

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: January 15, 2020

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190170-WS
Company Name: Royal Utility Company
Company Code: WS570
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2019-290-4-1

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
Miami District Office

Auditor's Report

Royal Utility Company/
Royal Waterworks, Inc.

Transfer of Certificate
Certificate Nos. 259-W and 199-S

As of July 1, 2019

Docket No. 20190170-WS
Audit Control No. 2019-290-4-1

January 10, 2019

Handwritten signature of Iliana H. Piedra in black ink.

Iliana H. Piedra
Audit Manager

Handwritten signature of Gabriela Leon in black ink.

Gabriela Leon
Audit Staff

Handwritten signature of Yen Ngo in black ink.

Yen Ngo
Audit Staff

Handwritten signature of Marisa N. Glover in blue ink.

Marisa N. Glover
Reviewer

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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 October 15, 2019. We have applied these procedures to the attached schedules prepared by the audit staff in support of Royal Utility Company/Royal Waterworks, Inc's request for a Transfer of Certificates in Docket No. 20190170-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Buyer/Utility refers to Royal Waterworks, Inc.

Seller refers to Royal Utility Company.

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

Royal Utility Company is a Class “B” Utility that serves approximately 1,520 water and wastewater customers in Broward County.

Rate Base was last established for Royal Utility Company, as of December 31, 1987, in Order 19867, issued August 22, 1988, in Docket 880557-WS.

The buyer has been operating the system since July 1, 2019. The Utility explained that the seller only provided a general ledger for five months as of May 31, 2019. No other general ledgers were provided.

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: Based upon the review of the May 31, 2019 general ledger provided by the seller to the buyer, it appears to be maintained according to the NARUC USOA.

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 scheduled water and wastewater UPIS beginning balances as of December 31, 1987, established in Order No. 880557-WS, issued August 22, 1988, and activity from January 1, 1988 through December 31, 2018 from the annual reports. We traced additions from January 1, 1990 through July 1, 2019 to supporting invoices. We compared the UPIS transfer balances with

the seller's general ledger, and determined the UPIS transfer balances as of July 1, 2019. Findings 1 and 2 discuss 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: We obtained a Warranty deed between the Buyer and the Seller, which included the parcels for the water and wastewater systems.

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 scheduled water and wastewater accumulated depreciation beginning balances, as of December 31, 1987, established in Order No. 880557-WS, issued August 22, 1988, and recalculated accumulated depreciation accruals for all water and wastewater UPIS accounts to verify that the correct depreciation rates were used. We compared the accumulated depreciation transfer balances to the seller's general ledger and determined the accumulated depreciation transfer balances as of July 1, 2019. Findings 1 and 2 discuss accumulated depreciation.

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 scheduled water and wastewater beginning balances for CIAC, as of December 31, 1987, established in Order No. 880557-WS, issued August 22, 1988, and activity from January 1, 1988 through December 31, 2018 from the seller's annual reports. We compared the CIAC transfer balances to the seller's general ledger and determined the CIAC transfer balances as of July 1, 2019. Finding 3 discusses CIAC.

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 scheduled water and wastewater accumulated amortization beginning balances, as of December 31, 1987, established in Order No. 880557-WS, issued August 22, 1988, and recalculated accumulated amortization accruals to verify that the correct amortization

rates were used. We compared the accumulated amortization transfer balances to the seller's general ledger and determined the accumulated amortization transfer balances as of July 1, 2019. Finding 3 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)(2) – Acquisition Adjustments, F.A.C.

Procedures: The Buyer paid \$2,150,000 for the purchase of Royal Utility Company's water and wastewater systems. We determined that the combined Net Book Value for this Utility was \$898,619. The Utility is requesting a positive acquisition adjustment since they believe it creates an incentive for larger utilities to acquire smaller troubled utilities. Explanations for their reasons in requesting an acquisition adjustment are shown in Section V of the application letter dated August 21, 2019. 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 selected bills for October 2019. We recalculated a sample of customer bills using the Commission 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 the ledger and inquired about the deposit policy. The Seller's authorized tariff did not provide for the collection of customer deposits, however, the Seller's general ledger indicates a balance for customer deposits. Finding 4 discusses customer deposits.

Audit Findings

Finding 1: Water Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Seller's general ledger, the water UPIS balance was \$3,187,934 as of May 31, 2019. Audit staff determined the water UPIS balance to be \$2,366,600 as of July 1, 2019.

The Utility did not provide any supporting documentation for additions related to 1988 and 1989. We reviewed supporting invoices for the plant additions from January 1, 1990 through July 1, 2019. Audit staff determined that additions of \$821,334 did not have the proper supporting documentation.

The water utility plant is overstated by \$821,334 as shown in Table 1-1.

Table 1-1

Water Plant in Service		Utility	Audit	Audit
Account	Description	Balance	Balance	Adjustments
		5/31/2019	7/1/2019	
302	Franchises	\$ 713	\$ 713	\$ (0)
304	Structures & Improvements	\$ 538,329	\$ 513,569	\$ (24,760)
307	Wells & Springs	\$ 23,683	\$ 22,851	\$ (832)
309	Supply Mains	\$ 48,267	\$ 48,267	\$ 0
310	Water Power Geration Equip	\$ 11,948	\$ 11,606	\$ (342)
311	Pumping Equipment	\$ 735,632	\$ 738,667	\$ 3,035
320	Water Treatment Equipment	\$ 139,197	\$ 201,949	\$ 62,752
330	Distribution Reservoirs	\$ 9,100	\$ 9,100	\$ (0)
331	Transmission & Dist. Mains	\$ 939,897	\$ 469,363	\$ (470,534)
333	Services	\$ 168,098	\$ 1,028	\$ (167,070)
334	Meter & Meter Installations	\$ 331,304	\$ 184,287	\$ (147,017)
335	Hydrants	\$ 68,439	\$ 542	\$ (67,897)
339	Miscellaneous Plant - Water	\$ 60,527	\$ 60,738	\$ 211
340	Office Furniture & Equipment	\$ 11,692	\$ 10,046	\$ (1,646)
341	Transportation Equipment - Water	\$ 19,029	\$ 12,679	\$ (6,350)
343	Tools, Shop and Garage Equipment	\$ 10,370	\$ 10,373	\$ 3
344	Laboratory Equipment - Water	\$ 5,856	\$ 5,567	\$ (289)
347	Miscellaneous Equipment - Water	\$ 21,971	\$ 23,287	\$ 1,317
348	Other Tangible Plant	\$ 43,883	\$ 41,968	\$ (1,915)
	Total	\$ 3,187,934	\$ 2,366,600	\$ (821,334)

According to the Seller's general ledger, the water accumulated depreciation balance was \$2,473,158 as of May 31, 2019. The Utility only provided a depreciation schedule by account for the years of January 1, 2014 through December 31, 2018. We used the annual reports for the remaining years. Audit staff calculated water accumulated depreciation to be \$1,776,130 using the rates from Rule 25-30.140 – Depreciation, F.A.C. and the audited plant additions and retirements as of July 1, 2019.

Water accumulated depreciation is overstated by \$697,028 as shown in Table 1-2.

Table 1-2

Water Accumulated Depreciation		Utility	Utility	Audit	Audit
Account	Description	Balance	Balance	Balance	Adjustments
		12/31/2018	5/31/2019	7/1/2019	
302	Franchises	\$ (485)		\$ (713)	
304	Structures & Improvements	\$ (396,662)		\$ (360,996)	
307	Wells & Springs	\$ (23,683)		\$ (22,851)	
309	Supply Mains	\$ (48,267)		\$ (43,253)	
310	Water Power Geration Equip	\$ (6,870)		\$ (6,964)	
311	Pumping Equipment	\$ (709,780)		\$ (705,113)	
320	Water Treatment Equipment	\$ (50,275)		\$ (43,921)	
330	Distribution Reservoirs	\$ (9,100)		\$ (9,100)	
331	Transmission & Dist. Mains	\$ (559,189)		\$ (271,413)	
333	Services	\$ (128,988)		\$ (1,028)	
334	Meter & Meter Installations	\$ (331,304)		\$ (170,938)	
335	Hydrants	\$ (46,489)		\$ (542)	
339	Miscellaneous Plant - Water	\$ (45,767)		\$ (41,541)	
340	Office Furniture & Equipment	\$ (11,692)		\$ (9,918)	
341	Transportation Equipment - Water	\$ (13,029)		\$ (12,303)	
343	Tools, Shop and Garage Equipment	\$ (10,121)		\$ (10,103)	
344	Laboratory Equipment - Water	\$ (5,856)		\$ (5,015)	
347	Miscellaneous Equipment - Water	\$ (22,300)		\$ (18,450)	
348	Other Tangible Plant	\$ (43,883)		\$ (41,968)	
	Total	\$ (2,463,740)	\$ (2,473,158)	\$ (1,776,130)	\$ 697,028

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

Effect on the Filing: The water UPIS balance should be decreased by \$821,334 and the water accumulated depreciation balance should be decreased by \$697,028.

Finding 2: Wastewater Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Seller's general ledger, the wastewater UPIS balance was \$1,814,757 as of May 31, 2019. Audit staff determined the wastewater UPIS balance to be \$999,584 as of July 1, 2019.

The Utility did not provide any supporting documentation for additions related to 1988 and 1989. We reviewed supporting invoices for the plant additions from January 1, 1990 through July 1, 2019. Audit staff determined that additions of \$815,172 did not have the proper supporting documentation.

The wastewater utility plant is overstated by \$815,172 as shown in Table 2-1.

Table 2-1

Wastewater Plant in Service		Utility	Audit	Audit
Account	Description	Balance	Balance	Adjustments
		5/31/2019	7/1/2019	
354	Structures & Improvements -Lift Stations	\$ 141,881	\$ 188,044	\$ 46,163
355	Wastewater Power Generation Equip	\$ 37,368	\$ 729	\$ (36,639)
360	Collection Sewers - Force	\$ 120,328	\$ 126,009	\$ 5,681
361	Collection Sewers - Gravity	\$ 990,004	\$ 198,562	\$ (791,442)
364	Flow Measuring Devices	\$ 81,227	\$ 81,227	\$ (0)
371	Pumping Equipment Sewer	\$ 230,882	\$ 229,041	\$ (1,841)
380	Treatment and Disposal Equipment		\$ 921	\$ 921
389	Interconnect	\$ 121,758	\$ 121,285	\$ (473)
390	Office Furniture & Equipment	\$ 11,276	\$ 9,120	\$ (2,156)
391	Transportation Equipment - Sewer	\$ 19,029	\$ 8,223	\$ (10,806)
393	Tools, Shop and Garage Equipment	\$ 22,947	\$ 24,479	\$ 1,532
394	Laboratory Equipment	\$ 89	\$ 6,088	\$ 5,999
397	Miscellaneous Equipment - Swr	\$ 26,769	\$ 5,856	\$ (20,913)
398	Other Tangible Plant	\$ 11,197	\$ -	\$ (11,197)
	Total	\$ 1,814,756	\$ 999,584	\$ (815,172)

According to the Seller's general ledger, the wastewater accumulated depreciation balance was \$1,471,604 as of May 31, 2019. The Utility only provided a depreciation schedule by account for the years of January 1, 2014 through December 31, 2018. We used the annual reports for the remaining years. Audit staff calculated wastewater accumulated depreciation to be \$839,360 using the rates from Rule 25-30.140 – Depreciation, F.A.C. and the audited plant additions and retirements as of July 1, 2019.

Wastewater accumulated depreciation is overstated by \$632,244 as shown in Table 2-2.

Table 2-2

Wastewater Accumulated Depreciation		Utility	Utility	Audit	
Account	Description	Balance	Balance	Balance	Audit
		12/31/2018	5/31/2019	7/1/2019	Adjustments
354	Structures & Improvements -Lift Stations	\$ (101,586)		\$ (130,215)	
355	Wastewater Power Generation Equip	\$ (18,053)		\$ (457)	
360	Collection Sewers - Force	\$ (120,328)		\$ (106,526)	
361	Collection Sewers - Gravity	\$ (716,836)		\$ (180,451)	
364	Flow Measuring Devices	\$ (81,227)		\$ (80,772)	
371	Pumping Equipment Sewer	\$ (213,578)		\$ (168,459)	
380	Treatment and Disposal Equipment			\$ (512)	
389	Interconnect	\$ (121,758)		\$ (120,561)	
390	Office Furniture & Equipment	\$ (11,276)		\$ (9,120)	
391	Transportation Equipment - Sewer	\$ (13,029)		\$ (8,223)	
393	Tools, Shop and Garage Equipment	\$ (22,947)		\$ (24,351)	
394	Laboratory Equipment	\$ (22,873)		\$ (3,857)	
397	Miscellaneous Equipment - Swr	\$ (664)		\$ (5,856)	
398	Other Tangible Plant	\$ (11,197)		\$ -	
	Total	\$ (1,455,353)	\$ (1,471,604)	\$ (839,360)	\$ 632,244

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

Effect on the Filing: The wastewater UPIS balance should be decreased by \$815,172 and the wastewater accumulated depreciation balance should be decreased by \$632,244.

Finding 3: CIAC and Accumulated Amortization of CIAC

Audit Analysis: According to the Seller’s general ledger, the water CIAC balance was \$571,643 as of May 31, 2019. Water CIAC was established to be \$359,284 as of December 31, 1987 in Order No. 880557-WS, issued August 22, 1988. According to the annual reports, water CIAC increased by \$212,359 in the years 1990 through 2000 . We could not verify the increases to water CIAC since we did not have the FPSC issued tariffs prior to October 31, 2015 or any other source documentation from the seller. However, audit staff determined water CIAC to be fully amortized as of the transfer date, therefore, there is no effect to the water net book value.

According to the Seller’s general ledger, the wastewater CIAC balance was \$238,921 as of May 31, 2019. Wastewater CIAC had no additions from the last Order, as of December 31, 1987 through the transfer date, July 1, 2019.

According to the Seller’s general ledger, the water accumulated amortization of CIAC balance was \$579,047 as of May 31, 2019. Audit staff reduced the balance to \$571,643 to reflect the water CIAC balance. The Utility’s water accumulated amortization amount is over amortized by \$7,404. Audit staff determined the water accumulated amortization of CIAC to be fully amortized as of the transfer date. Staff determined the amortization using a yearly composite depreciation rate.

According to the Seller’s general ledger, the wastewater accumulated amortization of CIAC balance was \$206,294 as of May 31, 2019. Audit staff increased the balance to \$238,921 to reflect the wastewater CIAC balance. Audit staff determined the wastewater accumulated amortization of CIAC to be fully amortized as of the transfer date. Staff determined the amortization using a yearly composite depreciation rate.

Table 3-1

Water		Utility	Audit	Audit
Account		Balance	Adjustment	Balance
Number	Account Name	05/31/2019		6/30/2019
272	Accum Amtz CIAC - Water	\$ 579,047	\$ (7,404)	\$ 571,643

Wastewater		Utility	Audit	Audit
Account		Balance	Adjustment	Balance
Number	Account Name	05/31/2019		6/30/2019
272	Accum Amtz CIAC - Wastewater	\$ 206,294	\$ 32,627	\$ 238,921

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

Effect on the Filing: Water accumulated amortization of CIAC should be decreased by \$7,404. Wastewater accumulated amortization of CIAC should be increased by \$32,627.

Finding 4: Customer Deposits

Audit Analysis: According to the Seller's general ledger as of May 31, 2019, there is a balance of \$10,000 for customer deposits. We reviewed the Seller's authorized tariff, effective October 31, 2015. This tariff does not indicate a customer deposit charge to be in effect.

The Buyer has indicated that the Seller mentioned the "Seller informed the Buyer of its obligation to apply deposits to the final account balance and issue refund checks for any remaining credit balances. Buyer has not received any further information post closing."

Effect on the General Ledger: This finding is for informational purposes.

Effect on the Filing: This finding is for informational purposes.

Exhibits

Exhibit 1: Water Net Book Value

**ROYAL WATERWORKS, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20190170-WS; ACN 2019-290-4-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF JULY 1, 2019**

Description	Balance per Utility 5/31/2019	Audit Adjustments	Audit Finding	Balance per Audit 7/1/2019
Utility Plant in Service	\$ 3,187,934	\$ (821,334)	1	\$ 2,366,600
Land	76,123	-		76,123
Accumulated Depreciation	(2,473,158)	697,028	1	(1,776,130)
Contributions in Aid of Construction	(571,643)	-		(571,643)
Accumulated Amortization of CIAC	579,047	(7,404)	3	571,643
NET BOOK VALUE	\$ 798,303	\$ (131,710)		\$ 666,593

Exhibit 2: Wastewater Net Book Value

**ROYAL WATERWORKS, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20190170-WS; ACN 2019-290-4-1
SCHEDULE OF WASTEWATER NET BOOK VALUE
AS OF JULY 1, 2019**

Description	Balance per Utilitiy 5/31/2019	Audit Adjustments	Audit Finding	Balance per Audit 7/1/2019
Utility Plant in Service	\$ 1,814,757	\$ (815,173)	2	\$ 999,584
Land	71,802	-		71,802
Accumulated Depreciation	(1,471,604)	632,244	2	(839,360)
Contributions in Aid of Construction	(238,921)	-		(238,921)
Accumulated Amortization of CIAC	206,294	32,627	3	238,921
NET BOOK VALUE	\$ 382,328	\$ (150,302)		\$ 232,026