

October 11, 2016

2016-804

Guillermo Marrero, Board President
Western Hills Water District
9501 Morton Davis Drive
Patterson, California 95363

Dear Mr. Marrero:

California Government Code section 8546.10 authorizes the California State Auditor (State Auditor) to establish a high-risk local government agency audit program (local high risk program) to identify local government agencies—including but not limited to counties, cities, and special districts—that are at high risk for the potential of waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness.

On May 13, 2016, the State Auditor informed the Western Hills Water District (district) that it exhibited certain potential risk factors—in particular, significant financial challenges and the need to mitigate contaminants in the drinking water it provides to customers. The purpose of the initial assessment was to better understand the cause behind these risk factors and determine the district's planned response. The State Auditor has now completed the initial assessment after interviewing district officials and reviewing available documentation.

As a result of our initial assessment, the State Auditor concludes that the district is taking steps to address the risk factors we identified. Specifically, although the district's revenues continue to be insufficient to fund operations, the community developer, under a master agreement with the district, is obligated to loan the district the funds needed for its operations until the district's revenues are sufficient to meet its annual costs of operation. This agreement allows the district to function, even without sufficient revenue, while the community developer assumes the district's financial risk. Further, the district is installing aeration equipment that it anticipates will allow it to meet a state-imposed December 2017 deadline to reduce the contaminants in its drinking water to an acceptable level. As a result, we will not be seeking approval from the Joint Legislative Audit Committee (JLAC) to perform an audit at this time. The State Auditor will continue to monitor the district's progress and may consider performing additional work, including seeking approval from JLAC to perform an audit, if necessary. Should the State Auditor plan to perform additional work, the district will be notified at that time.

We greatly appreciate the cooperation provided by district officials during the initial assessment. If you have any questions, please do not hesitate to contact John Baier, Audit Principal at (916) 445-0255.

Sincerely,



ELAINE M. HOWLE, CPA

cc: Carmen Kearney, Treasurer
Jerry Phillip, General Manager