

TENNESSEE REGULATORY AUTHORITY



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November 3, 2009

R. Dale Grimes
Bass, Berry & Sims PLC
AmSouth Center
315 Deadrick Street, Suite 2700
Nashville, TN 37239

RE: Docket No. 09-00086 – TENNESSEE AMERICAN WATER COMPANY'S REQUEST
FOR PROPOSAL FOR A MANAGEMENT AUDIT

On October 28, 2009, Tennessee American Water Company ("TAWC") provided three responses to the Request for Proposal for a Management Audit. To further the Authority's review of these responses please confirm with each respondent and provide the additional information as requested in the attachments to this memorandum. Should you be unable to locate a specific cite in the response please have the respondent provide written affirmation that the final report will or will not include the assessment/attestation, evaluation and recommendation as requested in the RFP.

It is requested that this information be provided no later than Thursday, November 12, 2009 and that Docket 09-00086 be referenced in the response. In accordance with TRA rules, submit either (1) thirteen written copies of your response or (2) four written copies and an electronic version.

If you have question regarding this request, please contact Patsy Fulton (ext. 193) or Tiffany Underwood (ext. 172) for clarification before responding.

Sincerely

Dan Forte For Darlene Standley

Darlene Standley
Utilities Division Chief

3 attachments

The response provided by The Liberty Consulting Group (Liberty) and WHN Consulting (WHN) states on page 2 that “Mr. Novak is qualified and certified to supervise the management audit and to provide the independent CPA’s opinion and attestation to each of the areas set forth in the RFP.” On page 1 the response identifies the specific requirements that the audit should address regarding assessments/attestations, opinions, findings of reasonableness and necessity and recommendations.

Please provide the cite in the response by Liberty and WHN that specifically states the final report will include an assessment/attestation regarding:

1. The status and sufficiency of AWWSC’s management performance and decisions relating to internal processes and internal controls;
2. The efficiency of operating procedures and communication between TAWC and AWWSC;
3. AWWSC performance with industry standards and best management practices;
4. The appropriateness of organizational structure of AWWSC/TAWC and reporting alignment;
5. The development of AWWSC’s long-range and short-range operational plans to assure the effective and efficient performance of the functions;
6. The appropriateness of AWWSC’s staffing and skill sets; and
7. TAWC’s controls and systems to analyze and control costs from AWWSC.

Additionally, provide the cite in the response that specifically states the final report will include and evaluation and opinion of:

1. The accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC;
2. The necessity, reasonableness/prudency, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC; and
3. The accuracy and reasonableness of the allocation factors utilized to allocate AWWSC charges to regulated and non-regulated subsidiaries, and allocated regulated AWWSC charges to TAWC, including review of work previously performed regarding allocation methods which will be supplied by AWW.

Finally, provide the cite in the response that specifically states the final report will:

1. Make specific recommendations and the estimated remediation costs regarding the findings of the management audit, if any.

The response of Thompson, Cobb, Bazillo & Associates, PC ("TCBA") and NorthStar Consulting states on page 30 "TCBA/NorthStar has thoroughly reviewed the 10 areas. Since none of the areas refers to a financial statement or segment of a financial statement prepared in accordance with GAAP, none of these areas could result in an independent auditor's opinion for an audit performed in accordance with GAAS.....All other areas specified would be subject to either GAGAS performance audit standards or management consultant standards and result in a management audit report with conclusions, findings and recommendations for each area."

Please provide a cite in the response of TCBA and NorthStar Consulting that specifically states the final report will include an assessment/attestation regarding:

1. The status and sufficiency of AWWSC's management performance and decisions relating to internal processes and internal controls;
2. The efficiency of operating procedures and communication between TAWC and AWWSC;
3. AWWSC performance with industry standards and best management practices;
4. The appropriateness of organizational structure of AWWSC/TAWC and reporting alignment;
5. The development of AWWSC's long-range and short-range operational plans to assure the effective and efficient performance of the functions;
6. The appropriateness of AWWSC's staffing and skill sets; and
7. TAWC's controls and systems to analyze and control costs from AWWSC.

Additionally, provide the cite in the response that specifically states the final report will include and evaluation and opinion of:

1. The accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC;
2. The necessity, reasonableness/prudence, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC; and
3. The accuracy and reasonableness of the allocation factors utilized to allocate AWWSC charges to regulated and non-regulated subsidiaries, and allocated regulated AWWSC charges to TAWC, including review of work previously performed regarding allocation methods which will be supplied by AWW.

Finally, provide the cite in the response that specifically states the final report will:

1. Make specific recommendations and the estimated remediation costs regarding the findings of the management audit, if any.

The response of Schumaker & Company, Inc. (Schumaker & Company) and its subcontractor Work & Greer, PC (Work & Greer) states on page 20 that the final report will include "Recommendations for improvements that management can institute involving potential cost savings, improvements in operational efficiencies, improvements in productivity, or enhancements to operational processes, which can be obtained from changes in the business, organizational, and operational procedures of AWWSC and/or TAWC. It will include a schedule that lists the priority for each recommendation. Also, included, if required, would be recommendations as to the specific areas that may require more in-depth analyses and estimates of time and cost factors involved in such further studies."

Please provide a cite in the response of Schumaker & Company and Work & Greer that specifically states the final report will include an assessment/attestation regarding:

1. The status and sufficiency of AWWSC's management performance and decisions relating to internal processes and internal controls;
2. The efficiency of operating procedures and communication between TAWC and AWWSC;
3. AWWSC performance with industry standards and best management practices;
4. The appropriateness of organizational structure of AWWSC/TAWC and reporting alignment;
5. The development of AWWSC's long-range and short-range operational plans to assure the effective and efficient performance of the functions;
6. The appropriateness of AWWSC's staffing and skill sets; and
7. TAWC's controls and systems to analyze and control costs from AWWSC.

Additionally, provide the cite in the response that specifically states the final report will include an evaluation and opinion of:

1. The accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC;
2. The necessity, reasonableness/prudency, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC; and
3. The accuracy and reasonableness of the allocation factors utilized to allocate AWWSC charges to regulated and non-regulated subsidiaries, and allocated regulated AWWSC charges to TAWC, including review of work previously performed regarding allocation methods which will be supplied by AWW.

Finally, provide the cite in the response that specifically states the final report will:

1. Make specific recommendations and the estimated remediation costs regarding the findings of the management audit, if any.