Accumulated amortization of CIAC/wastewater	\$3,717.44	
Retained earnings		\$16,241.02

Exception No. 3

Subject: Amortization of Acquisition Adjustment

Statement of Fact: The Florida Public Service Commission via Order No. PSC-93-0011-FOF-WS recognized a water and wastewater negative acquisition adjustment of \$89,409 and \$225,728, respectively, to be included for ratemaking purposes.

Recommendation: CGD Utilities, Inc. was unable to provide audit staff with appropriate amortization schedules reconciling to the booked amount of such.

Audit staff calculated the accumulated amortization as of August 28, 2000, based on a composite depreciation rate of 3.47 percent that was derived from the assets purchased.

Water and wastewater accumulated amortization balances as of August 28, 2000, based on audit staff's computation, reflected a respective understatement of \$2,784.37 and \$5,479.25 recorded in the utility accounts.

Audit staff recommends the following journal entry, in correction:

Accumulated amortization/water	\$2,784.37	
Accumulated amortization/wastewater	\$5,479.25	
Retained earnings		\$8,263.62

Exception No. 4

Subject: 1993 Water Utility-Plant-in-Service (UPIS) Additions

Statement of Fact: CGD Utilities, Inc. charged \$19,584.07 of water plant additions in 1993 to Account 309, Supply Mains.

Recommendation: Audit staff determined via an itemized compilation and reclassification of 1993 plant additions that \$7,172.83 of the \$19,584.07 was applicable to the sandblasting and painting of the water storage tank. An additional \$440.86 was reclassified to plant by audit staff that was not recorded by the utility. The remainder of the amount was improperly classified and the audit staff has adjusted these amounts to the proper UPIS accounts.

Historically, the Florida Public Service Commission has deemed painting of plant facilities to be an amortizable item. Audit staff, therefore, has excluded the \$7,172.83 capitalization and charged the amount to retained earnings based on the premise that it has been approximately seven years since the sandblasting/painting which exceeds the ordinary amortization period of five years.

The following depicts staff-recommended reclassification and adjustments.

	<u>Account 309</u>	<u>Account 310</u>	<u>Account 311</u>	<u>Account 330</u>	<u>Account 334</u>	<u>Total</u>
Audit Staff		\$2,968.00	\$7,647.37	\$1,000.00	\$1,236.73	\$12,852.10
Utility	<u>19,584.07</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>19,584.07</u>
Difference	<u>(\$19,584.07)</u>	<u>\$2,968.00</u>	<u>\$7,647.37</u>	<u>\$1,000.00</u>	<u>\$1,236.73</u>	<u>(\$6,731.97)</u>

Correcting journal entries:

Account 310, Power Generation Expense	\$2,968.00	
Account 311, Pumping Equipment	7,647.37	
Account 330, Distribution Reservoirs	1,000.00	
Account 334, Meters and Installation	1,236.73	
Account 215, Retained Earnings*	6,731.97	
Account 309, Supply Mains		\$19,584.07

*\$7,172.83 - \$440.86

Exception No. 5**Subject: 1993 Wastewater Utility-Plant-in-Service (UPIS) Additions**

Statement of Fact: CGD Utilities, Inc. charged Account 101-371, Pumping Equipment for \$7,639 of wastewater plant additions during 1993.

Recommendation: Of the total \$7,639.96 recorded, \$439.22 was unaccounted for as the utility could not provide documentation in support. In addition, a flow meter costing \$959.50 was reclassified by audit staff to Account 364, Flow Measuring Devices.

	<u>Account 364</u>	<u>Account 371</u>	<u>Total</u>
Staff-verified total	\$959.50	\$6,241.24	\$7,200.74
Utility recorded amount	_____	<u>7,639.96</u>	<u>7,639.96</u>
	\$959.50	(\$1,398.72)	(\$439.22)

The following correcting journal entry is recommended.

Account 364, Flow measuring devices	\$959.50	
Account 215, Retained earnings	439.22	
Account 371, Pumping equipment		\$1,398.72

Exception No. 6

Subject: Misclassified Water and Wastewater Contributions-in-Aid-of-Construction (CIAC)

Statement of Fact: CGD Utilities, Inc. booked Order No. PSC-93-0011-FOF-WS CIAC adjustments in 1997.

Recommendation: The utility understated water and overstated wastewater Order No. PSC-93-0011-FOF-WS CIAC adjustments by \$1,007.

The following correcting journal entry is recommended.

CIAC - Wastewater	\$1,007	
CIAC - Water		\$1,007

Exception No. 7

Subject: 1998 Water Utility-Plant-in-Service (UPIS) Additions

Statement of Fact: CGD Utilities, Inc. recorded a deposit of \$12,000.00 on a 66,000-gallon storage tank to Account 320, Water Treatment Equipment.

In addition, the utility charged \$2,500.00 to the same account for the dismantling of a lime softening plant.

Recommendation: In accordance with NARUC Water, Class C, Instructions per Account 330, Distribution Reservoirs, the \$12,000.00 expenditure should be reflective therein, and the \$2,500.00 should be recorded in Account 108, Accumulated Depreciation.

Audit staff recommends that the following journal entries be recorded.

Account 330, Distribution Reservoirs	\$12,000.00	
Account 320, Water Treatment Equipment		\$12,000.00
Account 108, Accumulated Depreciation	2,500.00	
Account 320 Water Treatment Equipment		2,500.00

The original cost of the lime plant should be retired. However, due to the utility's records as noted in Exception No. 1, the audit staff could not determine the original cost of the lime plant. Audit staff defers final determination to the staff engineer and analyst.

Exception No. 8

Subject: 1999 Water Utility Plant-in-Service (UPIS) Misclassification

Statement of Fact: CGD Utilities, Inc. charged \$42,467.50 of capital additions to Account 320, Water Treatment Equipment during 1999.

The expenditures should be charged to Account 330, Distribution Reservoirs to comply with NARUC Water, Class C, Accounting Instructions.

Recommendation: The \$42,467.50 was applicable to the acquisition and permitting of the water storage tank.

The following correcting journal entry is recommended.

Account 330, Distribution Reservoirs	\$42,467.50	
Account 320, Water Treatment Equipment		\$42,467.50

Exception No. 9

Subject: Service Availability Fees

Statement of Fact: The Florida Public Service Commission Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, directed the utility to discontinue all collections of service availability fees.

Recommendation: Subsequent to the Order date up through December 31, 1996, CGD Utilities, Inc. collected water and wastewater connection fees of \$15,020.60 and \$13,519.40, respectively, for a total of \$28,540.00.

Audit staff defers to the FPSC analyst for disposition.

Exception No. 10

Subject: Accumulated Depreciation

Statement of Fact: CGD Utilities, Inc. reflected water and wastewater accumulated depreciation, per books, as of August 28, 2000, of \$425,689 and \$574,467, respectively.

Recommendation: Audit staff computed water and wastewater accumulated depreciation of August 28, 2000, based on Rule 25-30.140, F.A.C., rates.

Audit staff recalculated the reserves at the stated date as the utility was not able to make available appropriate and complete depreciation schedules supporting its general ledger balances. Misclassifications and differences between audit staff and utility plant balances also dictated a recomputation.

Staff recommends the following journal entry, in correction:

Retained earnings	\$11,306.17	
Water accumulated depreciation		\$10,046.30
Wastewater accumulated depreciation		1,259.87

The audit staff and utility differences are shown in the schedule on the following page.

**Schedule for
Exception No. 10**

Water:

	<u>Acct. 304</u>	<u>Acct. 307</u>	<u>Acct. 309</u>	<u>Acct. 310</u>	<u>Acct. 311</u>	<u>Acct. 320</u>	<u>Acct. 330</u>	<u>Acct. 331</u>	<u>Acct. 333</u>	<u>Acct. 334</u>	<u>Acct. 340</u>	<u>Total</u>
Total Per staff	\$4,325.09	\$4,732.00	\$0.00	\$1,298.60	\$9,483.42	\$77,459.71	\$2,156.38	\$287,172.51	\$23,700.00	\$24,374.17	\$1,033.42	\$435,735.30
Total Per utility	<u>4,325.00</u>	<u>4,732.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5,915.00</u>	<u>75,752.00</u>	<u>0.00</u>	<u>286,507.00</u>	<u>23,700.00</u>	<u>23,918.00</u>	<u>840.00</u>	<u>425,689.00</u>
Difference	<u>\$0.09</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$1,298.60</u>	<u>\$3,568.42</u>	<u>\$1,707.71</u>	<u>\$2,156.38</u>	<u>\$665.51</u>	<u>\$0.00</u>	<u>\$456.17</u>	<u>\$193.42</u>	<u>\$10,046.30</u>

Wastewater:

	<u>Acct. 354</u>	<u>Acct. 360</u>	<u>Acct. 363</u>	<u>Acct. 364</u>	<u>Acct. 371</u>	<u>Acct. 380</u>	<u>Acct. 390</u>	<u>Total</u>
Accumulated Depreciation @8/31/00 Per staff	\$12,753.03	\$437,901.00	\$29,625.00	\$959.50	\$3,031.01	\$90,423.91	\$1,033.42	\$575,726.87
Accumulated Depreciation @8/31/00 Per utility	<u>12,753.00</u>	<u>437,901.00</u>	<u>29,625.00</u>	<u>0.00</u>	<u>3,314.00</u>	<u>90,000.00</u>	<u>874.00</u>	<u>574,467.00</u>
Difference	<u>\$0.03</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$959.00</u>	<u>(\$282.99)</u>	<u>\$423.91</u>	<u>\$159.42</u>	<u>\$1,259.87</u>

Disclosure No. 1

Subject: Plant Tour

Statement of Fact: Audit staff toured the grounds on which the water and wastewater treatment plant sit and inspected the facilities on February 25, 2001.

Recommendation: A considerable amount of water leakage of the pump interconnecting the well and storage tank was observed at the water plant.

Approximately 25 RVs and other miscellaneous equipment occupied a portion of the property on which the wastewater treatment facilities are located. The owner informed the audit staff that he derives non-utility income from leasing the space.

The allocated cost of the area generating the rental income should be excluded from the calculated value of the total wastewater property when initially dedicated to public utility service.

The pump at the water plant should be repaired or replaced as circumstances dictate.

Disclosure No. 2

Subject: Acquisition Adjustment

Statement of Fact: Burkim Enterprises, Inc. purchased Connecticut General Development Utilities, Inc. for \$250,000.00 on August 28, 2000.

Recommendation: Water and wastewater rate base at the said closing date per the audit staff transfer examination was \$30,191.69 and (\$80,959.21), respectively.

The current owner informed the audit staff that there were extraordinary circumstances applicable to the purchase, and that he will submit supporting documentation to the FPSC analyst.

Disclosure No. 3

Subject: Land

Statement of Fact: CGD Utilities, Inc. books reflected water and wastewater land values at December 31, 1991, of \$691 and \$9,630, respectively.

The utility was directed by the Florida Public Service Commission Order No. PSC-93-0011-FOF-WS to exclude the stated land values from its books as the property was in the name of the Gould Family Partnership.

The utility removed the value of the land, per books, in 1997 in compliance with the Order.

Recommendation: Audit staff was unable to establish a value for the land at the time it was initially dedicated to public utility service which appears to be some time in 1981.

Audit staff was not able to gather any information prior to 1984 at the Vierra, Florida, Property Appraiser's office. According to a CGD Utilities, Inc. representative, the total land in the development, which contains a portion of the water and wastewater facilities, was purchased from many different parties. Audit staff was able, however, to determine that the water and wastewater plants sit on .64 and 9.01 acres according to the plat of the total development submitted by the utility.

The current owner informed audit staff that he has retained someone to research the value of the parcels and will submit the information to the FPSC analyst as soon as possible.

EXHIBIT I

CGD UTILITIES, INC. DOCKET NO. 001501-WS WATER RATE BASE AS OF AUGUST 28, 2000

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER COMPANY	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY-PLANT-IN-SERVICE	\$518,008.01	(\$6,731.97) (2,500.00)	AE4 AE7	\$508,776.04
LAND	0.00	0.00		0.00
ACCUMULATED DEPRECIATION	(425,689.00)	2,500.00	AE7	(433,235.30)
	0.00	(10,046.30)	AE10	0.00
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(143,196.00)	(1,007.00)	AE6	(144,203.00)
ACCUMULATED AMORTIZATION OF CIAC	125,204.00	12,523.58	AE2	137,727.58
ACQUISITION ADJUSTMENT	(89,409.00)	0.00		(89,409.00)
ACCUMULATED AMORTIZATION	47,751.00	2,784.37	AE 3	50,535.37
TOTAL	\$32,669.01	(\$2,477.32)		\$30,191.69

EXHIBIT II

**CGD UTILITIES, INC.
DOCKET NO. 001501-WS
WASTEWATER RATE BASE
AS OF AUGUST 28, 2000**

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER COMPANY	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY-PLANT-IN-SERVICE	\$582,081.19	(\$439.22)	AE5	\$581,641.97
LAND	0.00	0.00		0.00
ACCUMULATED DEPRECIATION	(574,467.00)	(1,259.87)	AE10	(575,726.87)
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(161,608.00)	1,007.00	AE6	(160,601.00)
ACCUMULATED AMORTIZATION OF CIAC	154,250.00	3,717.44	AE2	157,967.44
ACQUISITION ADJUSTMENT	(225,728.00)	0.00		(225,728.00)
ACCUMULATED AMORTIZATION	136,008.00	5,479.25	AE 3	141,487.25
TOTAL	(\$89,463.81)	\$8,504.60		(\$80,959.21)