

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



December 18, 2023

Ronald Gilbert, Owner  
California Hot Springs Sewer Service Company  
P.O. Box 146  
CA. Hot Springs, CA 93207

**Notice of Noncompliance of California Hot Springs Sewer Service Company**

Dear Ronald Gilbert:

The purpose of this letter is to inform you that the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) is withdrawing from its review engagement with California Hot Springs Sewer Service Company (CHSSSC) for the year ended December 31, 2022, due to the limitation on our review scope by CHSSSC. The limitation on our review scope resulted from CHSSSC's inability to provide sufficient appropriate documents to support the financial data reported in CHSSSC's 2022 Annual Report filed with CPUC. As a result, CHSSSC is not in compliance with the requirements specified under sections 581, 582, and 584 of the California Public Utilities (PU) Code and CPUC directives.

PU Code sections 581, 582, and 584 require all public utilities to furnish to CPUC all records and supporting documents in such form and detail at such a time requested by CPUC. The Uniform System of Accounts (USOA) adopted in CPUC Decision (D.) 16-11-006 by CPUC on November 10, 2016, also requires all sewer utilities to maintain accounting records using the double entry accounting method and keep accounting records to fully support facts pertaining to such entries.<sup>1</sup>

UAB initiated a review of CHSSSC's financial statements for the year ended December 31, 2022, pursuant to PU Code sections 314.5 and 314.6 that provide CPUC with the statutory authority to review or audit the books and records of regulated utilities. UAB sent an Engagement Letter and a Master Data Request on October 23, 2023, which outlined the objectives of the review engagement and the documents necessary to complete the review.

During our preliminary review of CHSSSC's 2022 Annual Report, we noted that CHSSSC did not report any financial data on Schedule A—Balance Sheet and related sub-schedules. CHSSSC's Annual Report omitted balances for key accounts, including but not limited to, Account 101—Sewer Plant in Service, Account 108—Accumulated Depreciation, Account 131—Cash, Account 141—Accounts Receivable and Account 218—Proprietary Capital. During our meeting on November 9, 2023, you stated that CHSSSC does not retain any historical accounting records necessary to support the reported balances of these accounts.

In addition, you explained that CHSSSC comingled its financial data with its affiliate company, California Hot Springs Water Service Company (CHSWSC). You stated that both CHSSSC and

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<sup>1</sup> General Accounting Instruction #2 of the Uniform System of Accounts on Page B13.

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CHSWSC shared one bank account for all cash transactions. Besides, the combined revenues from CHSSSC and CHSWSC were split evenly and reported as such in the Annual Reports of these two utilities instead of reporting actual revenues generated by each utility in their respective Annual Reports. Furthermore, you provided an expense ledger to support expenses reported in CHSSSC and CHSWSC's Annual Reports. However, the expense ledger did not utilize the chart of accounts established by USOA to identify how each transaction was reported in each utility's Annual Report. We also noted that CHSSSC does not use a formal accounting system and does not use double entry accounting method required by USOA.

CHSSSC's inability to segregate financial information from its affiliated company and maintain adequate source documentation constitutes a limitation on UAB's review scope. Due to these circumstances, UAB cannot complete its review of CHSSSC's 2022 Annual Report without violating the applicable governmental and professional auditing standards. Therefore, UAB is withdrawing from the engagement and will publish this noncompliance letter to CPUC's public website at [Audit Reports by Industry \(ca.gov\)](#). This letter also serves to meet the intention of the audit requirements specified in PU Code section 314.5.

UAB recommends that CHSSSC establishes policies and procedures to ensure its financial records are separately maintained by CHSSSC without comingling with its affiliates. In addition, all source documents necessary to support the financial data reported to CPUC should be properly retained as required by applicable regulations and CPUC's accounting requirements specified in USOA.

CPUC reserves the right for further regulatory actions if CHSSSC continues to be non-compliant. Pursuant to Resolution W-4799, CPUC has the authority to take prompt actions, including issuing citations and imposing fines, against any water or sewer utility that fails to correct the noncompliance or violation in a timely manner. A complete copy of the Resolution can be accessed at [https://docs.cpuc.ca.gov/PublishedDocs/WORD\\_PDF/FINAL\\_RESOLUTION/109215.PDF](https://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_RESOLUTION/109215.PDF).

Please contact us at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov) if you have any questions.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: see next page

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cc: Rachel Patterson, Executive Director, CPUC  
Kristin Stauffacher, Deputy Executive Director, 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  
Wilson Tsai, Program and Project Supervisor, Water Division, CPUC  
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC  
Ruth Yang, Senior Management Auditor, UAB, CPUC  
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