

ORIGINAL	
N.H.P.U.C. Case No.	DW10-217
Exhibit No.	# 4
Witness	Panel 1

#4

STATE OF NEW HAMPSHIRE
Inter-Department Communication

DATE: June 27, 2011
AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Karen Moran, Examiner

SUBJECT: Tioga River Water Company, Inc.
DW 10-217
Subsequent review based on the Final Audit Report dated April 4, 2011

TO: Mark Naylor, Director of Water and Gas Division
Jayson Laflamme, Utility Analyst
Alexander Speidel, Staff Attorney

An audit was done on the books and records of the Tioga River Water Company, Inc. for fiscal year ended October 31, 2009. A Final Audit report was issued on April 4, 2011 with four issues identified. The first and second issue required follow-up audit review, and the procedural schedule for the docket was placed on hold pending such review.

On the pages that follow are the two audit issues as documented in the original audit report of April 4, 2011, and the Subsequent Review conducted to ensure compliance with the PUC Chart of Accounts, prior Commission Orders, as well as with the responses the Company provided in that audit report.

[from April 4, 2011 Final Audit Report DW10-217]

AUDIT ISSUE #1

Lack of Supporting Documentation for Additions to GVWD in 2007

Background

The GVWD division reflected several additions in 2007, the majority of which were offset to the Contributions in Aid of Construction account. Specifically:

<i>Account 304-Structures-electrical</i>	<i>\$ 4,318</i>
<i>Account 307-Wells-553' deep, CIAC</i>	<i>\$24,864 of which \$10,359 is CIAC</i>
<i>Account 309-Main and conduit from well to pump house</i>	<i>\$ 6,550</i>
<i>Account 311-Gould 3hp submersible pump, CIAC</i>	<i>\$ 7,800 of which \$3,900 is CIAC</i>
	<i>\$43,532</i>

Issue

Because the financial records are maintained in a Peachtree accounting system, the recording of a contributed asset could not be located by the office staff through a review of her

disbursement journal. Audit requested clarification from the external accountant after Audit informed the office staff that the disbursement journal would not reflect a contributed asset. The external accountant has not responded.

Further, while invoices for each division are maintained in separate manila folders for each year, documentation could not be located for the 2007 GVWD additions.

Audit Recommendation

Documented evidence of all plant in service, whether Contributions in Aid of Construction or not, must be maintained. Refer to the Repeat Audit Issue #2 regarding the ongoing lack of Continuing Property Records.

Company's Response

The external accountant was unaware of the request for documentation of the 2007 GVWD additions to plant. See attached documentation.

Audit's Response

Audit reviewed the Excel information provided by the external accountant, and requested actual invoices to support the figures provided. Such documentation has not been provided. Audit cannot determine the appropriateness of the information, and specifically cannot support the inclusion of \$7,111 in reported "past due interest". This amount should have been expensed below the line, if incurred.

[Company Attachment to Audit Issue #1]

Tioga River Water Company

Draft Audit Report

Audit Issue #1

Lack of Supporting Documentation for Additions to GVWD in 2007

304.02	Structures & Improvements			
3/28/2006	6624	Gilford Well Company	Pulled wire from well to building	\$1,228.16
4/26/2006	6863	Gilford Well Company	Tie system into tank and finish electrical	1,530.42
10/31/2007	12541	Gilford Well Company	Wired-up controls fir new well	<u>457.03</u>
	Sub-total			\$3,215.61
10/31/2007		Gilford Well Company	Capitalize interest	<u>1,099.41</u>
	Total			<u>\$4,315.02</u>
307.02	Wells			
9/14/2005		Gilford Well Company	Drill Well	\$7,718.50
12/5/2006	6147	Gilford Well Company	Sustained pumping test w/water quality testing	6,500.00
12/5/2006	6149	Gilford Well Company	Well preliminary and final reporting estimate	<u>6,500.00</u>
	Sub-total			\$20,718.50
10/31/2007		Gilford Well Company	Capitalize interest	<u>4,144.21</u>
	Total			<u>\$24,862.71</u>
309.02	Supply Mains			
12/5/2006	6151	Gilford Well Company	Water main and conduit from well to pump station	\$4,686.68
10/31/2007		Gilford Well Company	Capitalize interest	<u>1,867.69</u>
	Total			<u>\$6,554.37</u>
311.02	Pumping Equipment			
12/5/2006	6145	Gilford Well Company	Installation of Well Pump	<u>\$7,800.00</u>
	Total			<u>\$7,800.00</u>
Total				<u>\$43,532.10</u>
SPSt. Cyr	3/27/11			

Tioga River Water Company
 Draft Audit Report
 Audit Issue #1
 Lack of Supporting Documentation for Additions to GVWD in 2007

Capitalized Interest

In fiscal year 2007 GWVD paid Gilford Well \$7,111.31 for interest owed on past due amounts. The \$7,111.31 was allocated to the new well and related work as follows:

304	Structures	\$2,759.00	15.46%	\$1,099.41
307	Well	10,400.00	58.28%	4,144.21
	Supply			
309	Mains	<u>4,687.00</u>	26.26%	<u>1,867.69</u>
Total		<u>\$17,846.00</u>		<u>\$7,111.31</u>
SPSt. Cyr				
3/27/2011				

Subsequent Review conducted June 22, 2011:

Audit was provided with an Excel file known as the Tioga CPR-Tioga and the Tioga CPR-GVWD, containing a tab for each of the divisions' plant in service accounts. The revisions reflect the division, the general ledger account, the date the asset was put into service, a description of the item, the location of the item, the initial booked cost, the book cost of assets retired and the date the asset was removed from service (as appropriate), as well as a running balance. Audit appreciates the Company's efforts to more accurately document the location of each asset.

Audit was also provided with copies of invoices from Gilford Well for the work outlined in each account. Mr. St. Cyr maintains a listing of the related Contributions in Aid of Construction relating to the GVWD work.

While the requirement of the CPR specifically outlined in part 610.01(e)(20) of the PUC Chart of Accounts does not require inclusion of depreciation rates, service lives, or accumulated depreciation, part 610.01(e)(17) does require such specifics. If the Company is maintaining a separate and distinct record for depreciation, that would comply with the Chart of Account requirements. However, as the Company has done in the past, it would appear more efficient to maintain the two schedules together. Audit discussed this section with Mr. St. Cyr, who agreed that maintaining the two schedules together would be more efficient.

[from April 4, 2011 Final Audit Report DW10-217]

REPEAT AUDIT ISSUE #2

**Lack of Continuing Property Records and Work Order System
 Lack of Compliance with Commission Order**

Background

The PUC Chart of Accounts requires all water companies to maintain a work order system and a continuing property record system.

Issue

Tioga Water Company does not have a continuing property record system. As a result, the supporting detail for the assets of the company are not reliable; an ongoing accounting by

asset of the original and remaining book value does not exist; the location of the assets is not recorded; etc.

Audit Recommendation

The Company has failed to comply with the PUC Chart of Accounts (Uniform System of Accounts) and rules requiring an accurate accounting of the assets on the financial books, despite at least four Commission instructions to do so. The Lotus 1-2-3 spreadsheet provided is inadequate regarding the location, the accumulated depreciation, the accurate depreciation rate to apply, among other issues.

Order 21,795, issued on August 22, 1995 required the Company to “maintain records in accordance with the Commission’s chart of accounts...”

Order 24,097, issued on December 16, 2002 required “the Company to perform a detailed inventory of plant assets...establish and maintain a system of Continuing Property Records and Work Order System in accordance with the Commission’s Uniform System of Accounts...not later than June 30, 2003.”

Audits completed for years ended 1997 and 2005 found a lack of Continuing Property Records and Work Orders. In each audit report, the Company agreed to comply with the Orders and Commission’s Uniform System of Accounts.

The Company is reminded of the initial Commission instruction to comply (see Order 21,795); the subsequent Commission instruction to comply (see Order 24,097); the audit report for year ended 1997; and the audit report for year ended 2005.

Company’s Response

By 4/15/11 the Company will conduct a physical inventory of its plant and, by 4/30/11, it will review its blueprints. Once the physical inventory is taken and the blueprints reviewed, the Company will, 5/15/11, attempt to match the physical assets to the depreciation schedule and its books. Further, once the Company attempted to match the assets to the costs, the Company will, by 5/25, develop the CPRs

Audit’s Response

Audit requests documentation of each of the steps outlined, as the above dates and goals are achieved. If for some reason the company is unable to meet the deadlines outlined in the Comment section above, a documented reason should be provided.

Subsequent Review conducted June 20, 2011-June 23, 2011:

Audit was not made aware of the achievements as identified in the Company’s Response to the Audit Issue #2. However, on June 9, 2011, an emailed Excel spreadsheet was provided by Mr. St. Cyr which was identified as updated CPR for both the Tioga and GVWD divisions. A subsequent revision was provided to Audit on June 21, 2011.

Audit appreciates the effort made by the Company to more precisely identify the locations of the assets noted on the CPR. However, as identified in the Subsequent Review of Audit Issue #1 of the April 4, 2011 final audit report, there are questions relating to the accuracy of the amounts noted for those accounts which include the capitalized interest.

Conclusion

Based on the review of the CPR revisions received, Audit does conclude that the CPR format established complies with the requirements outlined in the Chart of Accounts.

Audit further understands that the Staff review of the inclusion of the capitalized interest in the GVWD division will be conducted during the rate case docket discovery process. There were variances noted in both divisions when the revised CPR totals were verified to the general ledger and filing for the test year ended October 31, 2009:

The total Tioga division general ledger plant in service amounts to \$45,634.41, which agrees with the filing. The revised CPR total amounts to \$42,461.63. The *CPR total is \$3,172 less than the general ledger and filing*, and was noted in the two accounts below:

<u>General Ledger</u>	<u>Revised CPR</u>	<u>Variance</u>
304.01 = \$5,033	\$1,942	\$3,091 it appears this <u>may</u> be a retired asset
333.01 = \$1,459	\$1,378	\$ 81 unknown

The GVWD division general ledger plant in service amounts to \$82,235 which also agrees with the filing. The CPR amounts to \$80,165. Audit then removed the capitalized interest from the three accounts and the subsequent revised CPR total would be \$73,053.85. The following represents the variances:

<u>General Ledger and Revised CPR</u>	<u>Capitalized Interest Issue</u>
304.02 = \$4,317.86	Includes \$1,099.41 capitalized interest
307.02 = \$26,664.40	Includes \$4,144.21 capitalized interest
309.02 = \$7,478.22	Includes \$1,867.79 capitalized interest

311.02 GL = \$22,381.68 but the revised CPR sums to \$20,360, a difference of \$2,021.75. (There was an asset removed from service \$2,371.75 on 10/10/2008 which was not deducted from the original revised CPR total nor the general ledger). The resulting variance of \$350 is unknown.

Lastly, there are no dates in the "date in service column" for the GVWD assets noted in account 333.02. This appears to simply be an oversight and it is suggested that the information be included in the CPR going forward.

Finally, Audit understands that the Company will continue to maintain the CPR format, update it with plant additions and retirements as incurred, and will include additional columns relating to the depreciation requirements outlined in part 610.01(e)(17), thus creating one file for ease of accounting.