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July 7, 2017

Ms. Sharla Dillon, Docket Manager
Tennessee Public Services Utility Division
502 Deaderick Street
Nashville, TN 37243

In Re: Docket No. 16-00139

Dear Sharla:

Please substitute the attached "Revised Rebuttal Exhibit 2" for "Rebuttal Exhibit 2" attached to the testimony of Mr. Robert T. Buckner filed June 28, 2017.

Sincerely,

BRADLEY ARANT BOULT CUMMINGS LLP

By:

A handwritten signature in blue ink, appearing to read "H. Walker", is written over the printed name "Henry Walker".

Henry Walker

HW/dbi

Attachment

cc: Karen Stachowski (w/ attachment)

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

TENNESSEE WASTEWATER SYSTEMS INC.

June 26, 2017



630 South Church Street
Suite 300
Murfreesboro, TN 37130
(615) 893-6666 • (615) 893-8047 (fax)
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The Stockholders and Management
Tennessee Wastewater Systems Inc.
Murfreesboro, TN

We have performed the procedures enumerated below, which were agreed to by Tennessee Wastewater Systems Inc. (TWSI), to assist you with respect to the analysis of your billings for services and related accounting systems of Tennessee Wastewater Systems Inc. for the year ended December 31, 2016. Tennessee Wastewater Systems Inc.'s management is responsible for the company's accounting records and systems. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specific in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose.

Our procedures and findings are summarized in the attached schedules A through C.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Tennessee Wastewater Systems Inc. and is not intended to be and should not be used by anyone other than those specified parties.

Dempsey Vantrease & Follis PLLC
Dempsey Vantrease and Follis PLLC

July 5, 2017

**Tennessee Wastewater Systems Inc.
Schedule A - Schedule of agreed-upon procedures
For the year ended December 31, 2016**

1. Obtain an understanding of Tennessee Wastewater Systems Inc. (TWSI) accounting processes, procedures, and internal controls related to the billing for wastewater treatment services¹.
2. Analyze the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services for indications of control deficiencies¹.
3. Design and execute a detailed substantive analytical procedure to agree all of the recorded billings for 2016 to the effective wastewater treatment tariff approved by the Tennessee Public Utility Commission (TPUC).
4. Provide summary comments and results of the analytical procedure.
5. Obtain all commercial customer contracts, excluding the population of commercial cabins, and agree the following to the billing for wastewater treatment services:
 - a. The terms of the contract
 - b. The water usage, where applicable
 - c. The customer's name
 - d. Location
6. Obtain contracts or agreements for a test sample of the population of commercial cabins and residential customers and agree the attributes below to the billing for wastewater treatment services:
 - a. The terms of the contract
 - b. The water usage, where applicable
 - c. The customer's name
 - d. Location
7. Trace the system reports utilized by TWSI to reconcile month end billing charges to the general ledger and to the financial statements.
8. Design, modify as needed, and execute all procedures in order to provide report in time for review and use as discussed with management; on or before June 27, 2017.

¹ Specific to billing for waste water related billings and associated revenue recognition and reporting; excludes all other components of the revenue cycle (ie other income, fees, penalties, collection process, allowance for uncollectible accounts, allowable costs, reimbursements, rate design etc.)

Tennessee Wastewater Systems Inc.
Schedule B - Schedule of agreed-upon procedures
Findings and Recommendations
For the year ended December 31, 2016

1. We obtained an understanding of TWSI's accounting processes, procedures, and internal controls related to the billing for wastewater treatment services¹ through interviews and review of the accounting and billing programs as well as review of our historical files related to the annual review of the financial statements of the parent company and the 2016 review of Tennessee Wastewater Systems Inc.. See internal control narrative memo provided to the stockholders and management in a separate communication.
2. We analyzed the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services for indications of control deficiencies¹.
 - a. We noted no apparent material weakness related to the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services during our procedures.
 - b. We noted items that indicated or might indicate that certain significant weaknesses, deficiencies, and best practices potentially exist related to the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services during our procedures. See management comment letter provided to the stockholders and management in a separate communication.
 - c. We noted items we consider deficiencies and best practices related to the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services during our procedures. See management comment letter provided to the stockholders and management in a separate communication.
3. We designed and executed a detailed substantive analytical procedure to agree all of the recorded billings for 2016 to the effective wastewater treatment tariff approved by the Tennessee Public Utility Commission (TPUC). The analytic was designed and executed as follows.
 - a. We obtained direct access to the TWSI's Utility Management System (UMS).
 - b. We extracted all bills for 2016 by running Monthly "Billing Register" reports using excel.
 - c. We extracted the Monthly "Billing Register" reports into a separate excel data file.
 - d. We utilized the effective wastewater treatment tariff approved by the Tennessee Public Utility Commission (TPUC) to agree individual components of the "rate table" in all bills for 2016.
 - e. We developed independent variable formulas to recalculate the various rate classes.
 - f. We developed specific formulas for select customers based on the agreed contracts and applied those to the specific rate classes.

¹ Specific to billing for waste water related billings and associated revenue recognition and reporting; excludes all other components of the revenue cycle (ie other income, fees, penalties, collection process, allowance for uncollectible accounts, allowable costs, reimbursements, rate design etc.)

**Tennessee Wastewater Systems Inc.
Schedule B - Schedule of agreed-upon procedures (continued)
Findings and Recommendations
For the year ended December 31, 2016**

- g. We summarized the variances.
- 4. See Schedule C "summary comments and results of the analytical procedure."
- 5. We requested all customer contracts 72. We obtained and examined 43 commercial customer contracts, excluding the population of commercial cabins, and agreed the following to the billing system for wastewater treatment services and noted no significant variances. There were 29 requested contracts or agreements that we were unable to locate and examine.
 - a. The terms of the contract
 - a. We tested 43 contracts and noted no exceptions
 - b. The water usage, where applicable
 - a. We tested 81 billings with metered charges and noted no exceptions
 - c. The customer's name
 - a. We tested 43 contracts and noted no exceptions
 - d. Location
 - a. We tested 43 contracts and noted no exceptions
 - e. Billing for February, July, and December for 2016
 - a. We tested 207 billings; and noted 185 agreed without exception; 22 require further documentation or investigations to resolve variances
- 6. We requested contracts or agreements for a test sample of 25 per class; (75 total) customers from the population of commercial cabins and residential customers and obtained 72. We agreed the attributes below to the billing system for wastewater treatment services and noted no significant variances. There were 3 requested contracts or agreements that we were unable to locate and examine.
 - a. The terms of the contract
 - a. We tested 72 contracts and noted no exceptions
 - b. The water usage, where applicable
 - a. We tested 21 billings with metered charges and noted 3 items require further documentation or investigations to resolve variances
 - c. The customer's name
 - a. We tested 72 contracts and noted no exceptions
 - d. Location
 - a. We tested 72 contracts and noted no exceptions
 - e. Billing for February, July, and December for 2016
 - a. We tested 225 billings; and noted 223 agreed without exception; 2 require further documentation or investigations to resolve variances
- 7. We obtained TWSI's billings reports for the month end journal entries for February, July, and December of 2016 and traced them to the general ledger and to the financial statements without exception.

We also obtained and reviewed TWSI's month end reconciliation of the charges to the general ledger for February, July, and December of 2016 and traced them to the billings reports without material exception.

Tennessee Wastewater Systems Inc.
Schedule B - Schedule of agreed-upon procedures (continued)
Findings and Recommendations
For the year ended December 31, 2016

8. We designed, modified, and executed all procedures in order to provide report in time for review and use as discussed with management; on or before June 27, 2017.

In discussions with management this date has been extended to allow for additional procedures. To be completed by July 5, 2017.

TWSI - Mid TN

Schedule C - Analytical test - Summary of comments and findings
For the year ended December 31, 2015

Rating	Comment	Comment count	%	Comment amount	Variance	Variance ratio	TMR1	TMR2
1	Charged test	25,504.00	25.51%	413,740.06 \$	0.00	0%	3	P/F/P
1	Labor materials not specified but breakdown	570.00	0.57%	5,596.70 \$	0.00	0%	3	P/F/P
1	Charged test with no	48,000.00	48.00%	1,373,553.75 \$	0.00	0%	3	P/F/P
2	Not a rate	120.00	0.12%	1,373,553.75 \$	0.00	0%	3	P/F/P
2	Rate agreed to tariff w/o	52,951.00	52.95%	433,048.03 \$	0.00	0%	3	P/F/P
1	Rate agreed to 9/15 tariff w/o	6,317.00	6.32%	7,543.57 \$	-	0%	3	P/F/P
1	Rate agreed to tariff/contract w/o	890.00	0.89%	137,623.85 \$	-	0%	3	P/F/P
2	Southridge - agreed to MP contract CH Rate w/o	1,757.00	1.76%	89,708.70 \$	0.00	0%	3	P/F/P
2	More research needed to resolve or classify variance	17.00	0.02%	735.35 \$	871.55	119%	3	P/F/P
2	3 years access fee?	1.00	0.00%	360.00 \$	0.00	0%	3	P/F/P
2	Appears two years access charge	43.00	0.04%	10,920.00 \$	5,160.00	-50%	3	P/F/P
2	Charges multiplier of bonding	105.00	0.10%	461.02 \$	0.00	0%	3	P/F/P
2	Charges for multiples of billing	107.00	0.11%	585.00 \$	0.00	0%	3	P/F/P
2	Charges for multiples of metering	3.00	0.00%	37.85 \$	0.00	0%	3	P/F/P
2	Double billed during Oct. for Sept. contract 10/14/15	5.00	0.00%	1,971.18 \$	0.00	0%	3	P/F/P
2	Southridge var. after - meter calc breakdown	136.00	0.13%	10,752.39 \$	4,575.64	42%	3	P/F/P
5	Need contract to substantiate charge	164.00	0.16%	29,186.40 \$	-	0%	5	P/F/P
5	Rate agreed to tariff w/o - Contracted - on 6/23 request - SK	580.00	0.58%	13,160.92 \$	-	0%	5	P/F/P
5	Contracted rate - not commercial appears reasonable	112.00	0.11%	40,592.88 \$	-	0%	5	P/F/P
5	Contracted - on 6/23 request - SK	324.00	0.32%	98,779.38 \$	-	0%	5	P/F/P
5	exhibit - submitted pass fee to w/o	477.00	0.48%	23,359.58 \$	14,057.98	60%	5	P/F/P

Total	108,269	100.00%	1,373,553.75 \$	12,807.53	1%
Variance from tests					
Total - Adjusted for data with no apparent charge - P/F/P	1209		1,373,553.75 \$	12,807.53	1%
Southridge var. after - meter calc breakdown	96,858			14,057.98	
Total	1209			14,057.98	

1 Total "good" comments
Charges with good comments
Comments requiring additional research/review
(over) under Charged Variance as a percentage of total billings

-0.09%

TWSI - MID TN	
Schedule C - Analytical test - Summary of comments and findings (continued)	
For the year ended December 31, 2016	
Tickmark Summary	
<p>Ⓔ Agreed to tariff rate; but should be w/o food These agrees to COMMERCIAL W/ FOOD** Tier 1 (0-300GPO) \$137.25 (0) \$23.00 but is coded to w/o food rate codes see rate table</p> <p>• All amounts within +/- \$.00</p> <p>1- Comment notes change appears agrees to tariff w/m/e or is "good".</p> <p>2- Analytics not sufficient to support change further information needed.</p> <p>3- Considered an exception to the analytical test.</p> <p>4- Known variance not considered to apply to the analytical test - Southridge customer found to use a separate rate during the summer months based on winter averages. The billing register only provides the current reading. The data was not readily accessible in the desired timeframe.</p> <p>5- Analytics not sufficient to support change further information needed. No variance is listed as rates appear reasonable based on review of similar changes</p>	
W/O/E	With out exception
W/O/N/A/E	With out material exception
P/I/P	Pass further procedures

TWSI - E TN

Schedule C - Analytical test - Summary of comments and findings

For the year ended December 31, 2016

Rating	Comment	Comment count	%	Comment Amount	Comment (over) under change Variance	Variance ratio	TMR#1	TMR#2
2	Rate agreed to tariff w/o/e	50,313.00	81.89%	\$ 847,681.74	(0.07)	0%	3	P/P/P
2	Rate agreed to tariff w/o/e	1,555.00	0.08%	\$ 838.91		0%	3	P/P/P
1	Rate agreed to tariff/contract w/o/e	28.00	0.04%	\$ 24,152.43	(0.01)	0%	3	P/P/P
1	Charge within 01	1,455.00	2.02%	\$ 54,159.62	0.01	0%	3	P/P/P
1	Net within 01 - cabin variable calc	131.00	0.19%	\$ 45,180.12	(0.00)	0%	3	P/P/P
1	Variable calc only 37 off (CSIF, CEZF, CMZF)	15.00	0.02%	\$ 1,570.45	(0.07)	0%	3	P/P/P
1	Variable calc only 90 off (CSIF, CEZF, CMZF)	213.00	0.29%	\$ 15,355.90	0.05	0%	3	P/P/P
1	Variable calc only 90 off (CSIF, CEZF, CMZF) - agreed to contract w/o/m/e	36.00	0.05%	\$ 8,314.56	0.84	0%	3	P/P/P
2	Items noted within a few days of full mth charged full month	1.00	0.00%	\$ 840.00	(720.00)	-86%	3	P/P/P
2	Appears multiple access fees	4.00	0.01%	\$ 960.00	(480.00)	-50%	3	P/P/P
2	More research needed to resolve or classify variance	79.00	0.11%	\$ 1,687.19	(90.83)	-5%	3	P/P/P
2	Charged multiples of bonding	36.00	0.05%	\$ 110.00	(64.40)	-59%	3	P/P/P
2	Charges for multiples of billing	47.00	0.06%	\$ 211.50	(141.00)	-67%	3	P/P/P
2	Variable calc	27.00	0.04%	\$ 822.24	(425.36)	-52%	3	P/P/P
2/4	Current vs historical Coding Issue	56.00	0.08%	\$ 1,642.92	(881.16)	-53%	3	P/P/P
5	Need contract to substantiate change	112.00	0.15%	\$ 35,568.72		0%	5	P/P/P
P/P/P	No service charged	4,234.00	6.53%	\$ -		0%	P/P/P	P/P/P
Total		72,332	100.00%	\$ 1,013,197.74	(2,302.54)	0%		
Variance from Data								
Total - Adjusted for data with no apparent change - P/P/P		67,595		\$ 1,013,197.74	(2,302.54)	0%		
1	Total "good" comments	67,233	99%	\$ 971,355.17	0.21	0%		
	Charges with good comments	362	1%	\$ 41,843	(2,303)	100%		
	Comments requiring additional research/review							
(over) under Charged Variance as a percentage of total billings					-0.23%			

TWSI - ETN	
Schedule C - Analytical test - Summary of comments and findings (continued)	
For the year ended December 31, 2016	
Tickmark Summary	
@	Agreed to tariff rates; but should it be w/o food These agrees to COMMERCIAL W/ FOOD** Tier 1 (0-300GPD) \$137.29 (D) \$23.00 but is coded to w/o food rate codes see rate table
*	All amounts within +/- \$.00
1-	Comment notes change appears agrees to tariff w/m/e or otherwise appears to be a "good charge"
2-	Analytics not sufficient to support charge further information needed.
3-	Considered an exception to the analytical test.
4-	Known variance not considered to apply to the analytical test
5-	Analytics not sufficient to support charge further information needed. No variance is listed as rates appear reasonable based on review of similar charges
W/O/E	With out exception
W/O/M/E	With out material exception
P/E/P	Pass further procedures

**Tennessee Wastewater Systems Inc.
Management Comments from Agreed-upon Procedures
Findings and Recommendations
For the year ended December 31, 2016**

1. Significant Deficiencies – Segregation of duties

It appears that certain employees are currently responsible for executing, recording and approving certain aspects of billing transactions. Accordingly, an inaccurate or unauthorized transaction could be executed and not promptly discovered by the internal control structure.

Management should consider implementing policies to allow for separation of duties

2. Deficiencies – Financial period cutoff

It appears that certain transactions are not accounted for in the proper period. Accordingly, an inaccurate or unauthorized transaction could be executed and not promptly discovered by the internal control structure.

Management should consider implementing policies and procedures to ensure that all charges are accrued in the proper accounting period or are otherwise segregated to allow for the analysis of potential prior period adjustments.

3. Deficiencies – Rate coding and classifications

We noted that the descriptions and rate codes utilized in the billing system do not translate to the assigned rate descriptions and codes utilized in the State's tariff format.

Management should consider implementing policies and procedures to ensure that all charges are clearly related and agreed to the approved tariffs and related costs reimbursements in contracts.

4. Deficiencies – Rate coding and classifications

It does not appear the management maintains a cross walk or similar documentation to relate billing codes to specific rates and dockets approved by the regulatory body.

Management should consider implementing policies and procedures to ensure that all charges are clearly related and agreed to the approved tariffs and related costs reimbursements in contracts.

5. Deficiencies – Review and approval of adjusting journal entries

It appears that there is not detailed review, documented, and approved support for individual journal entry adjustments.

Management should consider implementing policies and procedures to ensure that all adjusting journal entries are properly reviewed and supported with sign offs to document the approval of individual journal entries.

**Tennessee Wastewater Systems Inc.
Management Comments from Agreed-upon Procedures
Findings and Recommendations (continued)
For the year ended December 31, 2016**

6. Deficiencies – Defined accounting processes and procedures

It appears that there is no formal documentation of the accounting processes and procedures.

Management should consider developing a detailed set of policies and procedures related to the accounting system to ensure that all policies and procedures are properly communicated and followed.

7. Best practice – UMS Billing Register Reporting – Billing Register Options

We noted that the UMS billing register report has an apparent issue in report creation. When all bill items are selected in the report options screen it does not produce all billings. It excluded non-email bills consistently. When e-mails bills were removed from the options all bills appeared to be reported. This issue could lead to errors in billing and accounting if other reports contain similar issues.

Management should implement procedures to ensure all billings are consistently agreed to the system and the system be routinely reviewed and tested to remove inconsistencies in reporting options.

8. Best practice – UMS Billing Register Reporting – Billing Register Data

We noted that the UMS billing register report is not "static" in relation to customer rates. That is to say a customer's rate class on any given day is the rate class that will be reported on the billing cycle regardless of the rate class in effect at the time. This issue might lead to misclassification issues that would delay historical analysis of the rate classes and related accounting entries.

Management should implement procedures to ensure all billings are consistently agreed to the system and the system be routinely reviewed and tested to remove inconsistency in reporting options.