



# BALANCING ACCOUNTS PERFORMANCE AUDIT

Alisal Water Corporation

January 1, 2021, through December 31, 2021

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
September 8, 2023



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

**Kevin Nakamura, Program and Project Supervisor**

**Edwin Esternon, Lead**

**Lina Li, Staff**

**Amy Xu, Staff**

**A digital copy of this report can be found at:**

[Audit Reports by Industry \(ca.gov\)](#)

**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

September 8, 2023

Thomas R. Adcock, President  
Alisal Water Corporation  
249 Williams Road  
Salinas, CA 93905

Dear Thomas R. Adcock:

**Final Report Transmittal Letter—Audit of Alisal Water Corporation’s balancing accounts for the period of January 1, 2021, through December 31, 2021**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Alisal Water Corporation’s (Alisal Water) balancing accounts reported for the period of January 1, 2021, through December 31, 2021. The final audit report is enclosed.

Our audit disclosed no findings requiring a response and therefore 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 Alisal Water’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) 928-4736.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page

Thomas R. Adcock, President  
Alisal Water Corporation  
September 8, 2023  
Page 2

cc: Andrew Clarke, Controller, Alisal Water Corporation  
Rachel Peterson, Executive Director, CPUC  
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC  
Terence Shia, Director, Water Division, CPUC  
Bruce DeBerry, Program Manager, Water Division, CPUC  
Masha Vorobyova, Assistant Director, UAB, CPUC  
Kevin Nakamura, Program and Project Supervisor, UAB, CPUC  
Edwin Esternon, Senior Management Auditor, UAB, CPUC  
Na "Lina" Li, Senior Management Auditor, UAB, CPUC  
Jiai "Amy" Xu, Associate Management Auditor, UAB, CPUC

# TABLE OF CONTENTS

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EXECUTIVE SUMMARY.....	1
AUDIT REPORT	
Background .....	2
Audit Authority.....	3
Objective and Scope .....	3
Methodology .....	3
Conclusion.....	6
Follow-up on Prior Audit Findings .....	6
Views of Responsible Officials.....	6
Restricted Use .....	6

## EXECUTIVE SUMMARY

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The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the balancing accounts administered and reported by Alisal Water Corporation (Alisal Water) for the audit period of January 1, 2021, through December 31, 2021.

Our audit objectives were to determine whether 1) transactions recorded in Alisal Water's balancing accounts from January 1, 2021, through December 31, 2021, 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 Alisal Water's policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in Alisal Water's balancing accounts from January 1, 2021, through December 31, 2021, 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 applicable PU Code sections, CPUC directives, orders, rules, regulations, and Alisal Water's policies and procedures.

# AUDIT REPORT

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## Background

### *Balancing Accounts*

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, 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 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 utility's Preliminary Statement, which also includes a 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.

### *Alisal Water Corporation*

Alisal Water Corporation (Alisal Water) dba Alco Water Service is a privately owned Class B water utility that is headquartered in Salinas, California. Alisal Water produces, stores, treats, and distributes water for domestic, industrial, public use, and fire protection purposes in the eastern portion of the City of Salinas, Monterey County, California through 9,150<sup>1</sup> metered service connections.

In 2021, Alisal Water was authorized a total of five 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 2021, Alisal Water reported a total combined under-collected balance of \$1,169,313 in its balancing accounts. A breakdown of the reported amounts over- or under-collected in rates as of December 31, 2021, by each balancing account is provided in the table below:

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<sup>1</sup> Alisal Water's 2021 Annual Report, Income, Expenses, and Other Data, page 7.

Title of Accounts	Reported Net Over/(Under- Collected) Balance as of Dec. 31, 2021
Water Quality Balancing Account	\$ 0
Department of Public Health User Fee Balancing Account	(34,432)
Water Revenue Adjustment Mechanism Balancing Account	(105,611)
Water Conservation Expense One-Way Balancing Account	(29)
Purchased Power Balancing Account	(1,029,241)
<b>Total Net Under-Collected Balance</b>	<b><u><u>\$(1,169,313)</u></u></b>

### Audit Authority

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 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 Alisal Water's balancing accounts from January 1, 2021, through December 31, 2021, 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 the Alisal Water's policies and procedures.

The scope of our audit covered the five balancing accounts administered and reported by Alisal Water for the audit period of January 1, 2021, through December 31, 2021.

### Methodology

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

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

Additionally, we assessed the reliability of the data extracted from Alisal Water's accounting and customer billing 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 an external audit report prepared by independent Certified Public Accounting (CPA) firm Wright Ford Young & Co. on Alisal Water's financial statements and internal controls for the period ending December 31, 2021. We determined there were no potential risks or follow up required since they were not relevant to the audit objectives.
- Reviewed UAB's financial statement audit report for the period covering January 1, 2015, to December 31, 2016. We determined there were no potential risks or follow up required since they were not relevant to the audit objectives.
- Reviewed Alisal Water's internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Performed on-site visit of Alisal Water's headquarters and toured on-site customer payment center, visually inspected residential and multi-family service meters in two separate locations, toured three water supply wells and pump stations, and visited a portion of Alisal Water's service territory to gain an understanding of Alisal Water's operations.
- Reviewed Alisal Water's accounting and customer billing systems, accounting policies, processes and procedures for recording, tracking, and monitoring balancing accounts.
- Reconciled balancing account totals recorded in Alisal Water's accounting system to the balances reported in Alisal Water's Semi-Annual Balancing Account Report as of December 31, 2021, for accuracy and completeness.
- Assessed significance by performing analysis of revenue and expenditure data and evaluating balancing account requirements.
- Obtained an understanding of Alisal Water'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:
  - interviewing key personnel and administering an internal control questionnaire;
  - reviewing Alisal Water's policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of balancing accounts;
  - performing walkthroughs of balancing account activities, customer billings, and rate changes; and
  - assessing the reliability of billing and sales data by tracing meter readings to selected customer billings and approved tariff rates to verify that appropriate rates were charged and calculated correctly on customer bills.

- 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 Water Revenue Adjustment Mechanism (WRAM) balancing account for the months of April and July totaling \$10,179 of \$105,611, or 10% of total reported revenues for 2021. (Note: For the selected samples, errors found, if any, were not projected to the intended total population.)
- Traced sampled sales/revenues recorded in Alisal Water's accounting records to customer billings and other supporting documentation to determine whether appropriate rates were applied in accordance with approved tariffs, customer billings were correctly calculated, and revenues were appropriately recorded and reported.
- Performed testing of expenditures by judgmentally selecting a non-statistical sample of significant expenditure transactions for the Purchased Power balancing account for the months of March and April totaling \$102,869 of \$972,778, or 11% of total recorded expenditures in 2021. (Note: For the selected samples, errors found, if any, were not projected to the intended total population.)
- For the selected samples, traced expenditures recorded in Alisal Water's accounting records to supporting documentation and determined whether costs were accurate, attributable to its respective balancing account, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and Alisal Water's policies and procedures by:
  - tracing expenditures to invoices to ensure expenditure (1) was incurred within 2021, (2) agreed to invoice amount, and (3) was calculated accurately;
  - verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreement/contracts, etc., to confirm the expenditure was for an authorized activity; and
  - confirming payment was made for the expenditure and the amount agreed to invoice.
- Determined whether Alisal Water properly reported and recorded monthly interest in its balancing accounts and general ledger by recomputing the monthly interest amounts for each balancing account and all twelve months in 2021.

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

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements. GAGAS 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 Alisal Water's balancing accounts from January 1, 2021, through December 31, 2021, 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 applicable PU Code sections, CPUC directives, orders, rules, regulations, and Alisal Water's policies and procedures.

## **Follow-up on Prior Audit Findings**

We have not previously conducted an audit of Alisal Water's regulatory balancing accounts. UAB's prior financial audit of Alisal Water's financial statements dated September 13, 2018, or the independent external audit, did not reveal any findings that warranted our follow-up for this engagement.

## **Views of Responsible Officials**

We discussed the audit results with Alisal Water representatives at an exit conference held on August 23, 2023. 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 Alisal Water and 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*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division