

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: February 27, 2018

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, ^{LMD}Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20170246-SU
Company Name: West Lakeland Wastewater, Inc.
Company Code: SU836
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2018-012-1-1

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/cmm

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

West Lakeland Wastewater, Inc./
West Lakeland Wastewater LLC
Transfer of Certificate

As of December 13, 2011

Docket No. 20170246-SU
Audit Control No. 2018-012-1-1
February 14, 2018

Handwritten signature of Debra Dobiac in black ink.

Debra Dobiac
Audit Manager

Handwritten signature of Marisa N. Glover in black ink.

Marisa N. Glover
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

 1: Utility Plant in Service and Accumulated Depreciation..... 6

 2: Contributions in Aid of Construction and Accumulated Amortization of CIAC 8

Exhibits

 1: Net Book Value..... 9

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 January 12, 2018. We have applied these procedures to the attached schedule prepared by the audit staff in support of West Lakeland Wastewater, Inc./West Lakeland Wastewater LLC's request for a Transfer of Certificate in Docket No. 20170246-SU.

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

Background

Definitions

Buyer/Utility refers to West Lakeland Wastewater, LLC.

Seller/WLWW refers to West Lakeland Wastewater, Inc.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

Utility Information

West Lakeland Wastewater, Inc. was a Class C utility that served approximately 310 wastewater customers in Polk County.

The Utility had been in existence in Polk County since 1972. Polk County came under Commission jurisdiction on July 11, 1996. Order No. PSC-1998-0752-FOF-SU, issued June 1, 1998, in Docket No. 19971531-SU, granted the original owner, ABCA, Inc. (ABCA), Certificate No. 515-S to provide wastewater service in Polk County. ABCA filed an application for a staff assisted rate case on July 19, 1999, and Order No. PSC-2000-1163-PAA-SU, issued June 26, 2000, established rate base as of June 30, 1999, in Docket No. 19990937-SU.

On March 20, 2001, the utility site and the undeveloped acreage in the mobile home community were sold by ABCA at public auction to Ms. Suzzane Averett Britt, Mr. Sam A. Averett, and West Lakeland Wastewater, Inc. At the time, WLWW owned the utility site and the spray irrigation fields while the remaining acreage, including the percolation ponds, were owned by Ms. Britt and Mr. Averett.

On April 2, 2001, WLWW filed an application with this Commission seeking approval of the transfer of Certificate No. 515-S from ABCA. Since rate base had recently been established, it was determined to adopt the rate base, as of June 30, 1999, established by Order No. PSC-2000-1163-PAA-SU for the purposes of the transfer. The transfer of Certificate No. 515-S from ABCA to WLWW was approved by Order No. PSC-2001-1271-PAA-SU, issued June 6, 2001, in Docket No. 20010382-SU.

On May 23, 2006, Ms. Britt, Mr. Averett, and WLWW sold the undeveloped acreage and the land the Utility utilizes for the percolation ponds and the spray fields to Transworld Lakeland LLC (Transworld). WLWW retained ownership of the land where the treatment plant is located. By letter dated March 26, 2009, WLWW gave notice of abandonment effective June 30, 2009. A Petition for Appointment of Receiver for WLWW was filed in the Circuit Court of the Tenth Judicial Circuit, and Mike Smallridge was appointed as receiver on June 22, 2009.

The Utility filed an application for a staff assisted rate case on October 25, 2012, and Order No. PSC-2013-0327-PAA-SU, issued July 16, 2013, established rate base as of September 30, 2012.

Audit staff performed an audit under Docket No. 20120270-SU, and the Order included the results of the audit findings. The Utility had adjusted its records to reflect the previously established land value for the parcel of land upon which the treatment plant is located. At that time, the Utility was working with Transworld to obtain a long term agreement for the use of the percolation ponds and the spray fields. In Docket No. 20130065-SU, the Utility had applied for a transfer of Certificate No. 515-S from WLWW to the Utility. On September 15, 2014, the Utility withdrew its application before any action was taken by this Commission.

By Court order, the facilities and property abandoned by WLWW was transferred to the Utility as of December 13, 2011. The Utility filed an application for transfer of certificate from WLWW on November 16, 2017. This transfer application for the Certificate No. 515-S is the subject of this audit in establishing net book value as of December 13, 2011.

General

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

Procedures: We reviewed the general ledger account numbers and descriptions. We verified that the Utility uses the accrual method of accounting and maintains its records on a calendar year basis. No exceptions were noted.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are recorded when a replacement asset was put into service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for wastewater UPIS, as of June 30, 1999, from Order No. PSC-2000-1163-PAA-SU. We scheduled wastewater UPIS activity from June 30, 1999 through December 13, 2011. We traced asset additions to the assets included in the plant balances approved by Order No. PSC-2013-0327-PAA-SU. We ensured that retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of December 13, 2011. Finding 1 discusses UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: As stated above, the Utility had previously adjusted its records to reflect the previously established land value. On July 1, 2017, the Utility and Transworld entered into a 99-

year lease agreement for the continued use of the percolation ponds and the spray fields. No further work was performed.

Contributions in Aid of Construction

Objectives: The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for CIAC, as of June 30, 1999, from Order No. PSC-2000-1163-PAA-SU. We scheduled wastewater CIAC activity from June 30, 1999 through December 13, 2011. We traced CIAC additions to the additions included in the CIAC balances approved by Order No. PSC-2013-0327-PAA-SU. We determined the wastewater CIAC transfer balances as of December 13, 2011. Finding 2 discusses CIAC.

Accumulated Depreciation

Objectives: The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for accumulated depreciation, as of June 30, 1999, from Order No. PSC-2000-1163-PAA-SU. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the accumulated depreciation transfer balances for the wastewater system as of December 13, 2011. Finding 1 discusses accumulated depreciation.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for accumulated amortization of CIAC, as of June 30, 1999, from Order No. PSC-2000-1163-PAA-SU. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the wastewater accumulated amortization of CIAC transfer balances as of December 13, 2011. Finding 2 discusses accumulated amortization of CIAC.

Acquisition Adjustment

Objectives: The objective was to determine the acquisition adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C.

Procedures: WLWW was transferred to the Utility by Court Order. An acquisition adjustment was not calculated. No further work performed.

Other

Rates and Charges

Objectives: The objectives were to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We obtained and tested the Utility's billing register for December 2017. We recalculated a sample of customer bills using the approved tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Seller had collected customer deposits and whether the balances were transferred to the Buyer.

Procedures: We reviewed a current listing of customer history and inquired about the deposit policy. The Buyer stated that there were no customer deposits when he had been appointed receiver. No further work was performed.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: The Utility's general ledger shows the wastewater UPIS balance was \$237,595 as of December 13, 2011. Audit staff determined the wastewater UPIS balance to be \$241,759 as of December 13, 2011.

Since rate base had been established as of September 30, 2012, which is subsequent to the transfer date of December 13, 2011, audit staff reviewed the prior audit work papers and the prior Order to determine the asset additions and retirements included in the plant balances approved by Order No. PSC-2013-0327-PAA-SU from June 30, 1999 to December 13, 2011. The wastewater utility plant balance was understated by \$4,164 (\$241,749 - \$237,595) at the time of the transfer as shown in Table 1-1.

Table 1-1

Account - Description	GL	Audit	Audit
	12/13/2011	12/13/2011	Adjustments
353 Land and Land Rights	\$ 356	\$ 356	\$ -
354 Structures and Improvements	916	916	-
360 Force Mains	6,548	6,548	-
361 Gravity Mains	97,141	97,141	-
363 Services	16,503	16,503	-
364 Flow Measuring Devices	1,403	1,403	-
365 Flow Measuring Installations	952	952	-
370 Receiving Wells	34,479	35,945	1,466
371 Pumping Equipment	-	218	218
380 Treatment and Disposal Equip.	73,307	75,787	2,480
382 Outfall Sewer Lines	5,990	5,990	-
Total:	\$ 237,595	\$ 241,759	\$ 4,164

According to the general ledger, the wastewater accumulated depreciation balance was \$225,003 as of December 13, 2011. Audit staff calculated wastewater accumulated depreciation to be \$226,102 using the approved rates and the audited plant additions and retirements as of December 13, 2011. Wastewater accumulated depreciation was understated by \$1,099 (\$226,102 - \$225,003) at the time of the transfer as shown in Table 1-2.

Table 1-2

Account - Description	Audit 12/13/2011
353 Land and Land Rights	\$ -
354 Structures and Improvements	(916)
360 Force Mains	(6,548)
361 Gravity Mains	(97,141)
363 Services	(16,503)
364 Flow Measuring Devices	(1,403)
365 Flow Measuring Installations	(952)
370 Receiving Wells	(26,116)
371 Pumping Equipment	(7)
380 Treatment and Disposal Equip.	(73,547)
382 Outfall Sewer Lines	(2,969)
Total:	\$ (226,102)
Utility balance - 12/13/2011:	(225,003)
Audit Adjustment:	\$ 1,099

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: The wastewater UPIS balance was \$241,759 and the wastewater accumulated depreciation balance was \$226,102 as of December 13, 2011.

Finding 2: Contributions in Aid of Construction and Accumulated Amortization of CIAC

Audit Analysis: According to the general ledger, the wastewater CIAC balance was \$163,400 and the accumulated amortization of CIAC balance was \$125,305 as of December 13, 2011. Audit staff determined the wastewater CIAC balance to be \$241,480 and the accumulated amortization of CIAC balance to be \$112,689 as of December 13, 2011.

Since rate base had been established subsequent to the transfer date of December 13, 2011, audit staff reviewed the prior audit work papers and the prior Order to determine the CIAC additions and retirements included in the CIAC balances approved by Order No. PSC-2013-0327-PAA-SU from June 30, 1999 to December 13, 2011. We calculated wastewater accumulated amortization of CIAC using the composite depreciation rates and the audited CIAC additions and retirements as of December 13, 2011.

The wastewater CIAC balance was understated by \$58,080 (\$221,480 - \$163,400) because the Utility had unrecorded CIAC additions from 2000, 2001, 2005, and 2008. Between 2000 and 2008, CIAC increased substantially due to customer growth in those years. This audit adjustment is included the adjustments approved by Order No. PSC-2013-0327-PAA-SU. The accumulated amortization of CIAC balance was overstated by \$12,616 (\$112,689 - \$125,305) at the time of the transfer as shown in Table 2-1.

Table 2-1

Description	Audit Balance CIAC 12/13/2011	Audit Balance Accum Amort 12/13/2011
Wastewater	(221,480)	112,689
Total:	\$ (221,480)	\$ 112,689
Utility balance - 12/13/2011:	(163,400)	125,305
Audit Adjustment:	\$ (58,080)	\$ (12,616)

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: The wastewater CIAC balance was \$241,480 and the wastewater accumulated amortization of CIAC balance was \$112,689 as of December 13, 2011.

Exhibits

Exhibit 1: Net Book Value

**WEST LAKELAND WASTEWATER, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20170246-SU; ACN 2018-012-1-1
SCHEDULE OF WASTEWATER NET BOOK VALUE
AS OF DECEMBER 13, 2011**

Description	Balance per Utilitiy 12/13/2011	Audit Adjustments	Audit Finding	Balance per Audit 12/13/2011
Utility Plant in Service	\$ 237,239	\$ 4,164	1	\$ 241,403
Land	356	-		356
Accumulated Depreciation	(225,003)	(1,099)	1	(226,102)
Contributions in Aid of Construction	(163,400)	(58,080)	2	(221,480)
Accumulated Amortization of CIAC	125,305	(12,616)	2	112,689
NET BOOK VALUE	\$ (25,503)	\$ (67,631)		\$ (93,134)

Note: These adjustments are included in the approved adjustments in Order No. PSC-2013-0327-PAA-SU.