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December 16, 1992

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PUBLIC SERVICE COMMISSION

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Executive Secretary

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Director, Utility Services

SAM GOLDAMMER
Director, Utility Operations

GORDON L. PERSINGER
Director, Policy & Planning

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Director, Administration

CECIL I. WRIGHT
Chief Hearing Examiner

MARY ANN YOUNG
General Counsel

Mr. Brent Stewart
Executive Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

RE: Case No. WO-93-194 - In the matter of a Management Audit of
The Raytown Water Company.

Dear Mr. Stewart:

Enclosed for filing in the above-captioned case is an original
and fourteen (14) conformed copies of a STAFF MOTION REQUESTING THE
COMMISSION TO AUTHORIZE A MANAGEMENT AUDIT.

This filing has been mailed or hand-delivered to the Company
and to counsel of record in Commission Case No. WR-92-85, the
Company's recently completed rate case. Please note that the
Company does not have a collective bargaining unit.

Thank you for your attention in this matter.

Sincerely,

William K. Haas

William K. Haas
Assistant General Counsel
(314) 751-7510

WKH:rsn

Enclosures

cc: Counsel of Record

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

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PUBLIC SERVICE COMMISSION

In the matter of a Management Audit)
of The Raytown Water Company.)

Case No. 60-93-194

STAFF MOTION REQUESTING THE COMMISSION
TO AUTHORIZE A MANAGEMENT AUDIT

Comes now the Staff of the Missouri Public Service Commission (Staff) by and through its Office of General Counsel and for its motion respectfully states to the Public Service Commission (Commission):

1. The Raytown Water Company (Company) is a "water corporation" as defined by Section 386.020(51) RSMo Supp. 1991, and is therefore subject to the jurisdiction of the Commission.

2. Commission Case No. WR-92-85 is Company's recently completed rate case. In that case, the Commission approved an annual revenue increase of \$389,798 which includes an annual surcharge of \$114,000 to pay for the carrying costs of funds borrowed to construct required storage facilities.

3. The level of the Company's management salaries was an issue in the rate case. In the Report and Order, the Commission allowed \$106,417 for management salaries. Id. at 19-21. The Company's Board of Directors has now passed resolutions to reduce the management payroll of the Company to the Commission approved level and further to revise job titles and job descriptions for management positions by January 1, 1993.

4. Staff testimony in the rate case recommended that the Company prepare budgets (Norman Direct, Ex. 52). The Company

agreed to adopt a budget process (Company Response to Amended Hearing Memorandum, Ex. 4).

5. In the Report and Order in Case No. WR-92-85, the Commission "determine[d] that enough questions have been raised during the course of these proceedings to justify the Commission Staff conducting a management audit of the Company." Id. at 31. The Report and Order further directed that "the Commission's Staff shall file a request in a new case requesting an order authorizing a management audit of The Raytown Water Company." Id. at 34.

6. The Commission has the power to authorize a management audit of a water corporation within its jurisdiction by virtue of Section 386.040 RSMo 1986, Section 386.250(3), (5) and (7) RSMo Supp. 1991, and Section 393.140(5) RSMo 1986. Section 393.140(5) states in pertinent part that:

The Commission shall:

(5) Examine all persons and corporations under its supervision and keep informed as to the methods, practices, regulations and property employed by them in the transaction of their business.

7. The Company has not been subject to a management audit by Staff or an outside consulting firm by order of the Commission.

8. Although the Company has proposed to revise management salaries and job descriptions and to implement budgets, Staff believes that a management audit, which reviews these proposals as well as the Company's procedures related to the construction of new storage facilities, will be beneficial. Staff

has determined that a focused management audit, in which selected management processes of the Company are reviewed, would be appropriate.

9. Staff met with Company management on December 7, 1992, to discuss the projected scope of a management audit. Staff agreed to minimize the number of formal data requests and to rely primarily on the informal interview process to gather needed information. Company management indicated that the Company would incur minimal legal and accounting fees in connection with a management audit.

10. Staff requests that the Commission order a focused management audit of the Company, including the policies, systems, procedures and practices thereof, to be performed by Staff.

11. Staff suggests as the focus of the audit the following management processes of the Company for in-depth review and evaluation:

a. Organization Structure - review job descriptions, management functions, time requirements, management control processes and practices,

b. Strategic Planning Processes - review the mission statement, short- and long-term capital planning and budgeting processes, short- and long-term operations planning and budgeting processes, performance reporting and management follow-up process, and

c. Operations and Maintenance - review of Company's work order system, work planning and assignment process, documentation

and reporting process, performance reporting and management follow-up process.

12. Staff estimates that the management audit will require approximately twelve months of Staff work by three management analysts over an eight month schedule.

13. Staff requests that the order include provisions addressing the following:

- a. the scope and conduct of the management audit,
- b. whether the audit is to be conducted by Staff or a management consultant,
- c. the responsibilities of the Staff, Company and consultant (if applicable),
- d. the filing of the management audit report and company implementation plan,
- e. the scheduling of an on-the-record conference,
- f. the release of the final report, and
- g. the management audit follow-up process.

WHEREFORE, Staff respectfully requests that the Commission issue an order authorizing a focused management audit of the specific management processes of the Company described in paragraph 11, hereinabove.

Staff further requests that the Commission's order contain the following provisions:

- 1. Staff shall furnish the Company with a copy of the audit report after the completion of the draft review process.

2. Within 30 days of the final management audit report being completed, the Company shall prepare a plan describing its proposal for implementing the management audit report recommendations.

3. Staff shall arrange to have the management audit report and implementation plan filed with the Executive Secretary of the Commission.

4. Any party in this case may file, within 30 days after the management audit report and implementation plan are filed, a motion requesting an on-the-record conference with the Commission.

5. The Company shall file semi-annual status reports to provide information on its progress in implementing the audit recommendations with the first report due six months after the implementation plan is filed. The Company shall continue to file status reports until the Staff and Company agree that audit recommendations have been fully implemented, unless otherwise ordered by the Commission.

6. Staff may conduct occasional implementation reviews to assess the extent to which the Company has achieved the objectives of the management audit recommendations.

Respectfully submitted,

Wm K Haas

William K. Haas
Assistant General Counsel

Attorney for the Staff of the
Missouri Public Service Commission
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(314) 751-7510

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to the persons named on the attached service list this 16th day of December, 1992.

Wm K Haas

Service List

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