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November 12, 2009

Via Hand-Delivery and E-Mail

Hon. Sara Kyle, Chairman
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

filed electronically in docket office on 11/12/09

***Re: Tennessee American Water Company's
Request for Proposal for a Management Audit
Docket No. 09-00086***

Dear Chairman Kyle:

Please find enclosed an original and five (5) copies of Tennessee American Water Company's Response to the Tennessee Regulatory Authority's Data Request dated November 4, 2009. I request that one (1) file-stamped copy of this filing be returned with our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

Sincerely,

Ross Booher

Ross Booher

/s/ EME w/ permission

Enclosures

cc: Hon. Eddie Roberson, Ph.D.
Hon. Mary W. Freeman
Ms. Darlene Standley, Chief of Utilities Division
Gary Hotvedt, Esq.
Mr. Ryan McGehee, Esq.
Kelly Cashman-Grams, Esq.
Rebecca Montgomery, Esq.
Richard Collier, Esq.
Mr. John Watson
Mr. Michael A. Miller

TENNESSEE AMERICAN WATER COMPANY
Tennessee Regulatory Authority Docket No. 09-00086
Request for Additional Information regarding
The Liberty Consulting Group and WHN Consulting

QUESTION 1: 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.

PART 1

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.

PART 2

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.

PART 3

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.

RESPONSE

In responding to the Tennessee Regulatory Authority's ("TRA") Data Request, Tennessee American Water Company ("Tennessee American") took into account the definitions and requirements set forth in the Request for Proposal, as clarified by the letter approved by the TRA on September 11, 2009 (hereinafter "RFP").¹ In evaluating each of the three proposals submitted in response to the RFP, Tennessee American took into account not only whether each Respondent's proposal stated that the Respondent would address each of the RFP's requirements, but also how the Respondent proposed to do so. Where a Respondent stated it would apply a defined standard (e.g., GAAS, GAS/Yellow Book, NARUC, etc.) or stated it would produce a defined end product (e.g., attestation opinion), TAWC considered whether the standard proposed could be applied as proposed and whether the proposed end product could be completed as proposed.² As a result, in addition to citing to statements made by each Respondent, Tennessee American has also identified the extent to which the statements made by each Respondent are consistent with the defined standards that each Respondent states it will apply.³

The Liberty-WHN Proposal does not provide definitions of the various audit standards that may apply to the audit (i.e. GAAS, NARUC, or GAS).⁴ More critically, Liberty-WHN would provide an "independent CPA's opinion and attestation to each of the areas set forth in the RFP" and Liberty-WHN will apply GAAS to "to all areas of the RFP."⁵ There is a difference, however, between a financial audit and a management audit, and GAAS standards cannot be applied to the management audit – nor can an attestation/opinion under AICPA standards be provided for many aspects of the management audit.

While Tennessee American has provided citation to Liberty-WHN statements below as requested by the TRA, based on the Liberty-WHN's proposal's lack of definitions for key

¹ The Letter of Clarification requested each of the 12 firms invited to respond to the RFP to include in their Proposal a discussion about which auditing standards applied to the requested audit and how they would apply those standards in completing the management audit.

² See Tennessee American's Request for Approval of Clarification Letter, Docket 09-00086 (Sept. 8, 2009). Multiple prospective Respondents recognized that some of the apparent requirements of the Request for Proposal approved September 8, 2009 could not possibly be met. To ensure that all prospective Respondents were on notice that some standards described in the Request for Proposal approved September 8, 2009 could not be correctly applied to some aspects of the desired audit, TAWC proposed, and the TRA approved the Clarification Letter. The Clarification letter specifically alerted all prospective bidders of the importance of considering which standard to apply to each aspect of the audit and of the need to define each standard and describe its application.

³ See generally RFP Response Assessments, Exhibits to Tennessee American's Motion for Approval of Schumaker-Work & Greer to Perform Management Audit, Docket 09-00086 (Oct. 28, 2009).

⁴ See Liberty-WHN Proposal, at 2 (Definitions).

⁵ See Liberty-WHN Proposal, at 2 ("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. Because the management audit will be supervised by a CPA, the use of Generally Accepted Auditing Standards (GAAS) will be applied to all areas of the RFP.").

standards and statements which indicate a lack of understanding of such standards, TAWC lacks confidence in key Liberty-Whn's statements.⁶

PART 1

1. The status and sufficiency of AWWSC's management performance and decisions relating to internal processes and internal controls. *See* Liberty-Whn Proposal, at 10-15 (Sec. III.B.1).⁷
2. The efficiency of operating procedures and communication between TAWC and AWWSC. *See* Liberty-Whn Proposal, at 15-19 (Sec. III.B.2); *see also* footnote 7.
3. AWWSC performance with industry standards and best management practices. *See* Liberty-Whn Proposal, at 19-24 (Sec. III.B.3); *see also* footnote 7.
4. The appropriateness of organizational structure of AWWSC/TAWC and reporting alignment. *See* Liberty-Whn Proposal, at 15-19 (Sec. III.B.2); *see also* footnote 7.
5. The development of AWWSC's long-range and short-range operational plans to assure the effective and efficient performance of the functions. *See* Liberty-Whn Proposal, at 19-24 (Sec. III.B.3); *see also* footnote 7.
6. The appropriateness of AWWSC's staffing and skill sets. *See* Liberty-Whn Proposal, at 19-24 (Sec. III.B.3); *see also* footnote 7.
7. TAWC's controls and systems to analyze and control costs from AWWSC. *See* Liberty-Whn Proposal, at 15-19 (Sec. III.B.2); *see also* footnote 7.

PART 2

1. The accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC. *See* Liberty-Whn Proposal, at 10-15 (Sec. III.B.1); *see also* footnote 7.
2. The necessity, reasonableness/prudency, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC. *See* Liberty-Whn Proposal, at 19-24 (Sec. III.B.3); *see also* footnote 7.

⁶ The Liberty-Whn Proposal does not indicate that the Liberty-Whn team has any experience in attestation engagements as defined by the AICPA. *See* Ex. 1 to Tennessee American's Request for Approval of Schumaker-Work & Greer to Perform a Management Audit, at Sec. 1(b) (filed Oct. 28, 2009).

⁷ For attestation, see body of response prior to subtitle Part 1 Response; *see also* Liberty-Whn Proposal, at 2 (Attestation) ("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. Because the management audit will be supervised by a CPA, the use of Generally Accepting Auditing Standards (GAAS) will be applied to all areas of the RFP.").

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. *See* Liberty-WHN Proposal, at 10-15 (Sec. III.B.1); *see also* footnote 7.

PART 3

1. Make specific recommendations and the estimated remediation costs regarding the findings of the management audit, if any. *See* Liberty-WHN Proposal, at 1 (Sec. I.A.2); *id.* at 8 (Step 7 – Conclusion Development which says, “We will focus on identifying, supporting, and quantifying the effects of any non-compliance or cross-subsidization we[] may find. This will mean preparing detailed descriptions of the results of analyses, so that users of our work will immediately understand how we developed the conclusion and the analytical basis for the valuation of the conclusion if appropriate.”); *see also id.* (Step 8 – Draft Report which says, “(d) a detailed list of all recommendations, focusing on the quantification of conclusions regarding non-compliance with commission rules or rulings.”).

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TENNESSEE AMERICAN WATER COMPANY
Tennessee Regulatory Authority Docket No. 09-00086
Request for Additional Information regarding
Thompson, Cobb, Bazillo & Associates, PC and NorthStar Consulting

QUESTION 2: 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."

PART 1

Please provide the 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.

PART 2

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.

PART 3

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.

RESPONSE:

In responding to the Tennessee Regulatory Authority's ("TRA") Data Request, Tennessee American Water Company ("Tennessee American") took into account the definitions and requirements set forth in the Request for Proposal, as clarified by the letter approved by the TRA on September 11, 2009 (hereinafter "RFP").¹ In evaluating each of the three proposals submitted in response to the RFP, Tennessee American took into account not only whether each Respondent's proposal stated that the Respondent would address each of the RFP's requirements, but also how the Respondent proposed to do so. Where a Respondent stated it would apply a defined standard (e.g., GAAS, GAS/Yellow Book, NARUC, etc.) or stated it would produce a defined end product (e.g., attestation opinion), TAWC considered whether the standard proposed could be applied as proposed and whether the proposed end product could be completed as proposed.² As a result, in addition to citing to statements made by each Respondent, Tennessee American has also identified the extent to which the statements made by each Respondent are consistent with the defined standards that each Respondent states it will apply.³

With respect to the NorthStar-TCBA Proposal, NorthStar-TCBA recognizes the difference between management audit standards and financial audit standards. The NorthStar-TCBA Proposal clearly states that the GAAS standard can not apply to the proposed audit, and that AICPA attestation engagements/opinion letter standards can only be applied to 2 of the 10 specific parts of the audit.⁴ NorthStar-TCBA also provides a detailed explanation of the

¹ The Letter of Clarification requested each of the 12 firms invited to respond to the RFP to include in their Proposal a discussion about which auditing standards applied to the requested audit and how they would apply those standards in completing the management audit.

² See Tennessee American's Request for Approval of Clarification Letter, Docket 09-00086 (Sept. 8, 2009). Multiple prospective Respondents recognized that some of the apparent requirements of the Request for Proposal approved September 8, 2009 could not possibly be met. To ensure that all prospective Respondents were on notice that some standards described in the Request for Proposal approved September 8, 2009 could not be correctly applied to some aspects of the desired audit, TAWC proposed, and the TRA approved the Clarification Letter. The Clarification letter specifically alerted all prospective bidders of the importance of considering which standard to apply to each aspect of the audit and of the need to define each standard and describe its application.

³ See generally RFP Response Assessments, Exhibits to Tennessee American's Motion for Approval of Schumaker-Work & Greer to Perform Management Audit, Docket 09-00086 (Oct. 28, 2009).

⁴ NorthStar-TCBA's Proposal notes: "Only an audit of a financial statement prepared in accordance with GAAP or other comprehensive basis of accounting can be performed in accordance with GAAS. All other engagements where an independent auditor issues and opinion are performed in accordance with the attestation standards. Under the attestation standards certified public accountants issue an independent accounting's report with an opinion on subject matter or assertion made by management that is based on specified or objectively verifiable criteria. . . . TCBA/NorthStar has thoroughly reviewed each of the [10 Specific Audit Requirements]. 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. For areas 8 and 10 [the same requirements appearing in Part 2, Questions 1 & 3 to this Data Request] an independent public accounting firm and/or accountant could issue an independent accountant's report with an opinion on the (a) statement prepared by AWWSC of the allocated service costs and their assertion that the allocation factors utilized were based on the criteria specified in the service agreement between TAWC and AWWSC. All other areas specified would be subject to (the) either GAGAS performance audit standards or management consultant standards and result in a management audit report with conclusions, findings and recommendations for each area." NorthStar-TCBA Proposal, at 30.

application of the standards to the audit functions.⁵ NorthStar-TCBA's Proposal also includes a thorough section dedicated to key definitions employed throughout its Proposal.⁶ Consistent with its extensive experience with both management audit and attestation engagements, the NorthStar-TCBA team's Proposal demonstrated a high level of understanding of standards applicable to management and financial audits.

PART 1

Please provide the 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. *See* Work Plan, Sec. E, at 51-53; *see also* Table at 31 (showing which audit standard the NorthStar-TCBA team will apply to each of the 10 Specific Requirements) and Table at 55 (showing the level of work days dedicated to each of the 10 Specific Requirements by the TCBA, MFSG and NorthStar team members).⁷
2. The efficiency of operating procedures and communication between TAWC and AWWSC. *See* Work Plan, Sec. E, at 51-53; *see also* Tables at 31, 55 (*see supra* footnote 7).
3. AWWSC performance with industry standards and best management practices. *See* Work Plan, Sec. E, at 51-53; *see also* Tables at 31, 55 (*see supra* footnote 7).
4. The appropriateness of organizational structure of AWWSC/TAWC and reporting alignment. *See* Work Plan, Sec. A, at 43-44; *see also* Tables at 31, 55 (*see supra* footnote 7).
5. The development of AWWSC's long-range and short-range operational plans to assure the effective and efficient performance of the functions. *See* Work Plan, Sec. B, at 45-46; *see also* Tables at 31, 55 (*see supra* footnote 7).

⁵ The NorthStar-TCBA Proposal includes a detailed preliminary work plan that addresses each of the 10 Specific Requirements of the Management Audit broken down into the five categories of the audit: A) Shared Corporate Services Organization, B) TAWC Functional Requirements, C) Charges and Allocation Methods, D) Controls, and E) Management Performance and Decision Making. Each section provides detailed audit steps that will be utilized to reach the findings, conclusions and recommendations that will formulate both the TCBA independent CPA's report in accordance with the AICPA's attestation standards, and the joint TCBA-NorthStar management report on each of the 10 SPECIFIC REQUIREMENTS OF THE MANAGEMENT AUDIT in accordance with performance and/or management consulting standards. NorthStar-TCBA Proposal, at 42-55. Additionally, the NorthStar-TCBA Proposal includes a descriptive discussion about the AUDIT METHODOLOGY that lays out the applicability of GAAP, GAAS, and GAGAS Standards, how those standards will be applied to the management audit, and how the Attestation/Opinion Letter and management audit standards will be presented in the Final Management Audit Report. *Id.* at 29-41.

⁶ NorthStar-TCBA Proposal at 27-28.

⁷ For Attestation see the body of the response prior to subtitle Part 1 Response and the description of the two separate reports to be issued by TCBA and NorthStar-TCBA jointly provided above and on page 35 of the Proposal.

6. The appropriateness of AWWSC's staffing and skill sets. *See* Work Plan, Sec. A, at 43-44; *see also* Tables at 31, 55 (*see supra* footnote 7).
7. TAWC's controls and systems to analyze and control costs from AWWSC. *See* Work Plan, Sec. D, at 48-51; *see also* Tables at 31, 55 (*see supra* footnote 7).

PART 2

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. *See* Work Plan, Sec. C, at 47-48; *see also* Table at 31, 55 (*see supra* footnote 7).
2. The necessity, reasonableness/prudency, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC. *See* Work Plan, Sec. B, at 45-46; *see also* Tables at 31, 55 (*see supra* footnote 7).
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. *See* Work Plan. Sec. C, at 47-48; *see also* Tables at 31, 55 (*see supra* footnote 7).

PART 3

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. *See* Northstar-TCBA Proposal at 41 (section titled "Deliverables") ("The Draft Report will include any recommendations for improvement or changes in management performance and decisions related to internal processes and internal controls needed.").

TENNESSEE AMERICAN WATER COMPANY
Tennessee Regulatory Authority Docket No. 09-00086
Request for Additional Information regarding
Schumaker & Company, Inc. and Work & Greer, PC

QUESTION 3: 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 and 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.”

PART 1

Please provide the 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.

PART 2

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.

PART 3

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.

RESPONSE

In responding to the Tennessee Regulatory Authority's ("TRA") Data Request, Tennessee American Water Company ("Tennessee American") took into account the definitions and requirements set forth in the Request for Proposal, as clarified by the letter approved by the TRA on September 11, 2009 (hereinafter "RFP").¹ In evaluating each of the three proposals submitted in response to the RFP, Tennessee American took into account not only whether each Respondent's proposal stated that the Respondent would address each of the RFP's requirements, but also how the Respondent proposed to do so. Where a Respondent stated it would apply a defined standard (e.g., GAAS, GAS/Yellow Book, NARUC, etc.) or stated it would produce a defined end product (e.g., attestation opinion), TAWC considered whether the standard proposed could be applied as proposed and whether the proposed end product could be completed as proposed.² As a result, in addition to citing to statements made by each Respondent, Tennessee American has also identified the extent to which the statements made by each Respondent are consistent with the defined standards that each Respondent states it will apply.³

With respect to the Schumaker-Work & Greer ("Schumaker-W&G") Proposal, Schumaker-W&G recognized that the GAAS⁴ standard may not apply to the management audit aspects of the audit described in the original Request for Proposal approved September 8, 2009. The Schumaker-W&G Proposal also contained discussions specifically addressing the audit standards Schumaker-W&G proposed⁵ and the division of the RFP work by management audit

¹ The Letter of Clarification requested each of the 12 firms invited to respond to the RFP to include in their Proposal a discussion about which auditing standards applied to the requested audit and how they would apply those standards in completing the management audit.

² See Tennessee American's Request for Approval of Clarification Letter, Docket 09-00086 (Sept. 8, 2009). Multiple prospective Respondents recognized that some of the apparent requirements of the Request for Proposal approved September 8, 2009 could not possibly be met. To ensure that all prospective Respondents were on notice that some standards described in the Request for Proposal approved September 8, 2009 could not be correctly applied to some aspects of the desired audit, TAWC proposed, and the TRA approved the Clarification Letter. The Clarification letter specifically alerted all prospective bidders of the importance of considering which standard to apply to each aspect of the audit and of the need to define each standard and describe its application.

³ See generally RFP Response Assessments, Exhibits to Tennessee American's Motion for Approval of Schumaker-Work & Greer to Perform Management Audit, Docket 09-00086 (Oct. 28, 2009).

⁴ Please note that, like Schumaker-Work & Greer, NorthStar applies the Yellow Book standard. While NorthStar uses the acronym GAGAS and Schumaker-Work & Greer uses the acronym GAS, they both intend to apply the same standard.

⁵ The Schumaker-W&G Proposal indicates that they subscribe to the "NARUC Consultant Standards and Ethics of Performance of Management Analysis", the U.S. Government Accountability Offices (Yellow Book) "Standards for Audit of Government Organizations, Programs, Activities, and Functions" as applicable to public utilities, and GAAS to the extent they apply to management audits. Proposal at 5 (Section entitled "Audit Standards on Project"). This section also says, "Our management audit report will conform to performance audit principles (in content and format) and will include an introduction and summary, a background and perspective section, a findings and conclusions section and a recommendations section. [The management audit report] will be based on our work plan and our professional judgment in application of that plan in which the report will specifically indicate such wording. [The management audit report] will also include wording stating that the findings and recommendations contained in

and attestation with each team to be lead by one or more CPA's.⁶ Moreover, the Schumaker-W&G Proposal included a thorough section dedicated to key definitions employed throughout its Proposal.⁷ The choice of standards, discussion and definitions all demonstrate that Schumaker-W&G understands the RFP's requirements and the appropriate financial auditing and management auditing standards and methods to fulfill them. Such understanding is consistent with the Schumaker-W&G team's extensive experience in both relevant management audits and attestation engagements.⁸

PART 1

Please provide the 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. *See* Schumaker-W&G Proposal, at 36 (Audit Step No. 2) ("Assess the status and sufficient of AWWSC's management performance and decisions relating to internal processes and controls.").⁹
2. The efficiency of operating procedures and communication between TAWC and AWWSC. *See* Schumaker-W&G Proposal, at 33 (Audit Step No. 3) ("Review the efficiency of operating procedures and communications (information flow) involving affiliate relationships."); *see also supra* footnote 9.
3. AWWSC performance with industry standards and best management practices. *See* Schumaker-W&G Proposal, at 33 (Audit Step Nos. 8 & 9) ("Identify the decision making process used in the determination of services required and for identifying the most optimum means of providing these services. Identify how TAWC determines whether internal or external resources are used, indentify instances of comparisons between outside vendors and internal resources for products and services provided to TAWC."); *see also supra* footnote 9.

this audit report are Schumaker-Work & Greer's findings and recommendations and are not necessarily agreed to by TAWC or TRA." *Id.*

⁶ *See* Proposal at 5-6 (Section entitled "CPA Involvement") ("Patricia Schumaker, CPA will be the Engagement Manager for this affiliate audit. We have segregated our approach and methodology to reflect two teams: (a) management audit team that will focus on organization structure, policies, procedures, and practices; management communications/ and other management and operational issues of this audit, and (b) and internal controls review and sampling team that will focus on internal controls and assessing compliance with rules, regulations, and contractual obligations via sample test. (See our preliminary work plan for additional detail as to what is included in each section of the work plan). Both teams will be led by CPA's.").

⁷ Schumaker-W&G Proposal, at 1, Sec. A (Management Overview).

⁸ *See* Schumaker-Work & Greer Assessment at Sec. 1(c)-(i), Ex. 2 to Tennessee American's Request for Approval of Schumaker-Work & Greer to Perform a Management Audit filed in Docket 09-00086 (Oct. 28, 2009) (scoring 90% on the Qualifications component of the audit assessment).

⁹ For attestation see body of response prior to subtitle Part 1 Response and Page 6 of the SWG Proposal in the last paragraph of the subsection titled, CPA Involvement which says, "As Engagement Manager for the audit, Patricia Shumaker will attest to the findings, conclusions, and recommendations to the audit."

4. The appropriateness of organizational structure of AWWSC/TAWC and reporting alignment. *See* Schumaker-W&G Proposal, at 32 (Audit Step No. 3) (“Assess the appropriateness of organizational structure of AWWSC/TAWC and reporting alignment, including the appropriateness of AWWSC’s staffing and skill sets.”); *see also supra* footnote 9.
5. The development of AWWSC’s long-range and short-range operational plans to assure the effective and efficient performance of the functions. *See* Schumaker-W&G Proposal, at 33 (Audit Step No. 1) (“Assess the development of AWWSC’s long-range and short-range operational plans to assure effective and efficient performance of the functions.”); *see also supra* footnote 9.
6. The appropriateness of AWWSC’s staffing and skill sets. *See* the response to number 4 above.
7. TAWC’s controls and systems to analyze and control costs from AWWSC. *See* Schumaker-W&G Proposal, at 36 (Audit Steps Nos. 1 & 3) (“Review and assess affiliated policies and procedures and evaluate American Water’s internal controls with regard to transactions between AWWSC and TAWC. Identify internal controls in place to protect against irregular, illegal, and/or improper transactions.”); *Id.* at 33 (Audit Step No. 2) (“Review internal mechanisms in place for providing assurance that goals and objectives are accomplished at the lowest possible cost and maximum benefit to ratepayers.”); *see also supra* footnote 9.

PART 2

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. *See* Schumaker-W&G Proposal, at 33 (audit step five) (“Evaluate the accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC.”); *see also* footnote 9.
2. The necessity, reasonableness/prudence, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC. *See* Schumaker-W&G Proposal, at 33 (audit step six) (“Evaluate the necessity, reasonableness/prudence, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC.”); *see also* footnote 9.
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. *See* Schumaker-W&G Proposal, at 34-35 (each of the fourteen audit steps on these pages of the work plan relate directly to cost allocations and factors addressed in this Specific Requirement); *see also* footnote 9.

PART 3

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. *See* Schumaker-W&G Proposal, at 20 (Section entitled “Third Progress Meeting-Draft Report Review, Final Report Preparation, Final Report Submittal”) (“The detailed list of recommendations in the [final] report will address immediate changes that management can institute to achieve cost savings, and the detailed list will be prioritized. The final report defines a suggested time table for the proposed implementation of each recommendation, and provides estimates of the costs and benefits of recommendations where such costs and benefits are quantifiable within the scope of the audit.”); *id.* at 21 (first bullet) (“Introduction and Summary – An overview of the audit, a numbered listing of each recommendation with a brief description of the facts and the rational upon which each recommendation is based, and a recommendation index for easy reference to its location in the body of the report. It [final report] will also summarize the potential remediation costs and/or cost savings associated with the recommendation.”).