



REVIEW OF FINANCIAL SCHEDULES

Golden State Water Company – Arden-Cordova District

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
November 2, 2021



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

**Raymond Yin, CPA
Program and Project Supervisor**

**Khusbindar Kaur, CPA
Lead**

**Sam Niepoth
Staff**

**Tir Saephan
Staff**

A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry)

**You can contact our office at:
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

November 2, 2021

Robert Sprowls, President
Golden State Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

Dear Mr. Sprowls:

Final Report Transmittal Letter—Review of Golden State Water Company-Arden Cordova District’s Financial Schedules in its Annual Report for the year ended December 31, 2020

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Golden State Water Company (GSWC)-Arden Cordova District’s financial schedules in its 2020 Annual Report filed with the CPUC. The final review report is enclosed.

GSWC’s response to the draft report finding and our evaluation of the response are incorporated into this final report. We will post this review report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

As Corrective Action Plan (CAP) is required, GSWC’s response to the draft review report described the corrective actions GSWC plans to implement moving forward to address the finding and recommendation. Therefore, we determined that GSWC has fulfilled the CAP requirement and no further submission of CAP is required.

We appreciate GSWC’s assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Raymond Yin, Program and Project Supervisor, at (415) 703-1818.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: on next page

Mr. Robert Sprowls, President
Golden State Water Company
November 2, 2021
Page 2

cc: Keith Switzer, Vice President of Regulatory Affairs, GSWC
Gladys Farrow, Treasurer, GSWC
Jimmy Cheung, Controller, GSWC
Jon Pierotti, Regulatory Affairs Manager, GSWC
Rachel Peterson, Executive Director, CPUC
Saul Gomez, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce DeBerry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Sam Niepoth, Staff Services Management Auditor, UAB, CPUC
Tir Saephan, Staff Services Management Auditor, UAB, CPUC

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial schedules in the Annual Report of Golden State Water Company (GSWC)–Arden-Cordova District (GSWC–Arden-Cordova) for the period ended December 31, 2020, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of regulated utilities. We conducted this review in accordance with the standards prescribed under Review Engagements in the Generally Accepted Government Auditing Standards (GAGAS).

Incorporated in California in 1929, GSWC is a subsidiary of American States Water Company. GSWC is a Class A water utility with a total of 256,790 metered customer connections, 609 flat rate residential customer connections and 4,542 flat rate private fire customer connections throughout California.¹ GSWC–Arden-Cordova was acquired in 1964 and serves approximately 15,950 metered connections, 606 flat rate residential customer connections and 565 flat rate private fire connections in the vicinity of Arden Manor area in Sacramento County, California.² As a regulated water utility, GSWC is required to prepare its Districts’ Annual Reports on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles in the United States of America.

The purpose of this review was to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial schedules in GSWC–Arden-Cordova’s Annual Report for the year ended December 31, 2020, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC’s directives.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in GSWC–Arden-Cordova’s revised Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC’s directives. However, UAB identified one material misstatement in GSWC’s Annual Report originally filed with the CPUC’s Water Division, as described in the Appendix A–Review Finding and Recommendation. The finding is summarized below:

- Finding 1: GSWC–Arden-Cordova misclassified Utility Plant in Service costs totaling \$3,745,883 due to an omission of a reclassification entry in its Annual Report. GSWC–Arden-Cordova incorrectly reported costs totaling \$3,724,283 for installed service pipes and \$21,600 for pumping plant structures in Account 346 – Meters. As a result, GSWC–Arden-Cordova overstated Account 346–Meters by \$3,745,883 and understated Account 345–Services and Account 321–Structures and Improvement (Pumping Plant) by \$3,724,283 and \$21,600, respectively.

UAB discussed the above finding with GSWC during fieldwork. GSWC concurred with the finding and agreed to correct the misstatement identified above. GSWC submitted a revised 2020 Annual Report for GSWC–Arden-Cordova on September 9, 2021, to the CPUC to correct the material misstatement described in Appendix A of this report. UAB further discussed the finding and recommendation presented in Appendix A of this report with GSWC at the exit conference on

¹ GSWC 2020 Annual Report, Schedule D-4–Number of Active Service Connections, Page 61

² GSWC–Arden-Cordova 2020 Annual Report, Schedule D-4–Number of Active Service Connections, Page 16

September 13, 2021, and GSWC concurred with the review results. We are not aware of any material modifications that should be made to the accompanying financial schedules in GSWC–Arden-Cordova’s revised Annual Report. We issued a draft review report on October 4, 2021. GSWC submitted its comments on October 15, 2021, agreeing with UAB’s identification of the misclassification error. In its response, GSWC also provided its perspective on the cause and effect of the finding. GSWC’s response to the finding and recommendation is presented in Appendix B of this report. UAB’s evaluation of GSWC’s response is presented in Appendix C of this report.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Robert Sprowls, President
Golden State Water Company
630 E. Foothill Blvd.
San Dimas, CA 91773

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial schedules in Golden State Water Company (GSWC)–Arden-Cordova District's (GSWC–Arden-Cordova) revised Annual Report for the year ended December 31, 2020. GSWC's management is responsible for the preparation and fair presentation of the financial schedules in GSWC–Arden-Cordova's revised Annual Report in accordance with the accounting framework prescribed by the Uniform System of Accounts (USOA) adopted in CPUC's Decision (D.)16-11-006 and CPUC's directives. Our responsibility is to express a conclusion on the financial schedules in the GSWC's revised Annual Report based on our review.

Our review was conducted in accordance with the standards of attestation engagement established by the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the review to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial schedules in GSWC–Arden-Cordova's Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. A review is substantially less in scope than an examination, the objective for which is to obtain reasonable assurance about whether the financial schedules in GSWC–Arden-Cordova's Annual Report is in accordance with accounting framework prescribed by the USOA and CPUC's directives, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying reported financial schedules in GSWC–Arden-Cordova's revised Annual Report for the year ended December 31, 2020, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. However, UAB identified one material misstatement in GSWC–Arden-Cordova's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A–Review Finding and Recommendation. The misstatement has been corrected by GSWC in the accompanying financial schedules.

Views of Responsible Official

UAB discussed the results of the review with GSWC during fieldwork. GSWC concurred with the finding and agreed to correct the misstatement identified in its Annual Report originally filed with the CPUC's Water Division. GSWC submitted a revised 2020 Annual Report for GSWC–Arden-Cordova on September 9, 2021, to correct the material misstatement described in Appendix A of this report. UAB further discussed the finding and recommendation with GSWC at the exit conference on September 13, 2021, and GSWC concurred with the review results. We are not aware of any material modifications that should be made to the accompanying financial schedules in GSWC–Arden-Cordova's revised Annual Report. We issued a draft review report on October 4, 2021. GSWC submitted its comments on October 15, 2021, agreeing with UAB's identification of the misclassification error. In its response, GSWC also provided its perspective on the cause and effect of the finding. GSWC's response to the finding and recommendation is

presented in Appendix B of this report. UAB’s evaluation of GSWC’s response is presented in Appendix C of this report.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of GSWC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on the CPUC’s website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

REVIEWED FINANCIAL SCHEDULES

Golden State Water Company – Arden-Cordova District **Utility Plant in Service** As of December 31, 2020

INTANGIBLE PLANT

Organization	\$9,355
Franchises and Consents	1,893
Other Intangible Plant	1,592,224
Total Intangible Plant	<u>1,603,472</u>

LANDED CAPITAL

Land and Land Rights	1,437,662
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SOURCE OF SUPPLY PLANT

Structures and Improvements	511,012
Wells	4,056,717
Supply Mains	11,973,775
Total Source of Supply Plant	<u>16,541,504</u>

PUMPING PLANT

Structures and Improvements	1,144,770
Pumping Equipment	17,254,071
Other Pumping Plant	2,606,368
Total Pumping Plant	<u>21,005,209</u>

WATER TREATMENT PLANT

Structures and Improvements	2,033,725
Water Treatment Equipment	9,893,428
Total Water Treatment Plant	<u>\$11,927,153</u>

(Continued on next page)

Golden State Water Company–Arden-Cordova District
Utility Plant in Service (continued)
 As of December 31, 2020

TRANSMISSION AND DISTRIBUTION PLANT

Structures and Improvements	\$8,552
Reservoirs and Tanks	11,385,069
Transmission and Distribution Mains	42,364,985
Fire Mains	243,202
Services	21,762,969
Meters	6,314,035
Hydrants	5,147,893
Other Transmission and Distribution Plant	58,574
Total Transmission and Distribution Plant	87,285,279

GENERAL PLANT

Structures and Improvements	53,057
Office Furniture and Equipment	162,944
Transportation Equipment	525,358
Laboratory Equipment	7,834
Communication Equipment	41,316
Power Operated Equipment	35,721
Tools, Shop and Garage Equipment	217,078
Other General Plant	2,970
Total General Plant	1,046,278

UNDISTRIBUTED ITEMS

Utility Plant Purchased	1,573
Total Undistributed Items	1,573

Total Utility Plant in Service	\$140,848,130
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(See independent accountant’s review report and accompanying notes.)

Golden State Water Company–Arden-Cordova District
Depreciation and Amortization Reserves
 As of December 31, 2020

	Utility Plant	Limited-Term Utility Investments
Reserves, Beginning of Year	\$44,274,541	\$1,186,282
Credits		
Charged to Account 503	1,625,437	54,298
Charged to Account 265	1,236,401	25,824
Charged to clearing accounts	12,040	
Total credits	2,873,878	80,122
Debits		
Book cost of property retired	(1,140,470)	
Cost of removal	(465,205)	
All other debits	(2,431)	
Total debits	(1,608,106)	0
Reserve, End of Year	\$45,540,313	\$1,266,404

(See independent accountant's review report and accompanying notes.)

Golden State Water Company–Arden-Cordova District **Operating Revenues** For Year Ended December 31, 2020

WATER SERVICE REVENUES

Metered Sales to General Customers	
Residential Sales	\$6,182,131
Residential Low-Income Discount (Debit)	(91,598)
Metered Sales Low-Income Balancing Account (Credit)	93,126
Commercial Sales	5,326,875
Industrial Sales	7,791
Sales to Public Authorities	298,528
Sub-total	11,816,853
Unmetered Sales to General Customers	
Residential Sales	637,508
Residential Low-Income Discount	(10,110)
Metered Sales Low-Income Balancing Account (Credit)	10,279
Sub-total	637,677
Sales to Irrigation Customers	
Metered sales	1,572,190
Sub-total	1,572,190
Private Fire Protection Service	256,760
Other Sales or Service	(48,954)
Sub-total	207,806
Total Water Service Revenues	14,234,526

OTHER WATER REVENUES

Customer Surcharges	1,941,299
Miscellaneous Service Revenues	6,775
Total Other Water Revenues	1,948,074

TOTAL OPERATING REVENUES	\$16,182,600
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(See independent accountant’s review report and accompanying notes.)

Golden State Water Company–Arden-Cordova District **Operating Expenses** For Year Ended December 31, 2020

SOURCE OF SUPPLY EXPENSE

Operation	
Operation labor and expenses	\$554
Purchased water	668,509
Maintenance	
Maintenance of structures and improvements	300
Maintenance of collect and impound reservoirs	(5)
Maintenance of lake, river and other intakes	12,664
Total Source of Supply Expense	682,022

PUMPING EXPENSES

Operation	
Operation supervision and engineering	16,720
Pumping labor and expenses	135,069
Miscellaneous expenses	41,841
Fuel or power purchased for pumping	747,502
Maintenance	
Maintenance supervision and engineering	4,555
Maintenance of structures and improvements	370
Maintenance of power pumping equipment	82,087
Total Pumping Expenses	1,028,144

WATER TREATMENT EXPENSES

Operation	
Operation supervision and engineering	27,000
Operation labor and expenses	178,644
Miscellaneous expenses	37,038
Chemicals and filtering materials	23,302
Maintenance	
Maintenance supervision and engineering	8,931
Maintenance of structures and improvements	15,130
Maintenance of water treatment equipment	55,722
Total Water Treatment Expenses	\$345,767

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Golden State Water Company–Arden-Cordova District
Operating Expenses (Continued)
 For Year Ended December 31, 2020

TRANSMISSION AND DISTRIBUTION EXPENSES

Operation

Operation supervision and engineering	\$45,661
Storage facilities expenses	(413)
Transmission and distribution lines expenses	14,429
Meter expenses	92,167
Customer installations expenses	7,206
Miscellaneous expenses	150,977

Maintenance

Maintenance supervision and engineering	9,051
Maintenance of reservoirs and tanks	3,148
Maintenance of transmission and distribution mains	82,515
Maintenance of services	10,571
Maintenance of meters	54,198
Maintenance of hydrants	24,168

Total Transmission and Distribution Expenses	493,678
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CUSTOMER ACCOUNT EXPENSES

Operation

Transferred Customer Expenses	300,135
Supervision	27,356
Meter reading expenses	86,025
Customer records and collection expenses	24,448
Uncollectible accounts	41,609

Total Customer Account Expenses	479,573
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SALES EXPENSES

Operation

Demonstrating and selling expenses	116,531
Advertising expenses	(493)

Total Customer Account Expenses	\$116,038
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Golden State Water Company–Arden-Cordova District
Operating Expenses (Continued)
 For Year Ended December 31, 2020

ADMINISTRATIVE AND GENERAL EXPENSES

Operation

Allocation of administrative and general expenses	\$3,474,064
Administrative and general salaries	4,636
Office supplies and other expenses	72,364
Injuries and damages	88,073
Employees’ pensions and benefits	437,950
Franchise Requirements	643
Outside services employed	47,780
Miscellaneous General Expenses	39,052

Maintenance

Maintenance of general plant	8,514
Total Administrative and General Expenses	4,173,076

MISCELLANEOUS

Customer surcredits	1,941,299
Rents	54,497
Total miscellaneous	1,995,796
Total Operating Expenses	\$9,314,094

(See independent accountant’s review report and accompanying notes.)

Golden State – Arden-Cordova District Water Company

Notes to Financial Schedules

GSWC is a subsidiary of American States Water Company. GSWC–Arden-Cordova was acquired in 1964 and serves approximately 15,950 metered connections, 606 flat rate residential customer connections and 565 flat rate private fire connections in the vicinity of Arden Manor area in Sacramento County, California.³

Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles (GAAP) in the United States of America. The followings describe certain differences in accounting treatments between GAAP and USOA, the company’s current accounting practices, and its compliance with applicable regulation and CPUC directives.

1. Purpose of Financial Information and Targeted Audience

The objective of preparing financial information in accordance with GAAP is to provide information that is useful in making decisions about providing resources to the entity. Users of the financial information include existing and potential investors, lenders, and other creditors.

The purpose of using USOA to prepare financial schedules is to have the utilities provide financial transparency of their water operations on a consistent basis. The primary user of the financial information is the CPUC for ratemaking and other compliance purposes.

2. Property, Plant and Equipment

The USOA distinguishes the plant assets for water operations (e.g., Account 100-1, Utility Plant in Service) from those for non-water operations (e.g., Account 110, Other Physical Property), for ratemaking purposes. The cost of additions, replacements and betterments to utility plant is capitalized.

(1) Depreciation Methodology

GAAP allows entities to elect a depreciation methodology of their choices, such as straight-line, double-declining balance, or sum-of-the-years digits depreciation method.

USOA requires utilities to use “Straight-line remaining life method.” “Remaining life” implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Class A water utilities are required to comply with the USOA and CPUC’s Standard Practice (SP) U-4-W when determining depreciation accruals. Specifically, depreciation reserve is determined for each primary plant account by dividing the original cost of depreciable utility plant, net of estimated salvage value and depreciation reserve, by the estimated remaining life of the surviving plant of

³ GSWC–Arden-Cordova 2020 Annual Report, Schedule D-4–Number of Active Service Connections, Page 16

the account. The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned guidelines.

GSWC uses the estimated straight-line remaining life depreciation method for each class of utility plants. The depreciation rates for individual plant accounts were approved by the CPUC in D.19-05-044.

(2) Asset Retirement

USOA requires that water plant be recorded at original cost. In USOA's depreciation schedule, the difference between the estimated cost of removal and the salvage value is included in the depreciable base to obtain the annual depreciation expense. When retiring an asset, the cost of removal will reduce the balance of Account 250, Reserve for Depreciation of Utility Plant, while the cash received from the salvage value or sale price will increase the balance of Account 250, Reserve for Depreciation of Utility Plant. The gain or loss from the asset retirement that is recognized under GAAP is accumulated in Account 250, Reserve for Depreciation of Utility Plant, under the USOA.

GSWC–Arden-Cordova's utility plant is recorded at original cost when first constructed or purchased. When a depreciable plant is retired, the cost is removed from utility plant account and an equal amount is removed from accumulated depreciation.

During 2020, GSWC–Arden-Cordova retired utility plant totaling \$1,140,470, primarily consisting of removal of meters, pumping equipment, and various other plant assets.

(3) Sale and Acquisition of Properties

Under GAAP, entities recognize gain or loss from disposal of properties and recognize goodwill or gain from a bargain purchase of other entities' segment or properties. Under USOA, no goodwill or gain is recognized from the sale or acquisition of a water system or unit, unless it's approved by the CPUC's decision.

When a Utility purchases an operating unit or system, it shall first record the transaction into a temporary account in Account 391, Utility Plant Purchased. Within six months from the date of acquisition, the utility shall file with the CPUC for approval of the proposed journal entries to clear this account.

When a Utility sells an operating unit or system, it shall first record the transaction into a temporary account in Account 392, Utility Plant Sold. Within six months from the date of sale or transfer, the Utility shall file with the CPUC for approval of the proposed journal entries to clear this account.

During 2020, GSWC–Arden-Cordova did not sell or acquire properties.

3. Operating Revenues

GSWC–Arden-Cordova generated approximately 73 percent of its operating revenues from metered water sales; 10 percent from water sales to its irrigation customers; 12 percent from customer surcharges, and five percent from water sales to unmetered customers and other miscellaneous water revenues.

4. Water Utility Users Fee

PU Code, Sections 401 through 410 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. A percentage of gross revenues is added to customer bills and paid by the water utilities to the CPUC. Class A water utilities pay a percentage of gross revenues quarterly.

GSWC recorded CPUC Users Fee as a pass-through activity and remitted the Users Fee to the CPUC on a quarterly basis.

5. Compliance filing of 2020 Annual Report with the CPUC

PU Code Sections 581, 582, and 584, and the CPUC's directive (i.e., Water Division's annual memorandum to water and sewer utilities) require all regulated water utilities to file an Annual Report with the CPUC every year. For the year being reviewed, GSWC has complied with these requirements.

APPENDIX A—REVIEW FINDING AND RECOMMENDATION

Finding 1: Misclassified Utility Plant in Service

Condition:

GSWC–Arden-Cordova misclassified Utility Plant in Service costs totaling \$3,745,883 due to an omission of a reclassification entry in its Annual Report originally filed with the CPUC’s Water Division on May 19, 2021. GSWC–Arden-Cordova incorrectly reported costs totaling \$3,724,283 for installed service pipes and \$21,600 for pumping plant structures in Account 346–Meters. As a result, GSWC–Arden-Cordova overstated Account 346–Meters by \$3,745,883 and understated Account 345–Services and Account 321–Structures and Improvement (Pumping Plant) by \$3,724,283 and \$21,600, respectively. GSWC–Arden-Cordova corrected these misstatements by submitting a revised Annual Report to the CPUC on September 9, 2021.

Criteria:

The USOA states, in part, that:

Account 345–Services

A. This account shall include the cost installed of service pipes and accessories leading to the customers’ premises.

Account 346–Meters

A. This account shall include the cost of meters used for measuring the quantity of water delivered to users, whether actually in service or held in reserve.

Cause:

GSWC lacks effective monitoring procedures over its accounting and reporting process to ensure that all reclassifying entries are posted to ensure that utility plant account balances are accurately reported in the Annual Report.

Effect:

Misclassified utility plant resulted in inaccurate reported account balances in GSWC–Arden-Cordova’s Annual Report and reduced the comparability of utility plant financial data among Class A water utilities.

Recommendation:

GSWC should strengthen its monitoring procedures over its accounting and reporting process to ensure that all reported amounts in its Annual Reports are complete and accurate.

APPENDIX B—UTILITY'S RESPONSE



October 15, 2021

Ms. Khusbindar Kaur
Utility Audits Branch
California Public Utilities Commission
400 R Street, Suite 221
Sacramento, CA 95811

RE: Utility Audit Branch's Review of Golden State Water Company – Arden Cordova District Annual Report for the year ended December 31, 2020

Dear Ms. Kaur,

Golden State Water Company (GSWC) appreciates this opportunity to provide comments on the Utility Audit Branch's (UAB) Draft Review Report of GSWC's Arden Cordova District Annual Report for the year ended December 31, 2020 dated October 4, 2021 (Draft Report). The Draft Report identified one finding related to a misclassification error between asset categories within Utility Plant in Service, resulting in an overstatement of Account 346-Meters with corresponding and offsetting understatements of Account 345-Services and Account 321-Structures and Improvement (Pumping Plant) within the CPUC Annual Report. GSWC's response to this finding is as follows:

Golden State Water's (GSWC's) Response:

GSWC is in agreement with UAB's identification of the misclassification error in GSWC's Arden Cordova District Annual Report for the year ended December 31, 2020. However, GSWC clarifies the nature of this finding to note that the misstatement was not a result of improper accounting and recording within GSWC's financial records, but rather a reporting-only reclassification error that occurred within subcategories of utility plant when preparing the CPUC Annual Report. This inadvertent error resulted in no impact to the reported total utility plant and rate base amounts for Arden Cordova. More specifically, utility plant is correctly recorded in GSWC's Arden Cordova financial records and balance sheet, which is the data used when preparing GSWC's General Rate Case applications. As a result, the misclassification did not impact GSWC's most recently filed or previously filed General Rate Case Applications and, therefore, has not impacted customer rates.

For context, it is important to understand the background that resulted in the misclassification and which we believe deems it an isolated incident. GSWC received funds from the Safe Drinking Water State Revolving Fund (SDWSRF) by way of the American Recovery and Reinvestment Act (ARRA). GSWC used the funds to add and retrofit water meters (Account 346 – Meters) in order to convert customers in its Arden Cordova water system from non-metered service to metered service. The work also involved installing services (Account 345 – Services). The reclassification

entry in question was necessary to properly split the amounts spent on meters and services that were installed and funded by the SDWSRF. Since this utility plant is being recovered through a special 20-year surcharge and in accordance with a Commission's order, the SDWSRF-funded plant is not included in rate base for purposes of calculating GSWC's revenue requirement and, accordingly, should also not be included in the reported rate base amount in Arden Cordova's CPUC Annual Report. GSWC properly removed the original accounting entries that recorded the respective assets from rate base included in the CPUC Annual Report, but inadvertently did not remove the reclassification entry that was made to properly split the amounts within each asset category. This resulted in the overstatement of one asset category and a corresponding understatement of another asset category being reported in the CPUC Annual Report, but with no net impact to total Utility Plant and rate base. The error is a result of the inadvertent inclusion of the reclassification entry that should have been excluded (along with the original entries) in the reporting to the CPUC Annual Report. But to emphasize, this was not an error that resulted from the accounting reflected in GSWC's financial records. This is considered an isolated incident, as no other GSWC utility plant has been funded by ARRA and which is currently being recovered through a special surcharge instead of through GSWC's authorized revenue requirement.

In the Draft Report, UAB determined the cause of the finding was due to the lack of effective monitoring procedures over its accounting and reporting process. Given the unusual and non-recurring nature of the item, GSWC believes that this error is not indicative of a lack of controls over its accounting and reporting environment. UAB's review did not reveal a preponderance of errors of a similar nature and, therefore, overstates the cause and effect of the finding. In conclusion, GSWC has sufficient controls in place to mitigate the risk of ratepayers paying for projects funded by others, which were removed from rate base and properly reflected in the CPUC's Annual Report in totality. However, beginning with the 2021 CPUC Annual Reports, GSWC will implement procedures that include performing more detailed reviews of individual plant category balances included in the CPUC Annual Reports and agreeing them to the respective general ledger accounts to ensure completeness and accuracy in our reporting to the CPUC.

Please feel free to contact me if you have any questions regarding this Letter. You can contact me at gladys.farrow@gswater.com.

Sincerely,



Gladys Farrow

Vice President of Finance, Treasurer, Assistant Secretary

cc: Raymond Yin, Utility Audits Branch

APPENDIX C—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate GSWC's comments submitted on October 15, 2021. In its response, GSWC agreed with UAB's identification of the misclassification error and listed corrective actions planned to ensure accurate reporting of financial data in its future Annual Reports. We appreciate GSWC's willingness to take corrective actions and planning to implement "procedures that include performing more detailed reviews of individual plant category balances included in the CPUC Annual Reports and agreeing them to the respective general ledger accounts...."

In addition, GSWC's response provided its perspective on the cause and effect of the misclassification error. GSWC expressed that it believes the error was an isolated issue and, therefore, was not indicative of the lack of or weak internal controls. Although the misclassification had no impact on GSWC—Arden-Cordova's total utility plant and rate base amounts as stated by GSWC, the error did have an impact on the accuracy of the financial data reported to the CPUC and the public. We determined that the misclassification was a result of a material weakness in GSWC's internal control. An internal control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that creates a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented or detected and corrected timely. Had GSWC exercised stringent monitoring procedures during the review process of GSWC—Arden-Cordova's 2020 Annual Report before submitting it to the CPUC, the misclassification could have been corrected. Therefore, UAB's finding and recommendation remain unchanged.