

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



March 8, 2021

Mr. Shannon Patterson, Trustee
The Shannon and Shirley Patterson Trust
Mira Monte Water Company
P.O. Box 900
Gerber, CA 96035

Notice of Withdrawal from the Review Engagement with Mira Monte Water Company for the period of January 1, 2019 through December 31, 2019

Dear Mr. Patterson:

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 Mira Monte Water Company (MMWC) due to the limitation of our review scope by MMWC. The limitation of review scope resulted from MMWC's failure to provide sufficient appropriate documents to support the financial data reported in MMWC's 2019 Annual Report filed with the CPUC. UAB further notifies you that MMWC is not in compliance with the requirements specified under Sections 581, 582, 584, and 587 of the California Public Utilities (PU) Code and the directives of the CPUC due to the limitation of review scope.

The enclosed UAB report provides further details of this engagement, including but not limited to UAB's authority to conduct a review on MMWC, the regulatory and accounting requirements, the scope limitation from MMWC, and the underlining reasons for our withdrawal from the engagement.

MMWC is hereby directed to submit a corrective action plan (CAP) by April 22, 2021 to outline how MMWC will address UAB's concerns outlined in the UAB report. Please submit the CAP to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Terence Shia, Director of Water Division, at Terence.Shia@cpuc.ca.gov.

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

Mr. Patterson, Trustee
Mira Monte Water Company
March 8, 2021
Page 2

cc: Eric Patterson, Operator, MMWC
Rachel Patterson, Executive Director, CPUC
Saul Gomez, Deputy Executive Director, Office of the Commission, CPUC
Lucian Filler, Deputy Executive Director, CPUC
Terence Shia, Director, Water Division
Masha Vorobyova, Assistant Director, UAB
Bruce DeBerry, Program Manager, Water Division
Raymond Yin, Program and Project Supervisor, UAB
Khusbindar Kaur, Senior Management Auditor, UAB
Sharmin Wellington, Public Utilities Regulatory Analyst V, UAB
Sam Niepoth, Staff Services Management Auditor, UAB

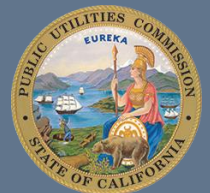


REVIEW OF FINANCIAL STATEMENTS

Mira Monte Water Company

For the Year Ended December 31, 2019

Utility Audits, Risk and Compliance Division
Utility Audits Branch
March 8, 2021



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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

**Khusbindar Kaur, CPA
Lead**

**Sharmin Wellington, CPA
Staff**

Sam Niepoth, Staff

A digital copy of this report can be found at:
<http://www.cpuc.ca.gov/utilityaudits/>

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

UAB'S REPORT ON THE REVIEW ENGAGEMENT

Mr. Shannon Patterson, Trustee
The Shannon and Shirley Patterson Trust
Mira Monte Water Company
P.O. Box 900
Gerber, CA 96035

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) initiated a review of the financial statements of Mira Monte Water Company (MMWC) as of December 31, 2019, pursuant to Public Utilities (PU) Code, Sections 314.5, 314.6, 581, 582, and 584 that provides the CPUC the statutory authority to review or audit the books and records of the regulated utilities.

MMWC is a Class D water utility with 41 metered customers and 2 flat rate customers as of December 31, 2019. MMWC's service area is located approximately five (5) miles west of Red Bluff in Tehama County, California. As a regulated water utility, MMWC is required to prepare its financial statements on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision 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 engagement 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 statements in order for the statements to be in accordance with the USOA. In conjunction with this review engagement, UAB also intended to review, for regulatory purposes, whether MMWC complied with the following:

- a) PU Code Section 818 regarding obtaining CPUC's approval before incurring any long-term debts.
- b) Timely filing of the 2019 Annual Report as required by the Water Division Memorandum dated January 7, 2020.

UAB initiated the review of MMWC's financial statements contained in the 2019 Annual Report on September 24, 2020. We conducted an entrance conference with MMWC on September 30, 2020 to explain the regulatory requirements and our review process.

Management's Responsibility for the Financial Statements

MMWC's management is responsible for the preparation and fair presentation of its 2019 financial statements in accordance with the accounting framework established under CPUC's USOA for Water Utilities. MMWC's management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of its 2019 financial statements that are free from material misstatement, whether due to fraud or error. In addition, MMWC's management is responsible for the development of its policies and procedures to ensure full compliance with applicable regulations and CPUC directives.

Accountant's Responsibility

UAB's responsibility is to conduct the review engagement in accordance with the standards applicable to reviews of financial statements promulgated by the *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States and comply with the GAGAS standards regarding ethics, independence, and professional judgment. These standards require us to apply analytical procedures to MMWC's reported financial data and make inquiries of company management to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the USOA. However, because of the scope limitation described in the succeeding paragraph, we were not able to obtain sufficient appropriate review evidence to provide a basis for expressing a conclusion on these financial statements. Thus, UAB is withdrawing from this review engagement without expressing an opinion or a conclusion on the reported financial statements.

Basis of Withdrawing from the Review Engagement

During the review, UAB worked closely with MMWC's management to collect the information and supporting documents for the purpose of obtaining limited assurance to express a conclusion of this review. During the fieldwork, UAB encountered various issues including, but not limited to the following:

1. MMWC failed to provide sufficient appropriate documents to support the reported financial data including, but not limited to: Water Plant in Service, Accumulated Depreciation of Water Plant, Depreciation Expense, Cash, Proprietary Capital, Power Expense, Contract Work Expense, Management Salaries, Other Plant Maintenance Expenses, Office Services and Rentals, and Professional Services. These accounts, when considered individually or in aggregate, are material to the reported financial statements as a whole.
2. MMWC did not maintain a General Ledger or a Working Trial Balance during the review period. MMWC stated it relies on its Check Register to record its transactions; therefore, transactions were not recorded using a double-entry bookkeeping method as required by the USOA. In addition, MMWC did not provide its Check Register for our review.
3. MMWC failed to comply with the accounting requirements because it used cash basis accounting instead of accrual basis of accounting as required by the USOA.
4. MMWC did not incorporate its net operating loss into the Proprietary Capital. MMWC did not provide documents to support its Proprietary Capital reported in the 2019 Annual Report.
5. MMWC, along with two affiliated companies, Vista Grande Water System and Las Flores Water Works, used a joint bank account. However, the cash balance for each company could not be identified or distinguished. MMWC did not report any cash balance in its Balance Sheet. Likewise, MMWC provided UAB the payments for power expenses of the three companies but could neither identify nor segregate them for each company.
6. The Balance Sheet contained in MMWC's 2019 Annual Report shows an ending balance of \$29,878 as of December 31, 2019, for "Total Assets and Other Debits." However, the same

Balance Sheet shows an ending balance of \$31,254 for “Total Liabilities and Other Credits.” Therefore, MMWC’s Balance Sheet contained an unexplained discrepancy of \$1,376.

7. MMWC failed to file its 2019 Annual Report in a timely manner. MMWC filed its 2019 Annual Report on June 29, 2020, which is 90 days late from the deadline established by the CPUC. MMWC neither requested nor obtained CPUC’s approval to file its 2019 Annual Report beyond the March 31, 2020 filing deadline.

Despite UAB’s concerted effort, MMWC was unable to provide the necessary documents to support its reported financial data. As a result, UAB could not obtain sufficient appropriate evidence to satisfy itself for expressing a conclusion on the financial statements under review. MMWC’s inability to provide the necessary supporting documents to the UAB constitutes a limitation on our review scope. Based on the professional standards prescribed in AR-C 60 and AR-C 90 under the Statements on Standards for Accounting and Review Services (SSARS) published by the American Institute of Certified Public Accountants (AICPA), UAB must withdraw from this review engagement. Because of the significant departure from the requirements, UAB was unable to and did not conduct the engagement in accordance with GAGAS. Consequently, UAB is withdrawing from this review engagement without expressing an opinion or a conclusion on the reported financial statements.

Section 451 PU Code requires that “all charges demanded or received by any public utility... shall be just and reasonable....” Sections 581, 582, and 584 require public utilities to provide the CPUC the books and records at the time and in the form the CPUC staff request. The general accounting instruction of the USOA requires that the books and records be fully supported. As a result of the aforementioned limitation of review scope, MMWC is not in compliance with Sections 581, 582, 584, and 587 of the PU Code and CPUC’s directives.

On January 7, 2020, CPUC’s Water Division issued a memorandum to all regulated water and sewer utilities requiring them to file their 2019 Annual Reports with the CPUC by March 31, 2020. MMWC neither requested nor obtained CPUC’s approval for an extension to file its 2019 Annual Report. MMWC filed its report on June 29, 2020. Therefore, MMWC is not in compliance with CPUC’s directives.

Views of Responsible Official

We conducted an exit conference on January 29, 2021, and discussed (1) the regulatory and accounting requirements for this engagement, (2) the limitation of our review scope imposed by MMWC, and (3) our decision to withdraw from the review engagement and the underlining reasons, with MMWC’s management. MMWC’s management concurred with UAB. At the exit conference, we also stated that this report will include the views of responsible officials.

Other Matter - Submission of a Corrective Action Plan

MMWC’s management should submit a corrective action plan (CAP) to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Terence Shia, Director of Water Division, at Terence.Shia@cpuc.ca.gov by April 22, 2021. The CAP should outline how MMWC will address UAB’s concerns encountered during the review and provide the timing of the implementation. If MMWC is unable to implement corrective actions to alleviate UAB’s concerns, the CAP should state the reason(s) for not being able to do so.

Restricted Use of This Report

This report is intended solely for the information and use by the CPUC and the management of MMWC. It is not intended to be used and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division