

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 18, 2023

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

Notice of Noncompliance of California Hot Springs Water 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 Water Service Company (CHSWSC) for the year ended December 31, 2022, due to the limitation on our review scope by CHSWSC. The limitation on our review scope resulted from CHSWSC's inability to provide sufficient appropriate documents to support the financial data reported in CHSWSC's 2022 Annual Report filed with CPUC. As a result, CHSWSC 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 water utilities to maintain accounting records using double entry accounting method and keep accounting records to fully support facts pertaining to such entries.¹

UAB initiated a review of CHSWSC'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 CHSWSC's 2022 Annual Report, we noted that CHSWSC did not report any financial data on Schedule A—Balance Sheet and related sub-schedules. CHSWSC's Annual Report omitted balances for key accounts, including but not limited to, Account 101—Water 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 CHSWSC does not retain any historical accounting records necessary to support the reported balances of these accounts.

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

¹ General Accounting Instruction #2 of the Uniform System of Accounts on Page B13.

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CHSSSC shared one bank account for all cash transactions. Besides, the combined revenues from CHSWSC and CHSSSC 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 CHSWSC and CHSSSC'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 CHSWSC does not use a formal accounting system and does not use double entry accounting method required by USOA.

CHSWSC'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 CHSWSC'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 CHSWSC establishes policies and procedures to ensure its financial records are separately maintained by CHSWSC 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 CHSWSC 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 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.

Please contact us at 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
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