



BALANCING ACCOUNTS PERFORMANCE AUDIT

San Gabriel Valley Water Company

January 1, 2019, through December 31, 2019

Utility Audits, Risk and Compliance Division
Utility Audits Branch
November 18, 2021



MEMBERS OF THE TEAM

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A digital copy of this report can be found at:

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You can contact our office at:

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Utility Audits, Risk and Compliance Division
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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

November 18, 2021

Mr. Joel M. Reiker
Vice President of Regulatory Affairs
San Gabriel Valley Water Company
11142 Garvey Avenue
El Monte, CA 91733

Dear Mr. Reiker:

**Final Report Transmittal Letter—Audit of San Gabriel Valley Water Company's
Balancing Accounts for the period of January 1, 2019, through December 31, 2019**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of San Gabriel Valley Water Company's (San Gabriel) Balancing Accounts reported for the period of January 1, 2019, through December 31, 2019. The final audit report is enclosed.

Our audit disclosed no findings requiring a response and we are issuing the report as final. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

We appreciate San Gabriel's assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Kevin Nakamura, Program and Project Supervisor, at (916) 715-8940.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: Rachel Peterson, Executive Director, CPUC
Saul Gomez, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Balancing Accounts administered and reported by San Gabriel Valley Water Company (San Gabriel) for the audit period of January 1, 2019, through December 31, 2019.

Our audit objectives were to determine whether 1) transactions recorded in San Gabriel's balancing accounts from January 1, 2019, through December 31, 2019, were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable Public Utilities (PU) Code sections, CPUC directives, orders, rules, regulations, and San Gabriel's policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in San Gabriel's balancing accounts from January 1, 2019, to December 31, 2019, were for allowable purposes and supported by appropriate documentation and that its balancing accounts for the audit period were established and maintained in accordance with CPUC directives, orders, rules, regulations, and San Gabriel's policies and procedures.

AUDIT REPORT

Background

Balancing Accounts

The CPUC has a responsibility to authorize the rates that regulated utilities may charge their customers. Considering that the rates are derived from projected costs and projected consumption of service, the CPUC authorizes regulated utilities to establish balancing accounts to track the actual costs and the related revenues the utilities collect from ratepayers for specified activities. The primary purpose of a balancing account is to ensure that a utility recovers its CPUC-authorized revenue requirement from ratepayers for a given program or function, but not more or less.

Functionally, a balancing account tracks the difference between actual expenditures associated with the account, revenue authorized for recovery by the CPUC (authorized revenue requirement), and the actual revenues collected within customer rates to cover those specific expenditures. Applicable rules for a given balancing account are presented in the account's preliminary statement, which also includes description of the purpose of the account, the types of costs and/or revenues that are to be tracked in the account, and specific accounting procedures that the utility must follow to record transactions for the balancing account. Additionally, unless approved otherwise, a balancing account is required to accumulate monthly interest at a rate equal to one-twelfth of the most recent month's interest rate on three-month Commercial Paper published by the Federal Reserve.

Actual revenues collected by a utility in rates can be more or less than what CPUC had authorized to collect because rates are always forward-looking and based on forecasted sales. Thus, the balance in a balancing account can either be over- or under-collected. If a balancing account is over- or under-collected, the net balance is typically recovered from or refunded to ratepayers on an annual basis through an adjustment in rates.

In 2019, San Gabriel was authorized a total of 14 balancing accounts to track differences between actual expenditures associated with the account and authorized for recovery, and the revenues collected within customer rates to cover those specific expenses. In 2019, San Gabriel reported a total combined under-collected balanced of \$14,309,858 in its balancing accounts. A breakdown of the reported amounts over or under-collected in rates as of December 31, 2019, by each balancing account is provided in the table below:

Title of Balancing Accounts	Reported Net (Over)/Under- Collected Balance as of Dec. 31, 2019
Water Cost Balancing Account for Los Angeles County Division	\$ 744,799
Water Cost Balancing Account for Fontana Water Company Division	6,245,979
Power Cost Balancing Account for Los Angeles County Division	243,463
Power Cost Balancing Account for Fontana Water Company Division	(1,176,188)
California Alternative Rates for Water Balancing Account for Los Angeles County Division	(251,272)
California Alternative Rates for Water Balancing Account for Fontana Water Company Division	1,191,662
Plant F23 Project Balancing Account for Fontana Water Company Division	0
S. Mains Project Balancing Account for Fontana Water Company Division	1,620,576
Previously Authorized Balances Balancing Account (PABBA) for Los Angeles County Division	557,956
PABBA for Fontana Water Company Division	2,908,239
Conservation Program Balancing Account for Los Angeles County Division	(396,094)
Conservation Program Balancing Account for the Fontana Water Company Division	(253,706)
Drought Lost Revenue and Drought Surcharge Revenue Balancing Account LA Division	1,405,373
Drought Lost Revenue and Drought Surcharge Revenue Balancing Account Fontana Division	1,469,071
Total Net (Over)/Under-Collected Balance	<u><u>\$14,309,858</u></u>

Audit Authority

The UAB conducted this audit under the general authority outlined in PU Code sections 314.5, 314.6, 451, 581, 582, 584. Furthermore, PU Code section 792.5 requires the CPUC to review or audit all balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are for allowable purposes and supported by appropriate documentation.

Objective and Scope

Our audit objectives were to determine whether 1) transactions recorded in San Gabriel's balancing accounts from January 1, 2019, through December 31, 2019, were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable PU Code sections, CPUC directives, orders, rules, regulations, and San Gabriel's policies and procedures.

The scope of our audit covered 14 balancing accounts administered and reported by San Gabriel for the audit period of January 1, 2019, through December 31, 2019.

Methodology

In planning our audit, we gained an understanding of each balancing account and San Gabriel's operations by researching and reviewing relevant PU Code sections, preliminary statements, San Gabriel's internal rules, regulations, and policies, CPUC decisions, resolutions, advice letters, and interviewing San Gabriel personnel.

We conducted a risk assessment, including evaluating whether San Gabriel's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of the data extracted from San Gabriel's accounting and customer billings systems. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, we:

- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to gain an understanding of the accounts and applicable tariff rates.
- Reviewed external audit reports prepared by independent Certified Public Accounting (CPA) firm on San Gabriel's annual financial statements and internal controls to identify potential risks relevant to the audit objectives.
- Assessed significance by performing analysis of revenue and expenditure data and evaluating balancing account requirements.
- Reviewed San Gabriel's internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Reviewed San Gabriel's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Obtained an understanding of San Gabriel's key internal controls relevant to its balancing accounts, such as accounting and reporting process, customer billing procedures, rate adjustment process, and assessed the design, implementation, and operating effectiveness of selected controls that were significant to the audit objectives by:
 - completing an internal control questionnaire;
 - reviewing San Gabriel's policies and procedures and interviewing key personnel;
 - performing walkthroughs of balancing account activities, customer billings, and rate changes;
 - verifying appropriate rates were charged on selected customer billings; and
 - assessing the reliability of billing and sales data.
- Reviewed San Gabriel's customer billing system and policies, processes and procedures for recording and reporting revenues to its balancing accounts.

- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed testing of sales/revenues by judgmentally selecting a non-statistical sample of significant sales/revenue transactions for the following balancing accounts:

Balancing Account Name	Total Sales Tested	Total Sales Recorded in 2019	Percent Tested
Water Costs Balancing Account for Fontana Water Company Division	\$3,086,113	\$14,601,146	21%
Drought Lost Revenue and Drought Surcharge Revenue Balancing Acct.	2,947,333	13,208,924	22%
Totals	\$6,033,446	\$27,810,070	22%

Note: For the selected samples, errors found, if any, were not projected to the intended total population.

- Traced sampled sales/revenues recorded in San Gabriel’s accounting records to invoices and other supporting documentation and determined whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and the San Gabriel’s policies and procedures.
- Performed testing of expenditures by judgmentally selecting a non-statistical sample of significant expenditure transactions for the following balancing accounts:

Balancing Account Name	Total Expenditures Tested	Total Expenditures Recorded in 2019	Percent Tested
Water Cost Balancing Account for Fontana Water Company Division	\$4,315,532	\$19,138,948	23%
Power Cost Balancing Account for Fontana Water Company Division	1,110,936	4,251,653	26%
Totals	\$5,426,468	\$23,390,601	23%

Note: For the selected samples, errors found, if any, were not projected to the intended total population.

- Traced sampled expenditures recorded in San Gabriel’s accounting records to invoices and determined whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and the San Gabriel’s policies and procedures.
- Reconciled year-end balances recorded in the Balancing Account Monthly Tracking Statements to San Gabriel’s Reserve Account Report and Annual Report filed with the CPUC.

- Determined whether San Gabriel properly reported and recorded monthly interest in its Balancing Account Monthly Tracking Statement by judgmentally selecting three balancing accounts and recomputing the monthly interest amounts reported for each month in 2019.

We did not audit San Gabriel's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that San Gabriel reported, incurred, and maintained its balancing accounts in accordance with the applicable criteria. We considered San Gabriel's internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Conclusion

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in San Gabriel's balancing accounts from January 1, 2019, to December 31, 2019, were for allowable purposes and supported by appropriate documentation and that its balancing accounts for the audit period were established and maintained in accordance with CPUC directives, orders, rules, regulations, and San Gabriel's policies and procedures.

Follow-up on Prior Audit Finding

We have not previously conducted an audit of the San Gabriel's regulatory balancing accounts.

Views of Responsible Officials

We discussed the audit results with San Gabriel's representatives at an exit conference on October 27, 2021. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

This audit report is intended solely for the information and use of San Gabriel and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on the CPUC 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