STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

AUDITS

IN THE MATTER OF AN AUDIT OF THE AFFILIATED TRANSACTIONS BETWEEN NEW JERSEY AMERICAN WATER COMPANY, AND AMERICAN WATER WORKS COMPANY, INC. AND ITS AFFILIATES INCLUDING A REVIEW OF OPERATIONAL AND FINANCIAL PERFORMANCE OF NEW JERSEY AMERICAN WATER COMPANY AND A COMPREHENSIVE MANAGEMENT AUDIT OF NEW JERSEY AMERICAN WATER COMPANY PURSUANT TO N.J.A.C. 14:3-12.1-14:3-12.4	)	ORDER OF IMPLEMENTATION DOCKET NO. WA18080849

Parties of Record:

Steve Bishop, Esq., Vice President & General Counsel, American Water
Brian O. Lipman, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

On December 1, 2020, Schumaker & Company Inc. ("Schumaker") submitted its final audit report ("Final Report") to the New Jersey Board of Public Utilities ("Board" or "BPU") in the above docketed matter relating to the audit of New Jersey American Water Company ("NJAW" or "Company"). The Final Report contained sixty-nine (69) recommendations. At the Board's December 16, 2020 agenda meeting, the Board accepted the Final Report for filing purposes only and authorized the release of the Final Report to the public for comment. On February 1, 2021, NJAW and the New Jersey Division of Rate Counsel ("Rate Counsel") submitted comments on the Final Report.

By this Order, the Board considers the recommendations in the Final Report and the comments submitted to the Board in response to such recommendations.

BACKGROUND AND PROCEDURAL HISTORY

NJAW is a wholly-owned subsidiary of American Water Works Company, Inc. ("American Water" or "AWK") and is a public utility subject to the regulation by the Board. AWK currently operates in fourteen (14) states, providing regulated utility water and wastewater services to more than fourteen (14) million people. AWK also operates on eighteen (18) military installations around the country. AWK is a publicly traded company and is a member of the S&P 500. NJAW operates in more than 190 communities providing either water and wastewater services or both to approximately 2.9 million people in all or parts of the following counties of Atlantic, Bergen Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Union and Warren.

NJAW and AWK have experienced significant changes both at the commencement of the audit in 2018 and in recent years, including AWK's numerous acquisitions, their expansion into the unregulated sector, development of new affiliates, concerns across the industry with water leakage management, and the ongoing maintenance of water quality and infrastructure improvements.

In light of these changes, the Board initiated this comprehensive audit for the benefit of ratepayers and the Company. At its August 29, 2018 agenda meeting, the Board authorized Board Staff ("Staff") to release a request for proposals ("RFP") to those firms that were previously determined to be qualified for such work (i.e., "pre-qualified") for their bid submission for a two (2)-phase audit of NJAW.

Phase One was to consist of an audit of affiliated transactions between NJAW and AWK, as well as between NJAW and other affiliates, and a review of competitive services of NJAW and AWK. Phase One also included a review of NJAW's financial and operational performance. Phase Two was to consist of a comprehensive management audit of NJAW, including a review of all major and functional areas of NJAW's operations and the effect of the Company's association with American Water and all affiliates. The scope of the audit included an examination of executive management and corporate governance, organizational structure, human resources, strategic planning, systems operations, customer service, external relations, support services, finance, cash management, accounting and property records, affiliate cost allocations and relationships, company contractor performance, regulatory filing process, and cyber risk mitigation/cyber security. The period of review included 2010-2018 with some testing and reviews covering 2009 through 2020.

At its February 27, 2019 agenda meeting, the Board selected Schumaker to perform the audit at a not-to-exceed cost of $633,520. The Board further authorized former President Fiordaliso to execute a consulting agreement with Schumaker.

On December 1, 2020, Schumaker submitted the Final Report. At the Board's December 16, 2020 agenda meeting, the Board accepted the Final Report for filing purposes only and authorized the release of the public version of the final report for comment.

On February 1, 2021, NJAW filed comments on the recommendations included in the Final Report. The Company accepted and agreed to take action to implement thirty-four (34) of the recommendations and partially accepted twenty-six (26) with clarifications and/or minor exceptions. The Company disagreed with nine (9) of the recommendations.

By letter dated February 1, 2021, Rate Counsel filed comments on the recommendations included in the Final Report.

SCHUMAKER RECOMMENDATIONS, COMMENTS, AND STAFF POSITION

Below are summaries of the recommendations made by Schumaker, as well as the comments filed in response by the Company and Rate Counsel. Additionally, Staff's position and recommendation is provided in response to each audit recommendation and the comments received.

Chapter II: Evaluation of Financial Performance

Recommendation II-1: Review and update, as needed, dividend policy and practices documentation regularly, at least no longer than every two years.

Schumaker found that American Water Works Service Company ("AWWSC") management does not regularly review or update policies and practices documentation regularly. In particular, Schumaker noted that the dividend policy documentation had not changed since 2010 and should be reviewed and updated frequently, at least no longer than every two (2) years.

Company: NJAW partially accepted the recommendation by agreeing to review dividend policies and practices annually and update them, as needed, at least every three (3) years in accordance with the 2018 AWK Policy Management Policy ("PMP"), instead of every two (2) years as recommended by Schumaker. The Company stated that the PMP manages policies and practices companywide and that PMP policy owners should review their policies and practices on an annual basis and update them as appropriate at least every three (2) years.

NJAW recognized that some policies and practices, including the dividend policy, have not been updated in accordance with the PMP and agreed to ensure that policies and practices are reviewed and updated accordingly.

Rate Counsel: Rate Counsel stated that there was no justification provided in the Final Report for the recommended accelerated policy and practice review and update schedule. Rate Counsel raised concerns about the cost effectiveness of increasing the frequency of review and recommended that the review schedule ultimately adopted have a cost-based justification.

Staff: Staff agrees with Schumaker's recommendation, as modified by the Company. Staff is concerned by Schumaker's finding that the Company has not followed its PMP for reviewing and updating policies and practices. While Staff finds merit in routine reviews and updates to policy and practice documents, mandated updates every two (2) years are not necessary in every situation. Staff supports annual review of policy and practice documents and updates, as needed, at least every three (3) years, consistent with the AWK PMP. Staff advises NJAW to conduct more frequent reviews and updates when necessary. Staff further recommends that policy and practice documents include the effective date and dates for prior and upcoming reviews.

Staff recommends that the Board direct NJAW to, within three (3) months of the effective date of this Order, provide Staff with the most current version of the AWK PMP. Staff further recommends that NJAW be directed to provide supporting documentation indicating that annual reviews and updates are occurring in line with the PMP.

Recommendation II-2: Use load research studies and associated data in future NJAW rate cases.

According to the Final Report, load research allows utilities to better understand customer usage of water or wastewater either in total, by class, or by individual end uses. Schumaker found that utilizing load research data assists in the development of rate case cost-of-service studies, rate design, or billing determinants. According to Schumaker, NJAW did not use load research data in past rate cases.

Company: NJAW partially accepted the recommendation, as the Company argued it is unable to use New Jersey-specific load research studies and associated data in base rate cases without advanced metering infrastructure and meter data management systems installed in New Jersey to enable and automate the collection of daily and hourly metering data. The Company stated that when NJAW has such infrastructure in place, the Company will use the resulting data to assist in the development of cost-of-service studies, billing determinants, and rate design in future NJAW rate cases.

Rate Counsel: Rate Counsel disagreed with Schumaker's conclusion that NJAW did not use load research data in past rate cases, arguing that NJAW has studied usage patterns for both residential and commercial customers and used the data to develop billing determinants in line with New Jersey rate setting policies. Rate Counsel opposed the use of published water usage data from areas outside of NJAW's service territory to establish determinants for NJAW rates, stating that such data is irrelevant to New Jersey rate setting. Rate Counsel recommended that this recommendation be rejected by the Board.

Staff: Staff does not support Schumaker's recommendation for residential and commercial customers, as NJAW already performs its own load studies of residential and traditional commercial customer usage patterns observed in its service territory for review in base rate cases. Thus, the question of whether NJAW's studies are sufficiently granular to develop rate designs within and between customer classes would be reviewed in a base rate case.

Staff does however recommend that NJAW examine industry load usage patterns for new potentially growing customer classes such as artificial intelligence and data centers where NJAW may have less direct usage data experience within its service territory. Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it is proactively examining industry data along with its own analysis for these customer classes for review in its rate cases.

Recommendation II-3: Provide additional training to the Revenue Analytics group for rate cases.

The Final Report found the Revenue Analytics group lacked experience and concluded additional training was necessary. In the Final Report, Schumaker stated that management considered the Revenue Analytics group to be slightly weak due to a lack of rate case experience. Schumaker stated that the employees lacked knowledge and experience with respect to econometric regression analysis and monitoring which is necessary for forecasting and developing revenue specific data, analysis, and reports including usage, sales, consumption and customer data. According to Schumaker, this set of responsibilities led to hiring a senior manager with experience in econometric regression analysis. Schumaker stated that senior management also considered the Revenue Analytics group a coordinated team between sub-groups under the financial planning and analysis function and it did not anticipate any changes in 2019 or 2020 as employees were considered more detailed analysts and streamlined and with the senior management experience the employees would gain knowledge.

Company: NJAW partially accepted the recommendation, supporting additional training and continued growth and development of all employees but disagreed with Schumaker's conclusion that the Revenue Analytics group was considered weak by management due to inexperience, referring to Schumaker's further findings that senior management in the Revenue Analytics group found its employees more detailed analysts and streamlined. The Company further stated that each employee completes a minimum of twenty-five (25) hours of training each year and specifically AWWSC provides rate case training annually and members of the Revenue Analytics group attend or provide portions of that training.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff supports Schumaker's recommendation of additional training but also acknowledges the Company's concerns regarding Schumaker's characterization of the basis for the additional training. Staff recommends that the Board direct NJAW to, within three (3) months of the effective date of this Order, provide Staff with the steps it has taken to ensure additional training for the Revenue Analytics group.

Chapter III: Regulatory Filing Process and Review of Current Case Workpapers and Spreadsheets

Recommendation III-1: Create Policy and Practice documents to provide guidance to the rate filing process.

The Final Report stated that the creation of a policy and practice document would give an overview to the rate filing process and document company priorities that are outside the scope of the Responsible, Accountable, Consult, and Inform ("RACI") document. A practice document would guide all participants, including those creating the RACI document.

Company: The Company partially accepted the recommendation and agreed to create a narrowly tailored, New Jersey-specific procedural guideline to be used by employees participating in the New Jersey rate case process. NJAW did not agree to create an enterprise-wide policy and practice document to use across all fourteen (14) state jurisdictions in which it operates, arguing it is impractical and would be challenging as rates and regulatory functions within AWK vary from state-to-state due to each state's specific regulations, policies, practices and procedures.

For certain functional areas, the Company stated, AWK enterprise-wide policies and practice documents are practical across the AWK footprint, including the RACI for some consistency among each jurisdiction to facilitate the preparation and execution of rate cases.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation, as modified by the Company's agreement to create more narrowly tailored policy and procedure guideline documents for New Jersey's rate case process, understanding the challenges and impracticality of an enterprise-wide document for the regulatory function as AWK operates across multiple state jurisdictions. Supplementing the RACI with procedures that are tailored to New Jersey conveys to employees AWK's commitment to New Jersey and may result in process efficiencies. Staff recommends that the

Board direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with the updated RACI to reflect this supplement.

Recommendation III-2: Revise the supporting rate case schedules to show totals that will agree directly to the rate case documentation without additional mathematical accumulations.

According to the Final Report, rate filing supporting schedules should be revised to include summary amounts that directly tie to and are shown on the rate case financial schedules. This would allow for variances to be shown more clearly as reviews are performed of the rate case financial schedules and supporting documentation. According to Schumaker, supporting rate case schedules are overly detailed and did not provide summary amounts that can easily tie to the rate case financial schedules. Schumaker asserted that this resulted in inefficiencies as reviewers had to manually sum numbers when making comparisons between rate case supporting documents and financial schedules.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation. Staff recommends that the Board direct the Company to provide evidence that it has incorporated this recommendation in its next base rate case.

Chapter IV: Procurement and Purchasing

Recommendation IV-1: Modify activities performed by management to review policy and practice documentation at least every two years and make any needed changes.

According to the Final Report, Schumaker was unable to determine how often documents were reviewed and changed and recommended AW companies review at least every two (2) years and update as needed. Schumaker further recommended that these documents include the effective date and dates of any prior and upcoming reviews.

Company: See Company's Response to Recommendation II-1 above.

Rate Counsel: See Rate Counsel's response to Recommendation II-1 above.

Staff: See Staff's recommendation related to Recommendation II-1 above.

Recommendation IV-2: Modify practice documentation due to the lack of the Enterprise Data policy documentation or create the Enterprise Data policy documentation.

In the Final Report, Schumaker stated that the purchasing card practice documentation and the Vendor Master Database practice documentation reference the Enterprise Data policy, however, NJAW was unable to provide Enterprise Data policy documentation to Schumaker as it did not exist. Schumaker recommended that the Purchasing and Procurement groups check other policies to see if the Enterprise Data policy documentation information is included. If so, Schumaker recommended that the purchasing card and Vendor Master Database practice documentation be modified to reference the correct policy documents. If it is not included, then the Purchasing and Procurement groups should create an Enterprise Data policy documentation.

Company: NJAW partially accepted the recommendation. According to NJAW, the Enterprise Data policy did not exist, but rather the Company incorporated this policy into other practices and policies involving data management. Accordingly, the Company agreed to modify the purchasing card practice and Vendor Master Database practice to remove reference to the Enterprise Data policy.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff partially agrees with Schumaker's recommendation, as NJAW confirmed the Enterprise Data Policy does not exist and has already been incorporated into other policy and practice documents involving data management making it reasonable that the references to the Enterprise Data Policy in the purchasing card Practice and Vendor Master Database Practice be removed. Therefore, Staff acknowledges that NJAW has implemented this recommendation and recommends that the Board direct NJAW to provide Staff with documentation showing removal of reference to the Enterprise Data policy within three (3) months of the effective date of this Order.

Recommendation IV-3: Make sure the Supply One View ("S1V") application is completed in a timely manner.

According to the Final Report, the S1V application, an analytics tool designed to provide employees with supplier information, was still being developed at the time of the audit and, as a result, AWWSC was still scoping out all of the supplier insight functionalities. The functionalities of S1V include spending, cost models, supplier risks, and performance and would also address on-board supplier processes. Schumaker recommended that the AWWSC S1V be completed by 2020, as it should be positive for AWWSC's use of associated data.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that NJAW be directed to provide Staff documentation showing that S1V is fully operational within three (3) months of the date of this Order. NJAW should include a list of functionalities that S1V provides and how it has assisted the Company, including any improvements to S1V being considered.

Recommendation IV-4: Make sure the Supplier Relationship Management ("SRM") program application is completed in a timely manner.

Schumaker found that the SRM program was being reviewed within a year of the audit to make improvements regarding segmenting suppliers and developing more KPIs. Since the SRM program was expected to being reviewed, Schumaker stated that the Company should update its application regarding SRM by 2020 if the program reviews results in necessary changes.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation. Staff recommends that the Board direct NJAW to, within three (3) months of the effective date of this Order, provide Staff with documentation showing the SRM program is complete with a list of the additional Key

Performance Indicators ("KPIs") established and details of the positive resulting impact on the Company.

Recommendation IV-5: Complete all actions of internal audits involving procurement and purchasing in a timely manner.

Schumaker noted that some of the actions to address two (2) internal audits involving procurement and purchasing were still open and not completed at the time of the audit.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends the Board direct the Company to provide Staff with the completion date for the outstanding actions within three (3) months of the effective date of this Order. Staff further recommends that the Board direct the Company to provide a detailed list of all internal audits conducted since the Final Report was released, including completion dates and the implementation status of recommended actions within three (3) months of the effective date of this Order.

Recommendation IV-6: Make sure the Billing and Accounting Manual ("BAM") is updated to include items not previously included, plus others.

In the Final Report, Schumaker stated that AWWSC should make sure that the BAM is inclusive of sections for Service Company Reporting and Service Company Budgeting and Planning, plus any other cost centers impacting the BAM that may need to be changed thus requiring a BAM update.

Company: NJAW partially accepted the recommendation that AWWSC updated the BAM to include the Service Company Reporting section that was removed from the BAM during the recent update.

NJAW rejected the recommendation to include the Service Company Budgeting and Planning section. The Company stated that it removed it from the BAM during an update, as the section is now included in the AWWSC budget guideline, otherwise known as the budget playbook,. According to the Company, AWWSC believed that including budget planning guidelines in the budget playbook is more appropriate than including it in the BAM, which used as a manual for billing and accounting, and not as a manual for the budget process.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with the recommendation, as modified by NJAW. Staff recommends that the Board direct NJAW to provide Staff, within three (3) months of the effective date of this Order, the list of items included in the BAM, and the budget guideline, known as the budget playbook, highlighting any changes that occurred during the course of the audit and thereafter.

Chapter V: Affiliate Relationships

Recommendation V-1: Develop monthly affiliate transaction reports.

In the Final Report, Schumaker recommended that the Company develop monthly detailed reports that identify affiliate transactions between NJAW and each of its existing affiliates and any other affiliates that occur in the future.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel argued that this recommendation should be accepted and should be given high priority, as the findings suggest that NJAW is not tracking charges to affiliates well and this should be corrected expeditiously to ensure that costs are not borne in error by ratepayers. Rate Counsel further noted this recommendation is essentially the same recommendation contained in the prior audit.[1]

Staff: Staff agrees with Schumaker's recommendation. Staff recommends that the Board direct NJAW to provide sufficient details in the report regarding transactions and cost allocations so NJAW can review and question the reasonableness of these transactions and dollar amounts allocated to them. Staff recommends that NJAW provide Staff with documentation showing that it has complied with this recommendation within one (1) year of the issuance of this Order.

Recommendation V-2: Perform a study to determine if affiliate transactions between AWWSC and regulated utilities should be done with other causal factors.

In the Final Report, Schumaker recommended that NJAW and AWWSC perform a study to determine if increasing the number of causal factors to allocate costs that cannot be directly allocated would be more appropriate than simply using the number of customers as the only factor to allocate costs to NJAW. Schumaker refers to other audits it has performed, and to the prior audit performed by NorthStar Consulting Group who took a similar position, noting that many other companies use multiple factors to allocate not only for tier 1 but for tier 2 costs.

Company: The Company rejected the recommendation, stating that the BAM governs how AWWSC costs are accumulated, reviewed, and allocated to AWK affiliates. The Company stated that causal factors are used when allocating costs between regulated and non-regulated affiliates. Factors such as operating revenues, net property, plant and equipment and number of employees are used, depending on the service being provided.

The Company further stated that the Service Agreement between NJAW and AWWSC has been approved by the Board on two (2) separate occasions and requires that all costs incurred in rendering services to the Company that are not directly charged to the Company shall be allocated among all regulated affiliates based on customer count. The Company argued that the rationale for utilizing number of customers as an allocation factor is reasonable and is a methodology that is used across the AWK footprint and required under every service agreement between AWWSC and other AWK regulated affiliates.

[1] In re the Matter of a Comprehensive Management Audit of New Jersey American Water Company Pursuant to N.J.S.A. 48:2-16.4, and N.J.A.C. 14:3-12.1, BPU Docket No. WA09070510, Order dated December 22, 2014.

NJAW further argued that the services provided by AWWSC supporting many of the business aspects of the operations and management are necessary across all its regulated water utilities regardless of their locations and as all regulated utilities are providing the same service and required to comply with state and/or federal requirements that are either the same or similar. NJAW mentioned employee payroll and benefits, operational and financial recordkeeping and reporting, National Association of Regulatory Utility Commissioners recordkeeping and reporting, national accounting and financial reporting and federal tax recordkeeping and reporting requirements. NJAW further argued that customers receive the same benefits from the utilities regardless of which state the water utility operates and state specific costs are not part of the costs allocated by AWWSC but rather those costs are local costs. Using customer count by AWWSC is a cost effective, straightforward and easy to understand allocation factor to allocate common AWWSC charges.

NJAW stated that using alternative allocation factors may not be an improvement and could result in more costs being allocated to smaller utilities that have more miles of main but less customers. NJAW also argued that other states have determined that the use of customer count as the allocation factor was appropriate and thus using additional or alternative factors is not warranted.

Rate Counsel: Rate Counsel argued that a three (3)-factor allocation method should be considered for tier 2[2] allocations. Regardless of the methodology, Rate Counsel believes that preference should be given to direct charges wherever and whenever possible.

Staff: Staff supports Schumaker's recommendation and agrees with Rate Counsel's comments. The service company is responsible for directly allocating costs when possible and should only utilize a general allocator if necessary. When unable to directly allocate, AWWSC should use allocation factors that more closely reflect the way costs are incurred. Staff agrees with Rate Counsel that a three (3)-factor allocation method for tier 2 allocations may result in fairer allocations than allocating based on the number of customers. Moreover, it may prevent New Jersey from being allocated more costs based upon the customer density of our state versus other states that may have less customers.

Staff recommends that the Company reassess the factors used for allocating costs between the regulated and non-regulated companies and between its regulated companies to determine if a more equitable allocation method is possible. Staff recommends that the Board direct NJAW to, within three (3) months from the date this Order, commence a study analyzing the genesis of costs incurred to determine whether they can be directly allocated and, if not, whether other casual factors should be incorporated into the allocations of these costs for a more equitable allocation. Staff further recommends that the Board direct that, within one year (1) of the effective date of this Order, NJAW shall provide Staff and Rate Counsel with the results of the study for review and a determination regarding whether reallocation is appropriate going forward.

Chapter VI: Internal Controls

Recommendation VI-1: Continue the process whereby documented planning and results of the Ernst & Young ("E&Y") Sarbanes-Oxley ("SOx") testing is shared with AW and documented results maintained by the Internal Audit Group.

[2] Tier 2 cost allocations are between regulated companies only.

According to the Final Report, interviews during the audit indicated that SOx controls have been tested and evaluated from 2011-2018 by AW internal audits in the early years and by E&Y in the later years. However, American Water Internal Audit ("AWIA") could not produce documentation of the work of the testing performed by either IA or E&Y. Subsequent to field work, it was revealed to Schumaker that planning memos for the SOx control testing existed and was made available to AW annually. Planning and testing memos were also provided to Schumaker. AWIA maintains these memos. Control testing results and status are reported to the Disclosure and Audit, Finance & Risk Committees quarterly with exceptions in the control performance tracked in a summary of aggregated deficiencies file. Schumaker indicated that it was able to confirm that planning and testing memos ultimately provided to them for SOx review and testing were appropriately evaluating effectiveness of key internal SOx controls and compliant with SOx Act of 2002.

Company: NJAW accepted this recommendation and agreed to implement it.
Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation. Staff is concerned about reluctance on behalf of the parent and NJAW on providing results from internal audits and audits by outside auditors and consultants hired. As regulators it is imperative for such results to be provided in Board mandated audits to ensure there is proper governance of the company and protections of NJAW. Staff recommends that the Board direct NJAW to provide Staff, and its auditor final reports and results from audits performed internal auditors and external auditors or consultants in all future Board audits if requested and for NJAW to provide documentation committing to this practice within one (1) year of the issuance of this Order.

Chapter IX: Affiliate Cost Allocation Methodologies

Recommendation IX-1: Review and update, as necessary, policies and procedures documentation at least every two years.

According to the Final Report, most of the policies and procedures documentation have not been updated or reviewed recently. In some instances, the new review date was not shown. Schumaker recommended that all documentation items should be reviewed every two (2) years and updated as necessary and documentation should include the effective date and review dates.

Company: See Company's Response to Recommendation II-1 above.

Rate Counsel: See Rate Counsel's Recommendation to Recommendation II-1 above.

Staff: See Staff recommendation related to Recommendation II-1 above.

Chapter XIII: Operations Review

Recommendation XIII-1: Confirm work orders in the backlog.

Schumaker stated that it is important for NJAW to identify which work orders regarding repairs which includes maintenance and construction in the backlog are required and develop and implement a strategy to keep the backlog at a reasonable level.

Company: The Company accepted this recommendation.

Rate Counsel: Rate Counsel stated that this recommendation should be given high priority as it directly impacts the foundation of the Company's budgets which ultimately impact the cost of service.

Staff: Staff agrees with Schumaker's recommendation. The Company should identify work orders in the backlog that are no longer necessary and/or duplicative and provide a reasonable explanation for removal from the backlog. The Company should also identify necessary work orders and provide an explanation of them being backlogged and schedule for completion. This will assist the Company in having a more realistic account of the backlog. Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, to provide Staff with internal documentation indicating they have incorporated these changes and complied with Schumaker's recommendation of keeping the backlog at a reasonable level.

Recommendation XIII-2: Modify the Monthly Performance Report.

Schumaker recommended that the Company include the status of planned plant maintenance work versus planned work actually performed in NJAW's monthly performance report. According to the Final Report, the Company plans its maintenance to include required regulatory maintenance as well as manufacturer and industry standard practice maintenance. NJAW has limited unplanned maintenance, as the planned maintenance helps to diminish the need for corrective work orders. Inclusion of the status of planned maintenance will provide information on the type of incomplete projects.

Company: The Company accepted this recommendation.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation. Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with a copy of monthly performance reports, showing that the recommended changes have been incorporated into the report.

Recommendation XIII-3: Develop Asset Management plans for meter, sewer, and wastewater systems.

According to the Final Report, NJAW has a comprehensive Asset Management Plan for its water system and infrastructure assets but does not have one (1) for its wastewater, sewer, and meter systems. Its Asset Management Plan includes elements based on the requirements set forth in the Water Quality Accountability Act, N.J.S.A. 58:31-1 et seq. Schumaker recommended that NJAW develop a similar Asset Management Plan that incorporates meter, sewer, and wastewater systems.

Company: NJAW partially accepted the recommendation to develop asset management plans for its wastewater systems. NJAW stated that existing wastewater Comprehensive Planning Studies ("CPS") present strategies and plans to ensure safe, adequate, and reliable wastewater service to customers for the long term. Accordingly, the Company agreed to take the CPS one step further into the development of a formalized Asset Management Plan for its wastewater system.

With respect to asset management plans for meters, NJAW contended that compliance with N.J.A.C. 14:9-4 should suffice as an "asset management plan" for meters. The process for removing and testing meters, as outlined in the Final Report, ensures adequate control, maintenance, and replacement of meter assets. Additionally, as meter related issues come up, meters are evaluated and maintained or replaced as appropriate. Therefore, NJAW rejected the recommendation to develop asset management plans for meter assets.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation..

Staff: Staff agrees with Schumaker's recommendation that the Company develop an asset management plan for its wastewater systems and provide the plan within one (1) year of the effective date of this Order Staff recommends that the Company consider new meter testing technology in addition to its compliance with the Board's regulations. Staff recommends that the Board direct NJAW to, within one (1) year of the effective date of this Order, provide its analysis with regard to any new technologies and whether those technologies should be considered for implementation.

Recommendation XIII-4: Establish a base line threshold, including linkage to approved budgets or five and ten year plans, that a project must meet before it is placed into the MapCall backlog.

Schumaker found a large backlog of water and sewer main capital projects raising concerns about each project's validity and NJAW's ability to fund and execute the projects. Schumaker recommended that NJAW establish baseline threshold criteria to apply before a project is placed into the MapCall backlog.

Company: NJAW partially accepted the recommendation to establish a baseline threshold that a project must meet before it is placed into the MapCall backlog. Specifically, the Company indicated that it periodically validates and cleanses the MapCall listing of water and sewer main renewal projects ("RP") and establish criteria for the inclusion of a project on the list.

The Company rejected the recommendation that it specifically link each project in the MapCall listing to budgets or five (5) and ten (10) year plans. NJAW stated that the MapCall RP list is meant as a repository for NJAW Operations and Engineering identified projects that merit consideration as part of both informal and formal annual planning processes. NJAW noted that planning, scheduling, and budgeting take place as part of NJAW's annual capital planning and budgeting processes where projects are evaluated against the Company's pipeline prioritization model which is updated annually. NJAW argued that the MapCall RP list is only one (1) component of a complex and fluid planning process.

Rate Counsel: Rate Counsel did not recommend approval of Schumaker's recommendation without further evaluation of Schumaker's findings of a backlog in the MapCall System, stating that Schumaker's findings may not imply that there is an immediate backlog nor that the projects are not "valid." Rate Counsel views this as a high priority as it has an impact on the cost of service.

Staff: Staff partially agrees with Schumaker's recommendation. Due to significant backlogs of work orders in the MapCall System identified by Schumaker, Staff recommends that NJAW develop an improved tracking projects included in the MapCall System. NJAW should identify whether capital projects are internally approved or not approved, planned or unplanned (emergency capital projects), budgeted or non-budgeted, included in Distribution System Improvement Charge ("DSIC") or base rates, and the expected completion date and reasons for any backlogs, delays, deferrals, and/or cancellations. Staff does not find it necessary for NJAW to add a linkage to planned projects that are included in one (1), five (5), and ten (10) year budgets in the MapCall.

As recommended by Rate Counsel, NJAW shall also provide Staff with the parameters and criteria used to include projects in MapCall System of the audit or other platform that may address these different categories of projects as NJAW may include them in systems for project planning other than MapCall. Therefore, Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with documentation that addresses Schumaker's concerns with MapCall backlog.

Recommendation XIII-5: Review, using the established base line threshold, the backlog of water and sewer main projects for validity and probability of funding and completion.

According to Schumaker, NJAW's backlog of water and sewer main capital projects represents fifteen percent (15%) of the Company's distribution assets. Schumaker asserted that the large backlog calls into question each project's validity and NJAW's ability to fund the projects. Therefore, Schumaker recommended that NJAW review its backlog using the base line threshold established pursuant to Recommendation XIII-4.

Company: NJAW partially accepted the recommendation to review, using the established base line threshold the backlog of water and sewer main projects for validity and probability of funding and completion. As noted in response to Recommendation XIII-4, the Company partially accepted the recommendation to establish a base line threshold that a project must meet before it is placed into the MapCall backlog. Specifically, the Company indicated that it would periodically validate and cleanse the MapCall listing of water and sewer main RPs and establish criteria for the inclusion of a project on the list.

Rate Counsel: It is Rate Counsel's opinion that this recommendation should not be accepted without further study and evaluation. Rate Counsel stated that Schumaker's finding of a large backlog for water and sewer main capital projects may be the result of work that was not intended to be done in the near term, for example within three (3) years but rather anticipated to be necessary in the future and perhaps for some of these projects in the distant future as NJAW provided schedules of prospective main replacement and renewal projects in its DSIC filings with the Board. Rate Counsel further explained that based upon these extensive future projects, the backlog may not indicate that these are not valid projects or that there is an immediate backlog.

Staff: Staff agrees with Schumaker's recommendation to review, using the established base line threshold, the backlog of water and sewer main projects for validity and probability of funding and completion. The Company should document the basis for including and excluding projects from the MapCall System with detailed explanations for excluding or including projects. Staff reiterates its support for further review of the capital projects included in the MapCall System and the criteria used by the Company to include projects. Staff finds merit is Rate Counsel's concern that much of the work that is shown in MapCall may not have been intended to be performed in the near term but rather in the very distant future implying that there may not be a backlog. In addition, Staff requests further explanation of the bases for the backlogs as addressed in Staff's response to Recommendation XIII-4 above. The Company shall explain any cleansing of the MapCall System's RP listings in documents provided to Staff for its review. Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, commence an evaluation of the backlog.

Recommendation XIII-6: Work with the NJBPU to move to a 15 year testing cycle or a sampling program for cycle changes of residential meters.

Schumaker recommended that NJAW update its Meter Level of Service and present it to the Board for implementation: According to the Final Report, NJAW conducted a study where the initial draft of the study determined that if the ten (10) year cycle for replacement of residential meters were to be replaced with a more strategic plan an estimated $2 million in reallocated capital and $1 million in cost avoidance could be achieved. According to the Final Report, there would be less capital being spent and less expenses on meter replacement since it will occur less often, resulting in a reallocation of available capital. Schumaker was silent on how the reallocated capital should be handled and where it should be applied. The Final Report stated that most states have a fifteen (15) year testing and replacement cycle for residential meters and that a number of states have cycles ranging from ten (10) to twenty (20) years.

Company: NJAW accepted this recommendation.

Rate Counsel: Rate Counsel agrees with Schumaker's recommendation to change the residential meter sampling program from ten (10) to fifteen (15) years because customers should benefit from the savings. However, Rate Counsel recommended that the savings from the change should not be reallocated to other capital projects.

Staff: Staff notes that there is no current meter sampling program at NJAW and Board rules do not permit sampling programs for NJ water companies. Staff finds merit in the recommendation to extend the periodic testing cycle from ten (10) to fifteen (15) years, provided that the gallon limits found in the table under N.J.A.C. 14:9-4.1(b) still apply. Staff recommends that the NJAW resolve defects in the NJAW meter replacement program and retirement testing program pursuant to N.J.A.C. 14:3-4.7(c)6. Staff agrees with Rate Counsel's position that the savings from the change should not be reallocated to other capital projects. Staff further recommends that the Board direct NJAW to present to the Board, for its review and consideration, the NJAW study and petition seeking approval, showing the impacts of moving from a ten (10) year cycle to a fifteen (15) cycle, indicating the pros and cons of this change and associated savings and rate reduction for customers. NJAW shall provide the study within five (5) months of the effective date of this Order.

Chapter XIV Executive Management & Corporate Governance

Recommendation XIV-1: Examine broadening the formula for allocating senior management and AW director compensation.

In the Final Report, Schumaker found that corporate administrative management compensation packages were within industry norms but had concerns about using a single cost allocation factor primarily based upon customer count. Schumaker encouraged the use of a blended allocation formula to produce fairer cost allocations, as customer count is not an accurate nor comparable method of allocating senior management and director compensation.

Company: NJAW rejected the recommendation, stating these costs are preliminarily allocated between regulated and non-regulated affiliates using causal factors and then allocated among the regulated utilities using customer count. NJAW argued that the current use of customer count as an allocation factor is reasonable, as it is a method used across the AWK footprint and required under every service agreement between AWWSC and other AWK regulated affiliates and which have been approved by other state regulators.

Rate Counsel: Although Rate Counsel did not directly take a position on this specific recommendation, it addressed its concerns about using customer count as the only causal factor and recommended three (3)-factor allocation method for tier 2 allocations under recommendation V-2.

Staff: Staff agrees with Schumaker that the Company should examine broadening the formula for allocating senior management and American Water director compensation. Basing the allocation for these costs between AWWSC regulated and unregulated affiliates on casual factors initially appears appropriate. However, basing the allocation among regulated utilities on customer count only may not reflect the most reasonable method of cost allocation, as these costs are not necessarily driven by utility customer count only. Incorporating other factors into the allocations along with customer count should be examined, as a blended method may be more appropriate, fair, and equitable for non-directly allocated costs.

Staff recommends that the Board direct NJAW to, within one (1) year of the effective date of this Order, provide Divisions of Revenue and Rates staff, Division of Audits staff, and Rate Counsel with its analysis and include detailed supporting documentation of a blended approach for allocating executive compensation among regulated utilities and its potential impact on the allocated percentages of these costs to NJAW. Staff further recommends that the analysis should be comprehensive to show various types of factors and impacts and any proposed changes should be accompanied by a new service agreement and cost allocation manual for review and approval by the Board.

Recommendation XIV-2: Change administrative reporting of the Internal Audit Function.

Schumaker stated that to avoid conflicts of interest, AWK Internal Audit should preferably report administratively to the Chief Executive Officer ("CEO") or Legal Department. According to Schumaker, the Internal Audit Vice President reports administratively to the Executive Vice President and Chief Financial Officer ("CFO") , which represents a conflict of interest. Schumaker stated that this reporting structure gives the appearance that the internal audit executive could be unduly influenced by the CFO. Although the audit charter requires the Audit, Finance and Risk Committee Chair on the Board of Directors approval for the hiring, compensation, removal or replacement of the Vice President of Internal Audits, Schumaker found that there is still a lack of complete independence of financial management. Schumaker asserted that the perception and opportunity that the finance department can exert control over the auditing team through inappropriate pressure is still present. Schumaker stated that changing the administrative reporting structure will ensure independence in appearance and certainty.

To further support their position, Schumaker referred to the recommendations in the prior audit whereby NorthStar Consulting Group ("NorthStar"), the auditor, stated that the internal audit function is not independent when auditing a major audit focus area of finance and accounting. NorthStar also stated that the CFO at that time performed annual performance reviews of the internal audit director.[3] Schumaker noted that the Company made some edits since 2010 and at the conclusion of the last audit, Staff concluded that no further action was required.

Company: NJAW rejected the recommendation to change the administrative reporting of the Vice President ("VP") of Internal Audit, who currently reports to the CFO, arguing that the Final Report found no evidence of undue influence, making the recommendation unwarranted. The

[3] Id.

Company further argued that organizational structure of AWK is outside the scope of the audit but also added that the Board of Director's Audit, Finance and Risk Committee Chair is responsible for the hiring, compensation, removal, or replacement of the VP of Internal Audit. Accordingly, NJAWC declined to pursue any change to the existing reporting relationship.

Rate Counsel: Rate Counsel supports this recommendation and argues it should be given high priority and corrected immediately if the current reporting relationship for Internal Audit represents a conflict of interest. Rate Counsel also noted that care must be taken to recognize that the Internal Audit function rests within AWK and that the organizational structure spans different affiliates.

Staff: Staff supports Schumaker's recommendation with modification to address the concerns expressed by Rate Counsel and NJAW.

The Institute of Internal Auditors ("IIA") specifically identifies Chief Audit Executive ("CAE") administrative reporting to a CFO as a reporting structure that may introduce impairment to independence.[4] Further, the IIA considers objectivity to be impaired when situations, activities, or relationships have the potential to influence an internal auditor's decisions, resulting in changes to internal audit findings, and notes that such impairment may exist in fact or appearance.[5] To eliminate the potential for impaired objectivity, the IIA recommends that the CAE report administratively to the CEO or equivalent to ensure that the CAE has access to senior management and authority to challenge management's perspective.[6] The IIA recognizes that this goal may be accomplished by permitting the CAE to administratively report to an equivalent to the CEO with appropriate safeguards to prevent impairment to objectivity.[7]

Although Schumaker found no actual undue influence, Staff is concerned with AWK's existing Internal Audit administrative reporting structure due to the potential for conflicts of interest, as the CFO is responsible for the direct management of the Company's overall financial operations including budgets, cash flow, treasury, business strategy, and capital management, all of which are significant areas that are audited by the VP of Internal Audit.

As such, Staff recommends that the Board direct the Company to change its administrative reporting structure so that the VP of Internal Audit reports to AWK's CEO, consistent with best practices established by the IIA. Alternatively, Staff recommends that the Board direct the Company to work with Staff to determine an appropriate reporting structure and/or safeguards to prevent impairments to objectivity. Staff recommends that the Board direct NJAW to, within one (1) year of the effective date of this Order, change the administrative reporting to the CEO or provide Staff with a detailed description of the safeguards in place to prevent impairments to objectivity within three (3) months of the effective date of this Order.

Recommendation XIV-3: Require vendors and contractors to explicitly acknowledge and agree to conduct themselves in accordance to AW's Code of Ethics.

[4] The Institute of Internal Auditors, Inc., Global Internal Audit Standards, 48 (2024).

[5] Id. at 22.

[6] Id. at 47-48.

[7] Id.

Schumaker stated that vendors and contractors should be required to adhere to the Company's Code of Conduct and penalties for unethical conduct should be made explicit. AW may want to require major vendors and contractors to provide a copy of their own code of ethics.
Company: The Company rejected the recommendation, stating that its Master Service Agreements with vendors and contractors includes language that the Company expects contractors to conform their business dealings with the underlying principles of the Company's Code of Ethics. NJAW further stated that in the fall of 2020, AWK released the Supplier Code of Conduct, which the Company believed addresses the concerns raised by the auditors here.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation to require Company vendors and contractors to explicitly acknowledge and agree to conduct in accordance with AW's Code of Ethics. Staff recommends that the Board direct NJAW to provide Staff with the Supplier Code of Conduct as well as a detailed explanation of how this addresses Schumaker's concerns for Staff's review within six (6) months of the effective date of this Order.

Recommendation XIV-4: Implement a process to periodically perform cost comparisons for external audit services.

Schumaker stated that audit services should undergo formal evaluations and comparisons at least every five (5) years. Price Waterhouse Cooper ("PwC") has been the external auditor for AW for at least the past ten (10) years. Schumaker indicated that there has not been a formal rebidding of audit services in that time.

Company: NJAW partially accepted the recommendation to periodically perform cost comparisons for external audit services. NJAW stated that it already performs comparisons and benchmarking. NJAW used PwC as an external auditor and in the past during AWK negotiations with PwC, PwC provided the Audit Finance and Risk Committee of the AWK Board of Directors with a benchmarking study, comparing AWK audit fees with that of PwC Power & Utilities Sector clients. The Company also stated that AWK independently obtains other audit fee benchmark data using data from EEI, Gartner and proxy statements filed with the Securities and Exchange Commission to help with the Company's decisions retain PwC as its external auditor. The Company further stated that AWK intended to rely on similar data in deciding whether to retain PwC for additional contract terms. If the recommendation was suggesting a process that differed from the Company's current one, NJAW rejected the recommendation, as it would be duplicative.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation that a process should be implemented to periodically rebid for external auditing services currently provided by PwC, giving the opportunity to other firms to bid and providing cost and expertise comparisons for external audit services. Staff recommends that the Board direct the Company to provide Staff with revised internal operating processes that allow for periodic rebidding of current external auditing services within six (6) months of the effective date of this Order.

The Company shall affirm its commitment to maintaining its internal auditing department as Staff sees the internal auditing function important providing invaluable auditing services of the internal operations of the different functions within the company in more granular manner.

<u>**Chapter XV Organization Structure**</u>

Recommendation XV-1: Conduct a corporate-wide, broad-based organization review.

Given the rapidly changing business environment, Schumaker recommended that AWK conduct a formal organization review every three (3) years or when there is a major change in business conditions. This process can be coordinated through Human Resources with continued input from senior management teams. This process should run concurrently with the periodic review of procedures, policies, and practices.

Company: NJAW rejected the recommendation to conduct a corporate-wide, broad based organization review. NJAW argued that the organizational makeup of AWK and other regulated and non-regulated affiliates were outside the proper scope of the audit, and such recommendation would result in an expense that would be shared across the AWK footprint without regard to the regulatory framework and other regulated utility recovery mechanisms.

The Company also rejected the recommendation on the basis that implementation of a single, company-wide, broad-based organization review every three (3) years would be inconsistent with the way the Company operates, as workforce planning and the review of roles as recommended by Schumaker is happening on a regular basis. NJAW also argued that this was inconsistent with Schumaker's finding that the organization was appropriate and beneficial to operating companies.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation that AWK examine impacts and resolutions from changing business conditions, such as technology, working processes and business environment including risks, regulatory, financial, new customer business demands, company growth, and operational conditions that may impact policies and practices.

Staff disagrees with the Company's argument that the organizational makeup of AWK and other regulated and non-regulated affiliates are outside the scope of this audit. Pursuant to N.J.S.A. 48:2-13 and 48:2-23, the Board has jurisdiction and control over public utilities for the purpose of ensuring safe, adequate, and proper service. Although the Board does not regulate utilities in other states or non-regulated entities within AWK, this organizational structure impacts NJAW's ability to provide safe, adequate and proper service to New Jersey customers at reasonable rates.

Corporate governance and ring-fencing decisions have direct implications on NJAW thus it necessitates that AWK conduct such periodic reviews. Events that result in a change in policies or practices should be accompanied by a focused organization impact review, especially for public or private company structures that manage multiple companies under different regulations and jurisdictions.

Staff recommends that the Board direct NJAW to provide Staff with documentation of the internal guidelines that dictate periodic reviews of the corporate-wide, broad-based organization and a proposal for the frequency of such reviews. These reviews should include a strategic plan for reviewing the entire corporate organization considering triggering events that have a role in initiating such reviews. Staff further recommends that the Board direct the Company to provide Staff with the formal documents that govern such reviews within eight (8) months of the effective date of this Order

Chapter XVI Human Resources

Recommendation XVI-1: Provide practice documentation that corresponds with all policy documentation, plus make sure policy and practice documentation is updated in a timely manner.

According to Schumaker, not all of AW's policies had corresponding practice documentation, which Schumaker did not find appropriate. Schumaker recommended new practice documentation be created for the following policies: 1) Solicitation and Distribution; 2) Talent and Performance Management; and 3) Workplace Accommodation. Schumaker also recommended that, when new policies are created, practice documentation should be provided for those as well. Schumaker further asserted that all documentation should be reviewed at least every two (2) years and updated when necessary.

Company: NJAW argued that requiring policy documentation to have a corresponding practice documentation is not feasible unless it is necessary to set forth the steps to implement and support the policy. NJAW, however, accepted the recommendation as it related to updating policy and practice documentation in a timely manner.

The Company additionally disagreed with Schumaker's findings regarding the Workplace Accommodation Policy, arguing that this policy corresponds to the Respect and Dignity in the Workplace Practice. With respect to the Talent and Performance Management Policy and the Solicitation and Distribution Policy, NJAW stated that neither required explicit steps to implement or support the policy. The Performance Management Policy had a corresponding practice that was retired in June 2019 because the practice was not necessary, as the Policy sets forth a detailed explanation of the performance management process, including the elements of performance management, roles and responsibilities of employees and supervisors and timing. NJAW further stated that the Solicitation and Distribution Policy did not have a corresponding practice because the policy clearly describes the expected behavior.

Regarding timely updates in the recommendation, NJAW explained that the 2018 AWK PMP established a companywide framework for managing policies and practices requiring owners to review their policies and practices on an annual basis and update them (as appropriate) on a three-year cycle.

Rate Counsel: Rate Counsel stated that reviewing every policy and procedure on a two (2)-year cycle is too aggressive and will lead to unnecessary cost and expenses. Rate Counsel asserted that a more flexible approach of a three (3)-to five (5)-year cycle, or as determined to be necessary, would be a more reasonable recommendation.

Staff: Staff agrees with the Company's response that not all policies require practice documentation and that review and update of policies and practices in line with the AWK PMP is appropriate. Staff recommends that the Borad direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with the most current version of the AWK PMP, highlighting the Solicitation and Distribution, Talent and Performance Management, and Workplace Accommodation policies and any relevant practice documentation.

Chapter XVII Strategic Planning

Recommendation XVII-1: Develop a formal, integrated strategic planning process.

Schumaker found that the AWK organization has many elements of strategic planning but does not have a single documented strategic plan that integrates into operating company business plans with flow charts with schedules, key staff and approvals requirement processes. Schumaker recommended that the strategic planning document should include specific corporate, operating unit, and departmental business plans incorporated with the mission statement linking to corporate objectives that in turn also link directly to goals and performance measures with ongoing management reporting formats.

Company: NJAW partially accepted the recommendation, stating that the corporate strategies and objectives of AWK and other regulated and non-regulated affiliates are outside the proper scope of Schumaker's audit. NJAW agreed to develop a strategic plan for NJAW only. NJAW argued that AWK's goals and targets are shared with NJAW and its other regulated and non-regulated affiliates and that Schumaker failed to include a discussion in the Audit Report regarding the Executive Leadership Team's ("ELT") process used to set goals and targets which is consistent with AWK's five (5) key strategies: safety, people, growth, operational excellence, and customers. NJAW's annual process for establishing goals and targets is comprehensive and developed following the five (5) key areas.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with the Company's position in part and Schumaker's recommendation in part. Pursuant to N.J.S.A. 48:2-13 and 48:2-23, the Board has jurisdiction and control over public utilities for the purpose of ensuring safe, adequate, and proper service. Corporate strategies could have ring-fencing implications for New Jersey and NJAW should those planning objectives and strategies result in less-than optimal separation to prevent against credit downgrades of the utility due to the poor decisions of the parent or a subsidiary and could have implications regarding NJAW's final budget approvals and the quality of service provided by NJAW.

As holding company structures and service company roles expand, and as more shared services are provided among regulated and unregulated affiliates, it becomes increasingly important to document not only the specific strategic plans of NJAW but also those of the parent and service company. Therefore, a formal integrated strategic documented plan at the AWK and NJAW levels are necessary. Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide to Staff planning documents for both NJAW and AWK.

Chapter XVIII System Operations

Recommendation XVIII-1: Provide funding and implement the four recommendations in the current Water Loss Management Plan.

According to Schumaker, NJAW has an extensive and complete plan for reducing volumetric losses. The four (4) recommendations to be implemented at the time of the audit were:

1) A plan and staffing be put in place to proactively survey each qualifying system in its entirety every three years;

2) The Raritan Millstone and Canal Road Treatment Plants attempt to convey water at a consistent pressure of eight-five (85) psi, particularly at night and off-peak periods. This would be in conjunction with a further hydraulic study, which is being conducted;
3) The schedule for repairs is ninety-six (96) hours for ninety percent (90%) of located leaks; and
4) Inspection of pipe (Transmission main) occur at a rate of approximately ten percent (10%) per year (5.5 miles annually).

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide Staff, within six (6) months after the date of this Order, documentation indicating that the recommendation has been implemented.

Recommendation XVIII-2: Implement a practice of running a System Wide InfoMaster risk level report during the same month every year and plotting the results to trend the percentage of pipe in each risk category.

In the Final Report, Schumaker stated that the Company should run risk level reports so it may use the trends in risk categories to prioritize capital budget expenditures in pipe replacement and renewal areas with the goal of reducing/eliminating high risk pipe and improving the condition of pipe systems. Schumaker refers to NJAW's participation in the NJ Water Quality Institute and so by using risk tends it can maximize effectiveness of keeping abreast of reducing contaminates in NJAW entire pipe system.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide, within six (6) months of the effective date of this Order, documentation that it implemented the recommendation.

Recommendation XVIII-3: Include a leaks per mile of main, including targets, in the Management Reports.

According to the Final Report, NJAW has not measured leaks per mile of pipe (water main). Schumaker stated that without continuous, repetitive leak survey data of the entire system, it is not possible to develop meaningful trend lines for system risk levels.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide, within six (6) months of the effective date of this Order, documentation that it implemented the recommendation.

Recommendation XVIII-4: Implement measures to indicate if the condition of the water and sewer distribution systems is improving or degrading as guidance in determining the level of capital investment.

In the Final Report, Schumaker found that NJAW has an excellent set of tools, Geographic information System ("GIS") and InfoMaster, to identify high risk pipe for water main and recommend projects for infrastructure improvement. InfoMaster relies heavily on leak data to arrive at the risk rating. Since the InfoMaster system is relatively new and did not cover sewer main at the time of the audit, there were no trend lines of the risk levels for the water main system and sewer main system.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that that the Board direct NJAW to provide, within six (6) months of the effective date of this Order, documentation that it implemented the recommendation. Staff finds it reasonable to implement measures that determine whether the capital investments in renewing and replacing water and sewer main systems is improving risk levels for these pipes so there are no recurring, and repeatable leaks, providing evidence that the spending levels are resulting in improvements.

Recommendation XVIII-5: Implement a plan, based on root cause analysis, to improve customer perception.

According to the Final Report, Schumaker found that Company survey results of customer perception have never achieved internal targets. According to the Final Report, NJAW never achieved its internal target of ninety percent (90%) satisfaction for Field Service Representatives during the audit period.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct the Company to determine the root reason for customer satisfaction with Field Service Representatives falling below the Company's ninety percent (90%) internal target. In addition, make corrections to improve perception within six (6) months of the effective date of this Order and to provide data to Staff within a one (1) year of the effective date of this Order showing whether these corrections improved customer perception. Staff agrees with Schumaker that understanding these causes will help improve customer relations.

Recommendation XVIII-6: Implement a plan, based on investigations, to stabilize the level of Discharge Permit Exceedances.

he Final Report stated that sewer plant operators have to report occurrences when a sewer plant effluent exceeds its permit specification. The Final Report findings indicated there was a spike in such exceedances in 2018 as compared to the 2011-2017 average.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide, within six (6) months of the effective date of this Order, documentation that it implemented the recommendation.

<u>Chapter XIX Customer Service</u>

Recommendation XIX-1: Regularly compare NJAW to other utilities in New Jersey.

Schumaker recommended that AWWSC and NJAW work together to regularly compare NJAW to other utilities in New Jersey. Schumaker stated that NJAW does not have a formal process of comparing itself to its peers, however, informal comparisons and benchmarking do take place as part of routine business operations.

Company: The Company stated that during the fact checking process, it suggested that Schumaker provide specific metrics to improve benchmarking, but Schumaker provided none in the Final Report. NJAW claimed it routinely performs comparative benchmarking, and its employees participate in various industry organizations such as the American Water Works Association's New Jersey Section, Jersey Water Works, and the New Jersey Utilities Association where the Company regularly interfaces with its peers in the water industry. NJAW partially accepted the recommendation by agreeing to continue to engage in the foregoing activities.

Rate Counsel: Rate Counsel stated that this recommendation should focus specifically on customer rates and typical bills rendered to residential customers. Rate Counsel further suggested that a comparison of NJAW bills to residential users to bills rendered by other investor-owned water and wastewater utilities and other municipal authority customers should be done periodically and whenever new rates, Purchased Water Adjustment Clause charges, Purchased Wastewater Treatment Adjustment Clause charges, or DSIC charges are put into effect.

Staff: Staff agrees with Rate Counsel's position but also recognizes NJAW's efforts in interfacing with its peers in the water industry. Staff recommends that NJAW work with Staff to determine additional metrics that it should track and potential comparative surveys in which it should participate to better gauge its performance in comparison to other utilities.

Staff recommends that the Board direct NJAW to track additional business, financial, and water and wastewater operations metrics on a more regular basis. Staff further recommends that the Board direct NJAW to provide Staff with a list of metrics it currently utilizes on a regular basis and a list of surveys in which it participates within six (6) months of the effective date of this Order. Staff additionally recommends that NJAW schedule a meeting with Staff within nine (9) months to discuss.

Recommendation XIX-2: Allow customers to chat with Call Handlers on the American Water website.

In addition to taking phone calls for questions, the ability for customers to chat with customer service representatives on a utility's website is a common practice. Schumaker recommended that NJAW offer the same capability.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide to Staff, within six (6) months of the effective date of this Order, documentation that it implemented the recommendation.

Recommendation XIX-3: Provide incorporation of video content on the website.

Schumaker asserted that this could be done by linking the customer to a YouTube webpage to access videos. According to Schumaker, videos may show how customers could pay for bills on the website, inquire about a balance, obtain and install a backflow preventer, etc.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide staff, within six (6) months of the effective date of this Order, documentation that it implemented the recommendation.

Recommendation XIX-4: Create a formal policy documentation for handling customer disputes.

NJAW does not have a formal, documented policy regarding the handling of customer disputes. Schumaker asserted that NJAW should be able to create formal policy documentation quickly. According to Schumaker, this should also incorporate guidelines which the Company uses when handling customer disputes.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide, within six (6) months of the effective date of this Order, documentation that it implemented the recommendation.

Recommendation XIX-5: Review and update, as needed, Utility Accounts Receivable Write-off Practice documentation regularly, at least no longer than every two years.

Schumaker suggested that NJAW's Utility Accounts Receivable Write-Off Practice documentation should be reviewed and updated no longer than every two (2) years. According to Schumaker, this document is not regularly reviewed and updated as data shows that this documentation has not changed since it was approved internally in May 2013 and the next review date was supposed to be May 20, 2016.

Company: See Company's Response to Recommendation II-1 above.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with the Company's position. Consistent with the Company's annual policy and procedure reviews, it is important to implement and update documents as needed, which could be concurrent with the conclusion of the review, but at least every three (3) years. Staff finds merit in the Company's position that there already exists a robust review of practices and updating of document schedule. However, if there are events that would trigger the need for a policy change, necessary reviews and updates should be conducted immediately, particularly if these events impact service reliability and security, or compliance with laws, regulations, and Board Orders. Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with documentation showing that, since 2013, it has reviewed the Utility Accounts Receivable Write Off Practice documentation annually and made updates as needed, but at least every three (3) years, in accordance with the AWK PMP.

Chapter XXI Support Services

Recommendation XXI-1: Review and Evaluate Acquisition of a Formalized Legal Management System.

According to Schumaker, Legal Counsel employees use Outlook email messages and SharePoint to track and document legal data and information. Schumaker asserted that American Water should consider issuing an RFP to acquire and implement a more formal and integrated legal management system.

Company: The Company rejected the recommendation arguing that it already has a legal management system in place. NJAW asserted that, since the interviews were conducted in this audit, the AWK Legal Department evaluated and ultimately entered into a multi-year contract with Thomson Reuters for the purchase and implementation of Legal Tracker, an enterprise-wide legal matter management system.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff supports the recommendation while recognizing that the Company subsequently evaluated, purchased, and implemented an enterprise-wide legal matter management system. Staff recommends that the Board direct NJAW to provide Staff with an update on its legal management system, including detail on its capabilities, benefits, and uses within NJAW and the entire American Water organization within three (3) months of the effective date of this Order.

Recommendation XXI-2: Develop Annually a Legal Counsel Strategic Plan with its Own Goals/Objectives to Support American Water's Overall Strategic Plan, Goals, and Objectives.

According to Schumaker, the Legal Counsel and Regulatory Services Departments do not have a standalone strategic plan. The legal services function serves as a business partner that provides legal counsel and services to AW's overall strategic plan and objectives. Schumaker asserted that Legal Counsel should construct and develop its own strategic plan with goals and objectives to support the overall items.

Company: NJAW partially accepted the recommendation, agreeing to develop a strategic plan for AWWSC's Legal Counsel Department every three (3) years rather than annually as recommended in the Final Report. NJAW stated that it already engages in a comprehensive goal setting process every year that reflects its Legal Strategic Plan and aligns with the AWK strategic plan, along with annual goals and targets set by AWK's ELT and the specific business unit or function individual employees support. NJAW argued that the strategic plan is developed and implemented for long term initiatives. NJAW suggested that a more long-term approach is appropriate and more efficient.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation. Staff recommends that the Board direct NJAW's to provide Staff the specifics about how the Legal Counsel and Regulatory Services Departments' Legal Counsel Strategic Plan will achieve and align with the goals and targets of American Water. Staff further recommends that the Board direct NJAW that the strategic plan not simply reflect individual employee performance targets but also include specific goals for the department overall. Staff finds the Company's suggestion to develop a strategic plan for AWWSC's Leal Department every three (3) years sufficient. Staff recommends that the Board direct NJAW to provide compliance all documentation showing compliance with this recommendation and Staff's recommendation within nine (9) months of the effective date of this Order.

Recommendation XXI-3: Establish a Facilities and Property Manager function at NJAW.

Schumaker recommended that the position of Real Estate/Facilities/Property Manager should be established at NJAW to ensure a singular point of focus and standardization for these activities. Schumaker posited that this could be a collateral duty depending on the level of activity at any given operating company, but their duties and responsibilities should be clearly documented in their position descriptions.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel opposed this recommendation without further study and evaluation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXI-4: Develop detailed policies and practices on all real estate, facilities and property processes.

Schumaker found that there is no standardized policies and procedures to assist employees in the facilities and properties management function at NJAW. According to Schumaker the Company referred to practices for this function in the procurement policy in 2019 but the actual policy and practice document for this functional area does not exist. Schumaker asserted that a formal set of real estate, facilities, and property management policies and procedures would ensure that all of the included activities are performed to an established standard and are consistent with each other across AW and NJAW. In the Final Report Schumaker provided a detailed list of items that the policy document should include such as planning and identification of land and facilities' needs, acquisition/disposition/leasing procedures, standards and reporting of maintenance and upkeep of land and facilities, space planning and utilization, lease versus buy decision making, and periodic management reporting processes and systems.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to . within six (6) months of the effective date of this Order, provide Staff documentation that it implemented the recommendation.

Recommendation XXI-5: Aggressively Develop and Implement Vendor Partnering Processes.

At the time of the audit, AW was in the very early stages of developing vendor partnering strategies. Schumaker recommended that the Supply Chain Group move forward with programs to work with major vendors to assist them in developing process improvements within vendor processes and analyze changing AW specifications if that means more effective and efficient vendor service.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXI-6: Require all policies and practices be reviewed and updated at least every three years.

AW has detailed practice and procedure documentation covering all purchasing and materials management functions, however, Schumaker found that many of these policies have not been reviewed or updated. Schumaker asserted that the review process should take thirty (30) to sixty (60) days, plus an additional thirty (30) days for final approvals. Schumaker stated that procedure/practice updates should include any significant process changes.

Company: NJAW partially accepted the recommendation by agreeing to review policies and practices annually and update them, as needed, at least every three (3) years in accordance with the AWK PMP.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation in part and with the Company's position in part. Consistent with annual policy and procedure reviews, it is important to implement and update documents as needed which could be concurrent with the conclusion of the review, but at least every three (3) years. If there are events that would trigger the need for a policy change those reviews and updates should be conducted immediately and after conclusion immediate documents updates especially if these events impact service reliability, and security and in compliance with laws, regulations, and Board Orders.

Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with the most current version of the AWK PMP.

Recommendation XXI-7: Increase the level of Internal Auditing in the Purchasing/Materials area.

Schumaker found that AWK conducted only one (1) internal audit of the Purchasing and Materials Management functions in five (5) years. Given the magnitude and frequency of the transactions and technology process changes in the supply chain, Schumaker stated that auditing this function is critical. Therefore, Schumaker recommended that internal auditing should schedule at least one (1) audit per year in the area of purchasing and/or materials management.
Company: The Company stated that the AWK Internal Audit ("IA") group functions independent of AWK management to provide objective assurance and consulting services using a disciplined, systematic and collaborative approach to evaluate and improve the effectiveness of governance, control and risk management processes, to add value and help management achieve its strategic objectives. The IA group develops and carries out its annual audit plans using appropriate risk-based methodologies including company strategies, key business objectives, associated risks and internal control concerns identified by members of management, the Board of Directors or the IA group.

NJAW agreed to share the Final Report with the IA group for consideration as they develop their annual audit plans but would not commit specifically to ensuring that the IA group targets any specific area of the business for audit. Rather, NJAW stated that it expects that the IA group, in service to AWK's Board of Directors and more specifically the Board of Director's Audit, Finance & Risk Committee, will operate in conformance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the IIA. In doing so, NJAW expects and will request that they consider the recommendation in their annual audit planning.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and supports NJAW's commitment to requesting that AWK consider the recommendation in their annual audit planning. Staff recommends that NJAW be directed to, within six (6) months of the effective date of this order, provide Staff with a schedule of any audits to be conducted in this functional area over the next ten years that is more frequent and comprehensive. Staff suggests that audits in this area be conducted every two (2) to three (3) years. With supply chain processes changing, more frequent audits are imperative in this functional area. The auditing schedule should be reviewed in the next management audit initiated by the Board to determine whether any schedule implemented continues to be appropriate.

Recommendation XXI-8: Enhance the Vendor Master Database to capture more vendor performance data and make these evaluations a formal part of contract/supplier award decisions.

According to Schumaker, a summary of performance for each transaction should be included in the vendor database for each vendor for use by category to evaluate bids and negotiate prices, terms, and conditions. Schumaker further asserted that a link should be provided to point to a more comprehensive evaluation form for major vendors and those having large dollar amounts.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXI-9: Perform objective analyses of inventory levels, Economic Order Quantities ("EOQ"), reorder points, min/max levels.

In the Final Report, Schumaker stated that inventory turnover should be tracked by category of inventory such as value and usage rates and routinely analyzed to determine if inventory levels, EOQ, and minimum/maximum points should be adjusted to save the Company money and reduce stock-out rates. Schumaker further stated that this should be performed in conjunction with the Supply Chain Group with input from the field using the Master Materials File which should assist with this effort.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that NJAW provide within six (6) months of the effective date of this Order documentation that it implemented the recommendation.

Recommendation XXI-10: Perform more formal forecasting of fleet needs.

According to Schumaker, fleet requirements and ordering should be planned more than one (1) year in advance to accommodate potentially long lead times as well as serve for a better basis to negotiate volume pricing. In order to better justify vehicle purchases, Schumaker recommended that NJAW use formal repair as opposed to replace criteria and analysis, along with utilization statistics.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that NJAW provide within six (6) months of the effective date of this Order documentation that it implemented the recommendation.

Recommendation XXI-11: Perform a comprehensive, corporate wide standardization study and use the results to guide fleet vehicle purchasing.

Schumaker found that although fleet and operations personnel performed well in determining needs, conducing the standardization study should apply across all AW operating companies and all companies should be expected to comply with its results. Schumaker further stated that it expects this effort will result in better negotiated vehicle prices and total cost of ownership for all operating companies, including NJAW.

Company: NJAW rejected the recommendation stating that the fleet purchasing activities of other AWK affiliates is outside the proper scope of the audit, would create an expense that would be shared with all AWK affiliates, and was made without consideration for the regulatory framework and recovery mechanisms of those companies.

The Company added that standardizing fleet purchasing for all operating companies across the entire AWK footprint would not result in better negotiated prices for NJAW. NJAW argued that the Final Report provides no basis to indicate that the fleet purchasing expense of NJAW is unreasonable or excessive or that NJAW would be able to obtain better pricing. NJAW stated that AWWSC continuously attempts to create standards for fleet purchasing where it can, but each operating company uses different vehicles due to geographical considerations. According to the Company, some vehicles are actually manufactured in a utility's service territory and can be purchased at a lower cost. NJAW argued that forcing AWK affiliates to adhere to a corporate-wide standard would only stifle each operating company's ability to control their own expenses in the best long-term interests of their customers.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff supports Schumaker's recommendation, in part. Staff recognizes that there are certain components of fleet management that are guided by specific state regulatory requirements or other commitments but a comprehensive, corporate-wide standardization study may result in cost saving measures and improve management and operations overall. Staff recognizes that such a study may identify areas where standardization may not be possible and may actual hinder effective operations, in line with the Company's position.

Pursuant to N.J.S.A. 48:2-13 and 48:2-23, the Board has jurisdiction and control over public utilities for the purpose of ensuring safe, adequate, and proper service. Since AWK decisions have operational impacts on NJAW's ability to ensure adequate service within New Jersey, this recommendation is within the purview of the Board. Staff recommends that the Board direct NJAW to, within one (1) year of the effective date of this Order, provide Staff with a copy of the study highlighting and summarizing the key findings and any identified changes that will benefit NJAW.

Recommendation XXI-12: **Provide better summary level management reporting and analysis on capital and operating costs.**

Schumaker stated that monthly summary level reports should be provided to management on all aspects of the fleet function to serve as a basis for tracking trends and as a basis for further analysis. Schumaker further stated that maintenance summary reports can help track costs and confirm that all repair work is performed.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXI-13: Perform more internal audits of the Fleet function.

According to Schumaker, there were no internal audits of the fleet function for the three (3) years reviewed. Schumaker found that fleet management and maintenance were provided by outside vendors, representing a high level of financial transactions. Schumaker recommended that third party vendors should be audited for financial transfers, documentation, and performance of work.

Company: NJAW stated that AWK's IA group operates in conformance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the IIA. NJAW agreed to request that the IA group consider the recommendation in their annual audit planning.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with the recommendation and recognizes the Company's commitment to request that the IA group consider more internal audits of the transportation and fleet function in their annual audit planning. Staff recommends that the Board direct NJAW to, within ninety (90) days of the effective date of this Order, provide Staff a schedule of audits to be performed over the next ten (10) years. Staff further recommends that the Board direct Staff to include a the auditing schedule be reviewed in the next management audit initiated by the Board to determine whether any schedule implemented continues to be appropriate.

Recommendation XXI-14: Make sure Technology and Innovation ("T&I") functions have job descriptions for all employee types.

Schumaker found that detailed job descriptions currently do not exist for Product Engineers and Product Owners, as they are not full-time job descriptions that employees are hired into; they are roles that are needed within projects. Schumaker recommended that the T&I Department should make sure they have detailed job descriptions for all employee types including Product Engineers, Product Owners, and any others.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXI-15: Computer Systems and Services - Modify policies and procedures documentation dates.

According to Schumaker, T&I policies and procedures documentation should indicate effective dates, the last reviewed date, and the upcoming review date. Schumaker further posited that T&I policies and procedures must be reviewed annually, particularly by the Chief Data Infrastructure & Security Officer.

Company: NJAW partially accepted the recommendation by agreeing to review policies and practices annually and update them, as needed, at least every three (3) years in accordance with the AWK Policy Management Policy. In accordance with the foregoing, the Company will also indicate effective dates and the last date reviewed.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees in part with Schumaker's recommendation and supports NJAW's proposal to review policies and practices annually and update documents as needed, which could be concurrent with the conclusion of the review, but at least every three (3) years. If there are events that would trigger the need for a policy change those reviews and updates should be conducted immediately and after conclusion followed by immediate documents updates especially if these events impact service reliability, and security and in compliance with laws, regulations and Board orders, and ring-fencing measures to name a few.

Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with the most current version of the AWK PMP, highlighting any changes to T&I policies and procedures.

Recommendation XXI-16: Develop documentation or a system for documenting current system configurations.

Schumaker posited that better written documentation needs to be developed on technology systems and further recommended that each server should have a Name, IP address, MAC address, and various pieces of software loaded on it. In addition, Schumaker stated that there should be documentation regarding these configurations and that there are software tools that can be used to document these configurations and also produce written documentation and listings for such pieces of information. Schumaker suggested that if NJAW has 3,000 virtual machines in its data center, this information needs to be collected so that NJAW could assess the need for a server consolidation.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXI-17: Review and update, as needed, records retention and associated practices documentation regularly, at least no longer than every two years.

Schumaker found that AWWSC does not regularly review and update policy and practices such as the Records Retention Policy even though the policy stated that it would be reviewed at least every three (3) years. Schumaker recommended that the Records Retention Policy and documentation items should be reviewed and updated no longer than every two (2) years.

Company: See Recommendation II-1.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: See Recommendation II-1.

Recommendation XXI-18: Provide formal training sessions frequently for employees involving their records retention requirements.

In discussions with the Company, Schumaker found that the Chief Compliance Officer was unable to discuss employee compliance activities and training as newly appointed to the role. With this limited information, Schumaker stated that to ensure that records retention requirements policies and practices are being done properly by employees, AWWSC and NJAW employees should be provided training sessions frequently, at least every two (2) years, plus the Legal Department should check to see if employees are working correctly.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Chapter XXII Finance

Recommendation XXII-1: Review and update the tax sharing policy.

Schumaker recommended that the current tax sharing policy must be reviewed and updated on a consistent basis. Schumaker found that the tax sharing agreement that is currently in use by AW and its affiliates is dated in 2011.

Company: According to NJAW, the tax sharing policy was reviewed and no change was required. NJAW committed to reviewing the policy annually and revise as necessary, in intervals not to exceed three (3) years in accordance with the AWK Policy Management Policy.

Rate Counsel: Rate Counsel agreed with Schumaker's recommendation, stating that when the Tax Sharing Agreement is revised and updated, it should be submitted to the Board for review and approval.

Staff: Staff agrees with Schumaker's recommendation and finds NJAW's response reasonable. Staff recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide Staff with the most current version of the AWK PMP that requires review of the tax sharing policy on an annual basis and revision as necessary, but not to exceed three (3) years in accordance with the AWK PMP. With regard to Rate Counsel's recommendation that the Tax Sharing Agreement, once revised and updated, be submitted to the Board for review and approval, Staff recommends that within nine (9) months of the effective date of this Order, NJAW provide Rate Counsel in addition to Staff with the current and updated policy document and submit the agreement for review and approval.

Recommendation XXII-2: Expand the Audit Methodology and Framework document to include the audit selection and evaluation process.

Schumaker found that there is a process in place to select and evaluate potential audit engagements, but that process is not documented. Schumaker stated that documenting the process leads to consistency of the process, in process evaluation and process maintenance which Schumaker opined are critical in departments with consistent turnover. Although the audit organization is operating within industry standards, Schumaker recommended a process to further strengthen AWK's Internal Audit Department that would use a risk-based method whereby AWK would perform risk analysis and evaluation of potential audits across the company. Schumaker cited to the IIA which recommended to AWK's internal auditing department to use a risk-based approach for AWK internal audit in their 2017 report citing Standard 2010 that requires IA to "establish a risk-based audit plan based upon a documented risk assessment."

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXII-3: Continue the process whereby documented planning and results of the EY SOx testing is shared with AW and documented results maintained by the Internal Audit Group.

The planning and testing results documentation, as well as associated process, are appropriate to maintaining and overseeing the outsourced AW SOx internal control program. The process and resulting documentation should be continued and improved, as possible, going forward.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide within six (6) months of the effective date of this Order documentation that it implemented the recommendation.

Recommendation XXII-4: Adjust the reporting structure so that the Internal Audit Vice President reports administratively to the Chief Executive Officer.

Company: NJAW rejected the recommendation. See Recommendation XIV-2.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation in part. See Recommendation XIV-2.

<u>Chapter XXIII Affiliate Cost Allocations and Relationships</u>

Recommendation XXIII-1: Using a system let NJAW understand that its goals and objectives are accomplished at the lowest possible cost and maximum benefit to its ratepayers.

Schumaker recommended that NJAW be provided with access to a system to provide assurance that its goals and objectives are accomplished at the lowest possible cost and maximum benefit to its ratepayers as procurement and purchasing is primarily done by AWWSC, not NJAW. Schumaker found that NJAW should have an internal system to provide these assurances.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to provide within six (6) months of the effective date of this Order documentation that it implemented the recommendation.

Chapter XXIV Cash Management

Recommendation XXIV-1: Review and update, if needed, the Treasury and Insurance Policy and the Short Term Investment Practice.

Schumaker found that although these policies and practices have not changed significantly, the age of the issuance dates, October 2012 and October 2010, for the Treasury and Insurance Policy and the Short-Term Investment Practice policies necessitate a review and update No review was set for the Short-Term Investment Practice and although the last date set for review for the Treasury and Insurance Policy was November 30, 2015, it is appropriate to conduct a review at this time to ensure that all employees are following the correct policies and practices that are up to date.

Company: See Recommendation II-1.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: See Recommendation II-1.

Recommendation XXIV-2: Create a policy and practice document for the cash forecasting process.

Schumaker found that although personnel interviewed were very knowledgeable of this process and detailed descriptions were provided in request to a cash forecasting policy, a policy and practice, there was no written document expressing the information presented in interviews. Schumaker recommended that a document be created reflecting this knowledge and descriptions in this functional area so all employees, new and old are aware of the policies, practices and process information.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that NJAW be directed to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Chapter XXV Accounting & Property Records

Recommendation XXV-1: Review the possibility of reducing payroll run frequencies to lessen the amount of work in the payroll area.

Schumaker recommended that an analysis should be performed comparing cost of reducing payroll frequencies to the benefits. As a result of such analysis, Schumaker stated that a plan of action could be determined. Schumaker noted that, at the time of the audit, one (1) AWK company had a pay per week agreement which contributed to the frequency of payroll runs.

Company: NJAW rejected the recommendation to review the possibility of reducing payroll run frequencies as impractical and moot. As Schumaker notes, New York American Water Company ("NYAW") has a pay per week agreement driving the need to run four (4) to five (5) payrolls a month. AWK sold NYAW to Liberty Utilities in January of 2022. Thus, the weekly pay cycle was eliminated after the sale was completed.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees that the recommendation is moot due to the Company's sale of NYAW, the only AWK company at the time of the audit that had a weekly payroll agreement. However, Staff recognizes that AWK has acquired other companies since the audit which may have weekly payrolls. Staff recommends that the Board direct the Company to, within three (3) months of the effective date of this Order, advise Staff of any new company agreements for weekly payrolls and reaffirm that, going forward, the Company will maintain a pay schedule that is efficient and cost effective.

Recommendation XXV-2: Review and update all Policy and Practice documents that have passed their review date.

Company: See Recommendation II-1.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: See Recommendation II-1.

Recommendation XXV-3: Create a Policy and Practice document for the budget process.

Creating a formal policy allows the process to be reviewed and approved from an overview perspective and allows for input from various people and organizations across the company. A documented process also ensures consistency across the company as personnel changes.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that NJAW be directed to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

Recommendation XXV-4: Create a visible link between the strategic plan and the budget.

Schumaker found that there is not a documented process describing when the strategic plan is discussed with managers and how that information is used in creating budgets for their areas. Accordingly, Schumaker recommended that as part of the documentation of the budget process, there should be a visible link between the strategy developed for AWK and the dissemination of those goals and ideas through the company. Schumaker stated that the budget should be a direct result of company goals.

Company: NJAW partially accepted the recommendation consistent with its response to Recommendation XVII-1 that it would agree to develop a strategic planning process for NJAW only. Accordingly, NJAW agreed to create a visible link between NJAW's strategic plan and NJAW's budget.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation. Within a holding company structure, utility policies and strategies are at times influenced and driven by the holding company, thus it is imperative that NJAW create a visible link between the NJAW strategic plan and NJAW budget and between the AWK strategic plan and budget and NJAW's final budget. The Company should ensure that there is documentation describing discussions with managers and showing how AWK's strategic plan is used in creating budgets in managers' areas of responsibility. Staff recommends that the Board direct NJAW to, within nine (9) months of the effective date of this Order, provide these documents to Staff to demonstrate the process used to set strategies and budgets at the NJAW and AWK levels.

Chapter XXVII Cyber Risk Mitigation/Cyber Security (CRM/CS)

Recommendation XXVII-1: Ensure that network backups are adequately being performed.

Schumaker stated that NJAW should periodically test IBM backup procedures to ensure that individual files can be recovered and should involve a test file in secret locations on the network and, after a period of time, asking the IBM system to recover the file.

Company: NJAW accepted this recommendation and agreed to implement it.

Rate Counsel: Rate Counsel did not take a position on this specific recommendation.

Staff: Staff agrees with Schumaker's recommendation and recommends that the Board direct NJAW to, within six (6) months of the effective date of this Order, provide documentation that it implemented the recommendation.

DISCUSSION AND FINDINGS

As noted above, Schumaker's Final Report includes sixty-nine (69) recommendations for improvement of management and operations of NJAW. After careful review of the Final Report, the comments filed by the Company and Rate Counsel, and Staff's recommendations, the Board **HEREBY ORDERS** the Company to implement the recommendations in the Final Report, as modified above.

Specifically, the Board **HEREBY DIRECTS** NJAW, with the assistance of Staff, to formulate detailed implementation plans for the recommendations as modified above within sixty (60) days of the effective date of this Order. NJAW shall implement all recommendations as soon as possible, but not later than one (1) year of the effective date of this Order, unless otherwise indicated.

Staff shall monitor, evaluate, and modify, as necessary, the implementation of the recommendations, as the Board recognizes that changes may have occurred within the Company since the Final Report.

Furthermore, the Board **HEREBY DIRECTS** NJAW to file quarterly reports with Staff by the fifteenth day of the month following the conclusion of each calendar quarter regarding the status of implementation of all recommendations directed within this Order. The recommendations of the Final Report shall not be dispositive of issues raised in any other proceedings before this Board.

The effective date of this Order is September 16, 2026.

DATED: September 9, 2026

BOARD OF PUBLIC UTILITIES
BY:

BEN HERTZ-SHARGEL
PRESIDENT

CHRISTINE GUHL-SADOVY
COMMISSIONER

MICHAEL BANGE
COMMISSIONER

EMMA REBHORN
COMMISSIONER

JOSEPH COVIELLO
COMMISSIONER

ATTEST:

SHERRI L. LEWIS
BOARD SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.

IN THE MATTER OF AN AUDIT OF THE AFFILIATED TRANSACTIONS BETWEEN NEW JERSEY AMERICAN WATER COMPANY, AND AMERICAN WATER WORKS COMPANY, INC. AND ITS AFFILIATES INCLUDING A REVIEW OF OPERATIONAL AND FINANCIAL PERFORMANCE OF NEW JERSEY AMERICAN WATER COMPANY AND A COMPREHENSIVE MANAGEMENT AUDIT OF NEW JERSEY AMERICAN WATER COMPANY PURSUANT TO N.J.A.C. 14:3-12.1-14:3-12.4

Docket No. WA18080849

SERVICE LIST

Board of Public Utilities
44 South Clinton Ave
Post Office Box 350
Trenton, NJ 08625-0003

Sherri L. Lewis, Secretary
board.secretary@bpu.nj.gov

Stacy Peterson, Deputy Executive Director
stacy.peterson@bpu.nj.gov

Division of Audits

Alice Bator, Director
alice.bator@bpu.nj.gov

Pasquale Salvemini
pasquale.salvemini@bpu.nj.gov

Jehvson Espiritu
Jehvson.Espiritu@bpu.nj.gov

Office of General Counsel
Ava-Marie Madeam, General Counsel
avamarie.madeam@bpu.nj.gov

Elspeth Hans, Deputy General Counsel
elspeth.hans@bpu.nj.gov

Taylor Hoopes, Associate Counsel
taylor.hoopes@bpu.nj.gov

Division of Revenue and Rates

Kyle Felton
kyle.felton@bpu.nj.gov

Office of the Economist

Benjamin Witherell, Chief Economist
benjamin.witherell@bpu.nj.gov

Jackie O'Grady
jackie.ogrady@bpu.nj.gov

New Jersey American Water
Steve Bishop, Esq.
Vice President and General Counsel
American Water Eastern Division
1 Water Street
Camden, NJ 08102
steve.bishop@amwater.com

New Jersey Division of Rate Counsel

Brian O. Lipman, Esq., Director
140 East Front Street, 4th Floor
Post Office Box 003
Trenton, NJ 08625-0003
blipman@rpa.nj.gov

New Jersey Division of Law
NJ Department of Law and Public Safety
Richard J. Hughes Justice Complex
Public Utilities Section
25 Market Street, P.O. Box 112
Trenton, NJ 0625

Pamela Owen, DAG, Assistant Section Chief

Elizabeth VanWinkle, DAG
elizabeth.vanwinkle@law.njoag.gov

Terel Klein. DAG, Section Chief
terel.klein@law.njoag.gov

Rachel Reckeweg
rachel.reckeweg@law.njoag.gov

Tanya Lloyd-Samuel
tanya.lloyd-samuel@law.njoag.gov

Appendix 1 - Summary of Board Decision on Recommendations

Chapter II: Evaluation of Financial Performance	**Decision**
Recommendation II-1: Review and update, as needed, dividend policy and practices documentation regularly, at least no longer than every two years.	Agree with Modification
Recommendation II-2: Use load research studies and associated data in future NJAW rate cases.	Disagree
Recommendation II-3: Provide additional training to the Revenue Analytics group for rate cases.	Agree
Chapter III: Regulatory Filing Process and Review of Current Case Workpapers and Spreadsheets	
Recommendation III-1: Create Policy and Practice documents to provide guidance to the rate filing process.	Agree with Modification
Recommendation III-2: Revise the supporting rate case schedules to show totals that will agree directly to the rate case documentation without additional mathematical accumulations.	Agree
Chapter IV: Procurement and Purchasing	
Recommendation IV-1: Modify activities performed by management to review policy and practice documentation at least every two years and make any needed changes.	Agree with Modification
Recommendation IV-2: Modify practice documentation due to the lack of the Enterprise Data policy documentation or create the Enterprise Data policy documentation.	Agree in Part
Recommendation IV-3: Make sure the Supply One View ("S1V") application is completed in a timely manner.	Agree
Recommendation IV-4: Make sure the Supplier Relationship Management ("SRM") program application is completed in a timely manner.	Agree
Recommendation IV-5: Complete all actions of internal audits involving procurement and purchasing in a timely manner.	Agree
Recommendation IV-6: Make sure the Billing and Accounting Manual ("BAM") is updated to include items not previously included, plus others.	Agree with Modification

Chapter V Affiliate Relationships	
Recommendation V-1: Develop monthly affiliate transaction reports.	Agree
Recommendation V-2: Perform a study to determine if affiliate transactions between AWWSC and regulated utilities should be done with other causal factors.	Agree
Chapter VI Internal Controls	
Recommendation VI-1: Continue the process whereby documented planning and results of the Ernst & Young Sarbanes-Oxley ("SOx") testing is shared with AW and documented results maintained by the Internal Audit Group.	Agree
Chapter IX Affiliate Cost Allocation Methodologies	
Recommendation IX-1: Review and update, as necessary, policies and procedures documentation at least every two years.	Agree with Modification
Chapter XIII Operations Review	
Recommendation XIII-1: Confirm work orders in the backlog.	Agree
Recommendation XIII-2: Modify the Monthly Performance Report.	Agree
Recommendation XIII-3: Develop Asset Management plans for meter, sewer, and wastewater systems.	Agree
Recommendation XIII-4: Establish a base line threshold, including linkage to approved budgets or five and ten year plans, that a project must meet before it is placed into the MapCall backlog.	Agree in Part
Recommendation XIII-5: Review, using the established base line threshold, the backlog of water and sewer main projects for validity and probability of funding and completion.	Agree
Recommendation XIII-6: Work with the NJBPU to move to a 15 year testing cycle or a sampling program for cycle changes of residential meters.	Agree
Chapter XIV Executive Management & Corporate Governance	
Recommendation XIV-1: Examine broadening the formula for allocating senior management and AW director compensation.	Agree
Recommendation XIV-2: Change administrative reporting of the Internal Audit Function.	Agree with Modification
Recommendation XIV-3: Require vendors and contractors to explicitly acknowledge and agree to conduct themselves in accordance to AW's Code of Ethics.	Agree

Recommendation XIV-4: Implement a process to periodically perform cost comparisons for external audit services.	Agree
Chapter XV Organization Structure	
Recommendation XV-1: Conduct a Corporate-wide, broad-based organization review.	Agree
Chapter XVI Human Resources	
Recommendation XVI-1: Provide practice documentation that corresponds with all policy documentation, plus make sure policy and practice documentation is updated in a timely manner.	Agree
Chapter XVII Strategic Planning	
Recommendation XVII-1: Develop a formal, integrated strategic planning process.	Agree in Part
Chapter XVIII System Operations	
Recommendation XVIII-1: Provide funding and implement the four recommendations in the current Water Loss Management Plan.	Agree
Recommendation XVIII-2: Implement a practice of running a System Wide InfoMaster risk level report during the same month every year and plotting the results to trend the percentage of pipe in each risk category.	Agree
Recommendation XVIII-3: Include a leaks per mile of main, including targets, in the Management Reports.	Agree
Recommendation XVIII-4: Implement measures to indicate if the condition of the water and sewer distribution systems is improving or degrading as guidance in determining the level of capital investment.	Agree
Recommendation XVIII-5: Implement a plan, based on root cause analysis, to improve customer perception.	Agree
Recommendation XVIII-6: Implement a plan, based on investigations, to stabilize the level of Discharge Permit Exceedances.	Agree
Chapter XIX Customer Service	
Recommendation XIX-1: Regularly compare NJAW to other utilities in New Jersey.	Agree
Recommendation XIX-2: Allow customers to chat with Call Handlers on the American Water website.	Agree

Recommendation XIX-3: Provide incorporation of video content on the website.	Agree
Recommendation XIX-4: Create a formal policy documentation for handling customer disputes.	Agree
Recommendation XIX-5: Review and update, as needed, Utility Accounts Receivable Write-off Practice documentation regularly, at least no longer than every two years.	Agree
Chapter XXI Support Services	
Recommendation XXI-1: Review and Evaluate Acquisition of a Formalized Legal Management System.	Agree
Recommendation XXI-2: Develop Annually a Legal Counsel Strategic Plan with its Own Goals/Objectives to Support American Water's Overall Strategic Plan, Goals, and Objectives.	Agree
Recommendation XXI-3: Establish a Facilities and Property Manager function at NJAW.	Agree
Recommendation XXI-4: Develop detailed policies and practices on all real estate, facilities and property processes.	Agree
Recommendation XXI-5: Aggressively Develop and Implement Vendor Partnering Processes.	Agree
Recommendation XXI-6: Require all policies and practices be reviewed and updated at least every Three Years.	Agree in Part
Recommendation XXI-7: Increase the level of Internal Auditing in the Purchasing/Materials area.	Agree
Recommendation XXI-8: Enhance the Vendor Master Database to capture more vendor performance data and make these evaluations a formal part of contract/supplier award decisions.	Agree
Recommendation XXI-9: Perform objective analyses of inventory levels, EOQ (Economic Order Quantities), reorder points, min/max levels.	Agree
Recommendation XXI-10: Perform more formal forecasting of fleet needs.	Agree
Recommendation XXI-11: Perform a comprehensive, corporate wide standardization study and use the results to guide fleet vehicle purchasing.	Agree in Part
Recommendation XXI-12: Provide better summary level management reporting and analysis on capital and operating costs.	Agree
Recommendation XXI-13: Transportation and Fleet Management - Perform more internal audits of the Fleet function.	Agree

Recommendation XXI-14: Make sure Technology and Innovation ("T&I") functions have job descriptions for all employee types.	Agree
Recommendation XXI-15: Computer Systems and Services - Modify policies and procedures documentation dates.	Agree in Part
Recommendation XXI-16: Develop documentation or a system for documenting current system configurations.	Agree
Recommendation XXI-17: Review and update, as needed, Records Retention and associated practices documentation regularly, at least no longer than every two years.	Agree with Modification
Recommendation XXI-18: Provide formal training sessions frequently for employees involving their records retention requirements.	Agree
Chapter XXII Finance	
Recommendation XXII-1: Review and update the tax sharing policy.	Agree
Recommendation XXII-2: Expand the Audit Methodology and Framework document to include the audit selection and evaluation process.	Agree
Recommendation XXII-3: Continue the process whereby documented planning and results of the EY SOx testing is shared with AW and documented results maintained by the Internal Audit Group.	Agree
Recommendation XXII-4: Adjust the reporting structure so that the Internal Audit Vice President reports administratively to the Chief Executive Officer.	Agree in Part
Chapter XXIII Affiliate Cost Allocations and Relationships	
Recommendation XXIII-1: Using a system let NJAW understand that its goals and objectives are accomplished at the lowest possible cost and maximum benefit to its ratepayers.	Agree
Chapter XXIV Cash Management	
Recommendation XXIV-1: Review and update, if needed, the Treasury and Insurance Policy and the Short Term Investment Practice.	Agree
Recommendation XXIV-2: Create a policy and practice document for the cash forecasting process.	Agree
Chapter XXV Accounting & Property Records	
Recommendation XXV-1: Review the possibility of reducing payroll run frequencies to lessen the amount of work in the payroll area.	Agree

Recommendation XXV-2: Review and update all Policy and Practice documents that have past their review date.	Agree with Modification
Recommendation XXV-3: Create a Policy and Practice document for the budget process.	Agree
Recommendation XXV-4: Create a visible link between the strategic plan and the budget.	Agree
Chapter XXVII Cyber Risk Mitigation/Cyber Security (CRM/CS)	
Recommendation XXVII-1: Ensure that network backups are adequately being performed.	Agree