



## **Audit and Ethics Committee Meeting**

Mar 25, 2026 9:30 AM - 10:00 AM CDT

NES Board Room 121

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1. Approval of minutes of the Audit and Ethics Committee meeting held November 20, 2025
2. Controls and Compliance Integrity Line Update - Sandra Chapman
3. Internal Audit Reports - Baker Tilly - Scott Nalley
  - 3.1. Audit and Ethics Committee Calendar
  - 3.2. Internal Audit Status Report
  - 3.3. Revised FY26 Audit Plan
  - 3.4. Internal Audit Report - Environmental Safety
  - 3.5. Recommendations - Environmental Safety
  - 3.6. Internal Audit Report - T&D Operations
  - 3.7. Q1 FY26 Follow-Up and Remediation
4. Recommendation for approval of the selection of Baker Tilly to provide outsourced Internal Audit Services and Consulting Services - David Frankenberg
5. Miscellaneous
6. Executive Session

## **AUDIT AND ETHICS COMMITTEE MEETING MINUTES NOVEMBER 20, 2025**

The Audit and Ethics Committee meeting was held on Thursday, November 20, 2025.

Committee Members Present: Clifton Harris, Ian Prunty and Casey Santos.

Officers Present: Teresa Broyles-Aplin, Laura Smith, Dr. Trish Holliday, Brent Baker and Recording Secretary David Frankenberg

Vice Chair Casey Santos called the meeting to order at 8:18 a.m.

### **SAFETY MOMENT**

Daniel Johnson provided a safety moment on the importance of the National Electrical Safety Code.

### **MINUTES**

Upon motion by Member Harris and seconded by Member Prunty, the Committee approved the minutes from the Audit and Ethics Committee meeting held October 22, 2025, with three ayes and zero nays.

### **BAKER TILLY INTERNAL AUDIT REPORTS**

Scott Nalley reported that the Audit and Ethics Committee Calendar remains on track and stated that he is presenting the final Internal Audit Status Report for the FY25 audit plan. He added that the FY26 audit plan is on schedule and experiencing no delays.

Mr. Nalley said that in a move to enhance operational efficiency and mission alignment, NES has taken steps to implement a unified program and leadership structure overseeing Grant Administration and Stewardship Programs, areas that previously operated without formal coordination or dedicated oversight.

Vice Chair Santos asked, when grants are received, if there is confidence that they are being managed in a responsible way. Mr. Nalley responded yes and added that management has recently worked with KPMG Consulting to develop a formal grant administration policy and procedure, including a related policy and procedures checklist, to establish overall governance of the grant processes.

Mr. Nalley presented the results of the Travel Expenses audit and stated that total travel expenses for the period were \$514,052. He stated that corporate governance, culture, and stewardship initiatives were considered and that the audit did not identify any initiatives that had an impact on the audit scope.

Mr. Nalley provided the 2025 Enterprise Risk Management (ERM) update, noting that the ERM framework guides the organization in identifying and mitigating high-impact risks that could compromise major objectives. His report included a summary of key changes and spider-graph visuals comparing shifts in aggregate risk across categories.

Member Prunty asked for an overview of the C2M project and an explanation of what had driven its graph ratings downward. Mr. Nalley responded that the project had involved several organizational risks which included vendor changes and concerns about increasing expenses. He stated that strong leadership and a successful rollout reduced those risks.

Vice Chair Santos added that there were a lot of systems that were reaching end of life which also caused risks because of the support needed. Mr. Nalley concurred.

### **EXECUTIVE SESSION**

There was no Executive Session held.

### **MISCELLANEOUS**

There were no miscellaneous items to present.

### **ADJOURNMENT**

The meeting adjourned at 8:31 a.m.

**APPROVED:** \_\_\_\_\_  
**Committee Chair Rob McCabe**

## CONTROLS AND COMPLIANCE INTEGRITY LINE UPDATE

Nashville Electric Service provides a confidential avenue for individuals to report allegations of unethical, illegal, or irresponsible acts that may cause serious loss or harm to the organization. This report summarizes the latest activity.

The table below describes the Integrity Line reports received from the independent reporting service and the status of each case for the reporting period.

Case Number	Allegations	Action
1	Harassment, Hostile work environment	This case was investigated by Human Resources and appropriate action has taken place. This case is considered closed at this time.
2	Favoritism	This case was investigated by Human Resources, and no evidence was found to support the allegations. This case is considered closed.

Controls and Compliance is dedicated to ensuring that all reported claims are investigated and properly resolved.

3-25-2026

Internal Audit Reports – Baker Tilly

**THE ELECTRIC POWER BOARD  
OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**AUDIT & ETHICS COMMITTEE CALENDAR**

<b>COMMITTEE ACTIONS</b>	<b>1st Qtr*</b>	<b>2nd Qtr*</b>	<b>3rd Qtr*</b>	<b>4th Qtr*</b>	<b>As Needed</b>
<b>EXTERNAL AUDITORS</b>					
Advise the Board as to appointment and compensation of the external audit firm					X
Review external audit plan		April			
Confirm independence of external auditors		April	August		X
Review any “second opinions” obtained on accounting and financial reporting policies					X
Receive external communications required under generally accepted auditing standards		April	August		
Review and consider completeness of financial statements and consistency of information with that known and make recommendation to the Board as to approval			August		
Review management letter (e.g., control deficiencies)			August		
Review status of management letter corrective actions			August		
Review performance of external auditors and make recommendation to Board regarding appointment or discharge					X
<b>EXECUTIVE MANAGEMENT</b>					
Consider the effectiveness of internal controls	X	X	X	X	
Review Enterprise Risk Management program				November	
Review letter of representations certifying appropriateness of financial statements and disclosures			September		
<b>INTERNAL AUDIT</b>					
Approve the Internal Audit Charter		May			X
Advise the Board as to appointment and compensation of the internal audit firm		May			X
Review and approve the annual audit plan		May			
Review and approve changes to the audit plan		May			X
Review effectiveness of internal audit function		May			X
Review compliance with IIA standards		May			X
Confirm organizational independence		May			

<b>COMMITTEE ACTIONS</b>	<b>1st Qtr*</b>	<b>2nd Qtr*</b>	<b>3rd Qtr*</b>	<b>4th Qtr*</b>	<b>As Needed</b>
<b>COMPLIANCE</b>					
Review effectiveness of system for monitoring compliance	X	X	X	X	
Review findings of examinations of regulatory agencies					X
<b>OTHER</b>					
Receive board training	X				
Review the process for monitoring conflicts of interest				October	
Evaluate committee calendar					X
Evaluate committee performance				X	

\* Calendar year

**Nashville Electric Service  
Internal Audit Status Report-FY26  
As of March 25, 2026**

<b>CURRENT AUDITS</b>	
<b>Audit Description</b>	<b>Date Started</b>
Equipment and Materials Management	September 2025
Contribution in Aid to Construction	November 2025
Physical Security & Employee Safety	November 2025
Board, Executive, and Employee Accounts	January 2026
Non-Metered Electric Billing and Miscellaneous Revenues	January 2026
Q2 FY26 Follow-up and Remediation	March 2026
<b>UPCOMING AUDITS</b>	
<b>Audit Description</b>	<b>Scheduled Start Date</b>
Storm Expenditures	April 2026
Meter to Cash	April 2026
Cybersecurity Operations	April 2026
Network and Cybersecurity - Corporate	May 2026
Q3 FY26 Follow-up and Remediation	May 2026
Capital Projects and Capitalization Process	Defer to FY27
<b>NON-AUDIT SERVICES</b>	
<b>Service Description</b>	<b>Status/Scheduled Date</b>
Enterprise Risk Management Assistance	Complete
Oracle C2M User Roles Segregation of Duties Assistance	In-Process
ServiceNow Integrated Risk Management (IRM) Assistance	In-Process
Fraud Risk Assessment	May 2026
<b>Completed AUDITS</b>	
<b>Audit Description</b>	<b>Completion Date</b>
Travel Expenses	November 2025
Q1 FY26 Follow-up and Remediation	January 2026
Environmental Safety	January 2026
T&D Operations	March 2026

**To:** Audit Committee of the NES Electric Power Board

**From:** Scott Nalley, Director Internal Audit

**Subject:** Approval of Revised Internal Audit Plan

**Date:** March 25, 2026

The internal audit Standards require Internal Audit to maintain a dynamic, risk-responsive audit plan. We have concluded that winter storm Fern constitutes a significant change in the risk environment for Nashville Electric Service and necessitated the need for an updated risk assessment which resulted in a proposed modification to the Internal Audit Plan.

We are requesting that the Audit Committee approve proposed revisions to the FY26 Internal Audit Plan. The original FY26 Internal Audit Plan was approved by the Audit Committee on May 28, 2025. The proposed changes are driven by the significant operational and financial impacts of recent storm activity, which affected 50% or more of NES' customers and is estimated to result in up to \$140 million in potential FEMA-reimbursable expenses. These developments materially alter the Company's risk profile and require Internal Audit to redirect resources to provide timely assurance over storm-related expenditures.

The widespread outages across the service territory triggered extensive restoration activities, emergency procurement, large-scale contractor mobilization, and other emergency activities, introduced heightened risks, including but not limited to:

- Completeness, accuracy, and proper approval of vendor invoices, including materials and contract labor
- Completeness, accuracy, and proper approval of labor and overtime costs,
- Procurement and materials management,
- Customer billing, and
- Financial accounting and reporting, including FEMA reporting.

To address risks related to storm-related expenditures, Internal Audit proposes adding a "Storm Expenditure" audit. The scope of the audit will address internal controls relevant to emergency procurement and contracting, mutual aid agreements, payroll and overtime, equipment and material costs, and travel-related expenses, such as hotel and meals.

Other risks identified during the updated risk assessment will be incorporated as scope adjustments to previously planned audits. In addition, the proposed plan considers other miscellaneous adjustments that may not otherwise require approved amendments to the overall audit plan. A detailed comparison of the original and revised plan is included in **Appendix A**.

Internal Audit has evaluated staffing and co-sourcing capacity and confirms:

- The revised plan is achievable with current resources,
- The storm-related audit is a high-priority engagement that warrants reallocation of effort, and
- No material gaps in risk coverage are introduced by the proposed scope adjustments.

It is our understanding that the Board has engaged an independent firm to perform an after-action review of the storm event. We expect that the after-action review will address operational and strategic risks associated with storm preparedness, response, communications, among others and the report will include lessons learned and improvement opportunities. While Internal Audit has considered these risks in the updated risk assessment, Internal Audit will not explicitly focus on areas covered by the after-action report.

### **Request for Audit Committee Approval**

Internal Audit requests that the Audit Committee:

1. **Approve the revised FY26 Internal Audit Plan**, which includes the addition of the “Storm Expenditures Audit”, and
2. **Acknowledge that the revisions are consistent with IIA Standards** requiring ongoing risk-based planning and communication of significant changes.

## Appendix A – Summary of Plan Changes

Nashville Electric Service					
Revised Audit Plan (as of March 25, 2026) - Fiscal Year 2026					
Audit Description	Audit Type	Approved Hours	Revised Hours	Change	Explanation of Requested Change
Cybersecurity Operations	Operational	350	350	0	
Board, Executive, and Employee Accounts	Operational	100	100	0	
Travel Expenses	Operational	75	105	30	To reflect actual hours*
Network and Cybersecurity - Corporate	IT	650	500	(150)	Scope modification for Storm Expenditure audit
Meter to Cash	Integrated	950	800	(150)	Scope modification for Storm Expenditure audit
Contribution in Aid to Construction	Integrated	400	450	50	To reflect actual hours*
Equipment and Material Management	Integrated	600	725	125	To reflect actual hours*
Non-Metered Electric Billing and Miscellaneous	Integrated	850	725	(125)	To reflect actual hours*
Environmental Safety	Integrated	300	325	25	To reflect actual hours*
T&D Operations	Integrated	650	655	5	
Physical Security & Employee Safety	Integrated	325	325	0	
Capital Projects and Capitalization Process	Integrated	500	40	(460)	Defer to FY27
Storm Expenditures	Integrated	0	600	600	New, as a result of the Storm Risk Assessment
Additional Items					
Planning, Administration, and Consulting		350	350	0	
Internal/External Quality Assurance and Improvement Program		100	100	0	
Audit Committee and Board Meetings		100	100	0	
Risk Assessment		125	125	0	
Fraud Risk Assessment		0	125	125	New, management request
Internal Control Framework Assistance and GRC/IRM Assistance		250	375	125	IRM expanded testing role
ERM Assistance		75	75	0	
Follow-up and Remediation		250	250	0	
<b>Total FY26 Audit Plan Hours</b>		<b>7,000</b>	<b>7,200</b>	<b>200</b>	
<p><i>* During the natural course of audits, actual hours will vary from the audit plan as a result of many different factors (e.g., more complicated issues than anticipated). These adjustments are reflective of anticipated actual hours based on our current progress on these audits.</i></p>					



# Nashville Electric Service

## FY2026 Environmental Safety

Internal Audit Report

For the Period: August 1, 2024 through July 31, 2025



**CONFIDENTIAL**

*This report is intended solely for the use of management and the Board of Directors and should not be used for any other purpose. The Company's external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities.*

# Nashville Electric Service

Environmental Safety  
Internal Audit – FY2026

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<b>Report Distribution:</b>	<b><u>Name</u></b>	<b><u>Title</u></b>
	Trish Holliday	VP Chief People Officer
	Daniel Johnson	VP Operations-Engineering
	Dray Moultrie	Engineering Manager
	Rob Helbig	Engineering Supervisor
	Mark Booker	Safety Engineer-Transportation Manager
	Tim Simons	Facilities & Security Manager

<b>Additional Distribution:</b>	<b><u>Name</u></b>	<b><u>Title</u></b>
	Rob McCabe	Audit Committee Chair
	Teresa Broyles-Aplin	President & CEO
	Brent Baker	EVP Chief Operations & Innovation Officer
	David Frankenberg	VP CFO
	Laura Smith	VP Chief Legal Officer & General Counsel
	Ron Womble	VP CIO

## I. Executive Summary

### Introduction

Barker Tilly Advisory Group, LP has performed certain internal audit services for Nashville Electric Service (NES) related to a review of Polychlorinated Biphenyls (PCB) management, hazardous waste storage and disposal practices, waste disposal vendor compliance, regulatory reporting timeliness, and employee training related to environmental safety and incident response. Our fieldwork was performed September 2025 through October 2025. The audit covered the period from August 1, 2024 through July 31, 2025. Our primary objective was to independently and objectively test and assess the internal controls related to **Environmental Safety**. Our services were performed in accordance with the terms of our contract with an effective date beginning on June 1, 2021. We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Scope

We evaluated the design and operating effectiveness of key controls. Areas of audit emphasis included, but were not limited to, determining whether:

- Policies and procedures related to environmental safety, incident prevention and response are established and kept current,
- Procedures for handling, storing, and disposing of hazardous waste are performed in accordance with environmental regulations and NES policy,
- Required permits (e.g., air emissions, water discharge, hazardous waste) are current and properly documented,
- Polychlorinated Biphenyls (PCBs) are managed according to the Toxic Substances Control Act and NES policy,
- Waste disposal vendors are compliant with environmental regulations,
- Waste disposal vendors are compliant with and paid according to contract terms,
- Reports required by federal, state, and local environmental regulations are filed by the due dates,
- Management’s Environmental Compliance Audit Program (ECAP) is performed as prescribed and items identified during the various audits (e.g., Environmental Compliance, Waste Disposal, Electrical Facility, etc.) are monitored and remediated, and
- Environmental safety, incident prevention, and response training are provided, and training records are maintained, complete and accurate in accordance with NES and departmental policy.

### **Corporate Governance, Culture and Stewardship Considerations**

We considered corporate governance, culture, and stewardship initiatives that may have an impact on the scope of the audit. Inherently, many of the procedures performed in our audit are focused on governance activities. During the course of our work, we considered corporate governance, culture, and stewardship initiatives that were inherent to the scope of the audit, including, but not limited to:

- Contaminated waste management,
- Air and water pollution,
- Greenhouse gas (GHG) emissions and emissions data,
- Worker safety, and
- Public safety.

## **II. Overview of Results**

During the course of our work, we discussed potential findings with management. A summary of these findings is provided in **Section III** along with a summary and definition of our assessment of the risk level.

In order to enhance your understanding of each specific finding, we have provided a response priority, defined as follows:

**High** - Requires immediate management attention. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to substantial losses, serious reputational damage, or significant adverse impact.

**Medium** - Requires timely management attention. This is an internal control or risk management issue that may lead to financial losses, reputational damage, or adverse impact, such as public sanctions or immaterial fines.

**Low** - Routine management attention is warranted. This is an internal control or risk management issue, the solution to which may lead to improvement in the quality and/or efficiency of the process being tested. Risks are limited.

Based on our procedures and assessment of the findings noted, we have provided an overall audit grade. The audit grade is not intended to usurp ultimate risk assessment responsibility, which is vested with the Audit Committee and management.

Overall audit grades are defined as follows:

**Satisfactory** - Findings are limited to minor deviations from policy or regulatory requirements resulting in nominal risk to NES. The design and operating effectiveness of controls evaluated during the audit appear adequate and reasonable. However, because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Therefore, absolute reliance should not be placed on these controls.

**Needs Improvement** - Findings include an aggregation of minor deviations and/or major deviations from policy or regulatory requirements resulting in reasonable probability of further misstatements or violations, if not corrected promptly. The design and operating effectiveness of controls evaluated during the audit appear to be less than adequate, and limited reliance can be placed on these controls.

**Unsatisfactory** - Findings include an aggregation of minor deviations and/or major deviations from policy or regulatory requirements resulting in probable misstatements or violations that could be significantly detrimental to NES. Immediate corrective action by high-level management, the Audit Committee, and possibly the Board will be desirable. Findings in this category will immediately be reported to the appropriate level to ensure that timely action can be taken. The design and operating effectiveness of controls evaluated during the audit are not effective and should not be considered reliable.

### III. Findings and Conclusion Summary

Based on the scope of the audit, the following table portrays the number of audit findings by response priority. Red reflects audit findings that are considered high response priority, yellow reflects audit findings of medium response priority, and green reflects findings of low response priority.

Internal Audit Area	Auditor's Grade	High	Medium	Low	Page
<b>Environmental Safety:</b>					
Toxic Substances Control Act Compliance	Needs Improvement	-	1	-	6
Bioretention Pond Remediation Status		-	1	-	7
Environmental Compliance Training		-	1	-	8
Dry Pond Maintenance		-	-	1	9
Vendor Invoicing		-	-	1	9
<b>Total</b>		-	3	2	

**Conclusion Summary**

There were no high risk issues identified during our procedures. The findings noted do not appear to represent a significant risk at this time. However, our recommendations to these findings provide an opportunity for NES to strengthen internal controls. Our detailed findings and recommendations are described in **Section IV** of this report.

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We appreciate the cooperation extended to us by personnel at NES and are pleased to be of service. If there are any questions or comments regarding this report, please contact us. Contact information for the Director and Assistant Director of Internal Audit responsible for this work is presented below.

Scott Nalley, CIA, CISA, CISSP  
Director of Internal Audit  
615-782-4252  
[Scott.Nalley@bakertilly.com](mailto:Scott.Nalley@bakertilly.com)

Patrick Clark, CIA  
Assistant Director of Internal Audit  
615-921-5997  
[Patrick.Clark@bakertilly.com](mailto:Patrick.Clark@bakertilly.com)

#### IV. Findings and Recommendations

##### **Finding 2026-01: Toxic Substances Control Act Compliance**

Response Priority: **Medium**

NES is not compliant with the Toxic Substances Control Act (40 CFR Part 761) (TSCA) related to the disposal and storage of Polychlorinated Biphenyls (PCB) as a result of rainwater flowing into the Transformer Shop where PCB items are stored; and the communication, tracking and resolution of assessments and repairs that may be needed to address potential environmental compliance situations are not always adequate and timely. During our inspection at the Transformer Shop, along with NES' Senior Environmental Engineer, in September 2025, we determined that rainwater was flowing into the secondary containment pit where tanks holding PCB contaminated oil are maintained, which is a violation of the TSCA. The rainwater runoff appears to be disposed of as a regulated material in accordance with the TSCA. Civil and Environmental Engineering initially reported a rainwater leak in the Transformer Shop to Facilities in August 2024, which was acknowledged, but further communication regarding remediation actions taken and follow-up ended at that time. Once identified during the audit, Facilities contacted the roofing contractor to assess the situation and determine the repairs that may be needed.

**Risk:** Non-compliance with federal, state, and local environmental regulations may result in fines, sanctions, and reputational damage.

**Recommendation:** Facilities management should continue working with the roofing contractor to assess and repair the rainwater leak in the Transformer Shop. Additionally, Facilities and Engineering management should collaborate to implement a process to track the status of assessments and repairs through final resolution, including the identification and prioritization of those which impact environmental safety and other regulatory compliance concerns. One solution could be the use of a tracking spreadsheet accessible through SharePoint allowing both Environmental Engineering and Facilities to review and sign off on issues identified and completed.

**Management's Response:** Williams Restoration identified several points of water intrusion on the deck and have completed the repair work. Facilities, Transformer Shop and Environmental Safety management confirmed that there was no visible leak after a subsequent rainfall event occurred. The Environmental Group developed and implemented a spreadsheet to track issues identified that impact environmental safety compliance and the resolution of those issues.

**Responsibility:** Daniel Johnson and Trish Holliday

**Implementation Date:** Complete

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**Finding 2026-02: Bioretention Pond Remediation Status**

**Response Priority:** **Medium**

Issues related to the bioretention pond at North Service Center, identified by Metro Water Services during their 2024 and 2025 annual inspections of Stormwater Control Measures, have not been fully remediated and an estimated completion date has not yet been determined as of September 2025, to ensure NES remains compliant with the Municipal Separate Storm Sewer System (MS4) permit requirements. The Metro Water Services inspection reports stated that the retention pond was not draining properly due to build up of gravel and gravel dust from the pole yard which was clogging the drain and killing filtering vegetation. The issues were rated as “Major” by Metro Water Services in their 2024 inspection report and initial remediation efforts were made by management at that time. The bioretention pond issues were rated as “Moderate” in the 2025 Metro Water Services inspection report, and states that the issues should be addressed in the 2025 calendar year. In March 2025, additional remediation efforts were made, and it was determined that paving the pole yard would be a more permanent solution. Management approved the paving project, and it was included in the FY26 budget. In preparation for paving the pole yard, various activities and site evaluations have occurred over the past several months.

**Risk:** Non-compliance with the Municipal Separate Storm Sewer System (MS4) permit requirements can result in enforcement actions and penalties.

**Recommendation:** Facilities management should continue working with the paving contractor to establish a firm deadline when the paving project will be completed. The project plan and timing should be communicated to Civil and Environmental Engineering, so they can inform Metro Water Services (MWS) prior to the 2026 inspection. MWS typically performs their inspections in the 1<sup>st</sup> quarter of the calendar year.

**Management’s Response:** Facilities contracted with Gibbs Paving to pave the area of concern at NSC Pole Yard to address ongoing site issues. The paving project has been completed.

**Responsibility:** Daniel Johnson and Trish Holliday

**Implementation Date:** Complete

**Finding 2026-03: Environmental Compliance Training**

Response Priority: **Medium**

Mandatory environmental compliance training related to Spill Prevention, Control and Countermeasure (SPCC), Polychlorinated Biphenyls (PCB)/Asbestos and Hazards Awareness, and Substation Maintenance and Structure Hazard Awareness are not always completed timely. This is a repeat audit finding from prior years. We determined the following:

- Twenty-two employees of 335 did not complete the annual SPCC training in 2024. The 2025 training has not been scheduled. Once identified by Internal Audit, training sessions were scheduled to be completed by December 15, 2025.
- Six of 33 employees did not complete PCB/Asbestos and Hazards Awareness training in August/September 2025. At the time of our audit, a make-up training session had not occurred, but has been scheduled for November 4, 2025.
- Five of 28 employees did not complete the Substation Maintenance and Structure Hazard Awareness training in August 2025. At the time of our audit, a make-up training session had not occurred, but has been scheduled for November 4, 2025.

**Risk:** Non-compliance with federal, state, and local environmental regulations may result in fines, sanctions, and reputational damage.

**Recommendation:** Safety management is in process of implementing a software application, Origami Risk, that will allow management to monitor environmental compliance training requirements by employee based on their department and title. The SPCC, PCB/Asbestos and Hazards Awareness trainings should be completed before the 2025 calendar year-end.

**Management's Response:** NES is in the final stage of contract terms and conditions agreement with Origami Risk. The planned implementation of the software configuration from a staged environment to a live application will take several months to complete. Automation surrounding employee training documentation will be included in the overall configuration. The SPCC, PCB/Asbestos and Substation Maintenance Hazards Awareness trainings have been completed as planned.

**Responsibility:** Daniel Johnson, Trish Holliday and Mark Booker

**Implementation Date:** June 30, 2026

**Finding 2026-04: Dry Pond Maintenance**

**Response Priority:** Low

Ongoing monitoring and maintenance to manage vegetation build-up around the dry ponds at North Service Center may not be frequent enough to ensure Stormwater Control Measures are functioning properly and remain compliant with the Municipal Separate Storm Sewer System (MS4) permit requirements. Civil and Environmental Engineering perform formal site visits and inspections of the dry ponds on a 2 or 3 year cycle. However, Metro Water Services inspects these sites on an annual basis and has noted maintenance needs in this area in both their 2024 and 2025 Stormwater Control Measure Inspection Reports. During our observation in September 2025, assisted by NES' Senior Environmental Engineer, we determined that vegetation and trash had built up around the dry pond at North Service Center preventing it from draining properly. Once identified, Facilities personnel removed all trash, overgrown vegetation and sprayed to prevent future vegetation growth.

**Risk:** Non-compliance with the Municipal Separate Storm Sewer System (MS4) permit requirements can result in enforcement actions and penalties.

**Recommendation:** Civil and Environmental Engineering management should coordinate with Facilities and Service Center management to implement at least an annual review and inspection of the dry ponds to occur prior to the annual inspection by Metro Water Services.

**Management's Response:** An annual inspection of the dry ponds will be conducted by Civil & Environmental Engineering staff during the fourth quarter of each calendar year to address vegetation growth prior to the Metro Water inspection.

**Responsibility:** Daniel Johnson, Dray Moultrie, and Rob Helbig

**Implementation Date:** Complete

**Finding 2026-05: Vendor Invoicing**

**Response Priority:** Low

Vendors do not always bill NES for services in accordance with contracted rates and management's review may not be adequately documented when unplanned waste disposal incidents occur that require use of materials and services that are not included on the contracted rates sheet.

We reviewed the March 2025 HEPACO invoice for waste disposal services totaling \$5,200 and identified the following:

- Five of the 19 line items, we were unable to identify a contracted rate (i.e., the contract did not specify a rate that aligned with the invoice item description), and
- Thirteen of the 19 line items, the rate invoiced did not agree to the contract rate (rates invoiced were lower and higher than the contract rates).

**Risk:** Non-compliance with contractual requirements could lead to overpayment/financial loss or underpayment/unexpected future liabilities.

**Recommendation:** Given the nature of hazardous waste disposal, it can be challenging to identify every rate that may be needed to properly dispose of waste. Civil and Environmental Engineering management should update their practices to add notes on invoices to document the nature of the waste disposal event when materials and services are provided that are not included on the contracted rates sheet, as to their appropriateness and accuracy. Civil and Environmental Engineering may also work with Procurement personnel to obtain additional rates from the vendor when needed.

**Management's Response:** C&E will contact Procurement and request additional rates in advance when practicable. Notes will be made on invoices when required materials and services are provided that are different or that are not included on the contracted rate sheet.

**Responsibility:** Daniel Johnson, Dray Moultrie, and Rob Helbig

**Implementation Date:** Complete



## Nashville Electric Service Environmental Safety Recommendations and Best Practices

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To: Trish Holliday, Chief People Officer, Mark Booker, Safety Engineer & Transportation Manager, Daniel Johnson, Engineering VP Operations, Dray Moultrie, Engineering Manager, and Rob Helbig, Engineering Supervisor

From: Baker Tilly

Date: October 20, 2025

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During our review covering the period August 1, 2024 through July 31, 2025, the following areas were not considered to be findings within the audit report, but were noted as areas for potential improvement or are recommendations based on best practice:

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### Fuel and Used Oil Leak Detection

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Leak detection devices in aboveground tanks are not installed on all fuel and used oil storage tanks. We determined that two aboveground fuel tanks (one 20,000-gallon tank and one 25,000-gallon tank) and one used oil tank (1,000-gallon tank) at North Service Center did not have a leak detection device installed, and therefore, are not monitored systematically via the Veeder-Root system. In addition to tank leak detection devices, Fleet and Facilities personnel perform and document routine weekly physical inspections of all NES fuel and used oil tanks. Without systematic leak detection devices, a leak could occur and not be identified until Fleet or Facilities personnel perform their weekly physical inspection of the fuel and used oil tanks, resulting in delayed clean-up and possible non-compliance with environmental regulations. Once identified by Internal Audit, Fleet management contacted their fuel tank service vendor and leak detection sensors were installed on the three ASTs at the North Service Center.

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### Damaged Label on Used Oil Container

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Hazardous material storage containers (e.g., oil mobile containers) are not always properly labeled. Upon inspection at the North Service Center fleet facility, we determined that the "Used Oil" label on one mobile container was damaged. Environmental Protection Agency (EPA) regulation 40 CFR Part 279.22 requires that containers and aboveground tanks used to store used oil must be labeled or marked clearly with the words "Used Oil". Once identified by Internal Audit, Fleet management replaced the damaged oil label with a new label. Additionally, Fleet management has added label monitoring to the Fleet Shop daily inspection checklist. Fleet management should continue to monitor and replace labels as needed and Civil and Environmental Engineering can help identify label replacements when onsite as part of environmental inspections.



# Nashville Electric Service

## FY2026 T&D Operations

Internal Audit Report

For the Period: October 1, 2024 through September 31, 2025



**CONFIDENTIAL**

*This report is intended solely for the use of management and the Board of Directors and should not be used for any other purpose. The Company's external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities.*

# Nashville Electric Service

T&D Operations  
Internal Audit – FY2026

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<b>Report Distribution:</b>	<b><u>Name</u></b>	<b><u>Title</u></b>
	Brad Heck	VP T&D Operations
	Tabitha Beach	Corporate Controller
	Tim Simons	Facilities & Security Manager

<b>Additional Distribution:</b>	<b><u>Name</u></b>	<b><u>Title</u></b>
	Rob McCabe	Audit Committee Chair
	Teresa Broyles-Aplin	President & CEO
	Brent Baker	EVP Chief Operations & Innovation Officer
	David Frankenberg	VP CFO
	Trish Holliday	VP Chief People Officer
	Laura Smith	VP Chief Legal Officer & General Counsel
	Ron Womble	VP CIO

## I. Executive Summary

### Introduction

Barker Tilly Advisory Group, LP has performed certain internal audit services for Nashville Electric Service (NES) related to Transmission and Distribution Operations (T&D Operations) processes. Our fieldwork was performed October 2025 through November 2025. The audit covered the period from October 1, 2024 through September 31, 2025. Our primary objective was to independently and objectively test and assess the internal controls related to **T&D Operations**. Our services were performed in accordance with the terms of our contract with an effective date beginning on June 1, 2021. We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Scope

We evaluated the design and operating effectiveness of key controls. Areas of audit emphasis included, but were not limited to, determining whether:

- Policies and procedures related to T&D Operations are in place and current,
- T&D operations are performed in accordance with policies and procedures,
- Work orders are tracked and prioritized in accordance with policies and procedures,
- T&D operations performance and efficiency metrics are in place, monitored, and outliers are investigated,
- Small tool requisitions are processed in accordance with policies and procedures,
- Capital tools are managed and tracked in accordance with policies and procedures,
- Tool budgets are managed and tracked in accordance with policies and procedures, and
- Contractors are compliant with and are paid in accordance with contract terms.

### Corporate Governance, Culture and Stewardship Considerations

We considered corporate governance, culture, and stewardship initiatives that may have an impact on the scope of the audit. We did not identify any extraordinary initiatives that had an impact on the audit scope. Inherently, many of the procedures performed in our audit are focused on governance activities.

## II. Overview of Results

During the course of our work, we discussed potential findings with management. A summary of these findings is provided in **Section III** along with a summary and definition of our assessment of the risk level.

In order to enhance your understanding of each specific finding, we have provided a response priority, defined as follows:

**High** - Requires immediate management attention. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to substantial losses, serious reputational damage, or significant adverse impact.

**Medium** - Requires timely management attention. This is an internal control or risk management issue that may lead to financial losses, reputational damage, or adverse impact, such as public sanctions or immaterial fines.

**Low** - Routine management attention is warranted. This is an internal control or risk management issue, the solution to which may lead to improvement in the quality and/or efficiency of the process being tested. Risks are limited.

Based on our procedures and assessment of the findings noted, we have provided an overall audit grade. The audit grade is not intended to usurp ultimate risk assessment responsibility, which is vested with the Audit Committee and management.

Overall audit grades are defined as follows:

**Satisfactory** - Findings are limited to minor deviations from policy or regulatory requirements resulting in nominal risk to NES. The design and operating effectiveness of controls evaluated during the audit appear adequate and reasonable. However, because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Therefore, absolute reliance should not be placed on these controls.

**Needs Improvement** - Findings include an aggregation of minor deviations and/or major deviations from policy or regulatory requirements resulting in reasonable probability of further misstatements or violations, if not corrected promptly. The design and operating effectiveness of controls evaluated during the audit appear to be less than adequate, and limited reliance can be placed on these controls.

**Unsatisfactory** - Findings include an aggregation of minor deviations and/or major deviations from policy or regulatory requirements resulting in probable misstatements or violations that could be significantly detrimental to NES. Immediate corrective action by high-level management, the Audit Committee, and possibly the Board will be desirable. Findings in this category will immediately be reported to the appropriate level to ensure timely action can be taken. The design and operating effectiveness of controls evaluated during the audit are not effective and should not be considered reliable.

### III. Findings and Conclusion Summary

Based on the scope of the audit, the following table portrays the number of audit findings by response priority. Red reflects audit findings that are considered high response priority, yellow reflects audit findings of medium response priority, and green reflects findings of low response priority.

Internal Audit Area	Auditor's Grade	High	Medium	Low	Page
<b>T&amp;D Operations:</b>					
Capital Tools Tracking and Safeguarding	Satisfactory	-	1	-	5
<b>Total</b>		-	1	-	

#### Conclusion Summary

There were no high risk issues identified during our procedures. The findings noted do not appear to represent a significant risk at this time. However, our recommendations to these findings provide an opportunity for NES to strengthen internal controls. Our detailed findings and recommendations are described in **Section IV** of this report.

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We appreciate the cooperation extended to us by personnel at NES and are pleased to be of service. If there are any questions or comments regarding this report, please contact us. Contact information for the Director and Assistant Director of Internal Audit responsible for this work is presented below.

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#### IV. Findings and Recommendations

##### **Finding 2026-01: Capital Tools Tracking and Safeguarding**

Response Priority: **Medium**

Internal controls and policies over the acquisition, storage and recordkeeping of capital tools are not adequate to ensure that all tools are accounted for, recorded in the general ledger and adequately safeguarded. Our understanding is that the process for communicating the purchase and retirement of capital tools was changed in the last three years, whereby, Facilities personnel would no longer provide item details to Accounting, but would continue to provide the tracking numbers (T numbers) to Service Center personnel responsible for managing capital tools. This process change was not formally documented nor communicated to relevant parties and contributed to a breakdown in reporting the purchase and retirement of capital tools to Accounting personnel. Additionally, Internal Audit identified the following control weaknesses:

- T numbers (which are assigned for tracking purposes and recording in the general ledger) are not always requested by the purchaser of the tools.
- The assignment of T numbers are manually tracked and the T number assignment sheets along with the email requests from Service Center personnel are printed and maintained in binders.
- Tool listings maintained by each Service Center are incomplete. We identified at least 60 tools purchased after January 1, 2021 that were above the \$1,000 capitalization threshold and were assigned a T number that were not recorded in the general ledger as of October 2025.
- Capital tool listings maintained by the Service Centers or in the General Ledger may not include all required documentation needed for warranty purposes (e.g. purchase dates, in-service dates, tool identification, etc.)
- The North center does not always limit access to the locked storage room where excess tools are stored. One of three sampled excess tools at North center could not be located. The tool was included in the general ledger and had not yet been fully depreciated.

According to the current capitalization policy, small tools that are equal to or greater than \$1,000 are capitalized. Accounting recently modified the policy and set the capitalization threshold for small tools at \$5,000 beginning FY27. The Net Book Value for capital tools as of September 31, 2025 was \$3,849,133.

**Risk:** Not maintaining accurate records for capital tools can lead to financial misstatements, excess expenses due to missed warranties, and misappropriation of assets.

**Recommendation:** Management should take corrective actions to:

1. a) Prepare a current listing of all capital tools for each Service Center in accordance with the current capitalization policy. T&D Operations management, working with Accounting and Facilities management, should obtain a listing of all T numbers that have been assigned but are not currently included in the General Ledger, physically verify if the assets exist and provide the needed item description, purchase and cost information to Accounting for updating the General Ledger.  
  
b) Once a complete listing of tools has been updated in the General Ledger, T&D Operations management should perform spot counts on other tools included on the list to physically verify their existence and report any discrepancies to Accounting.  
  
c) For the remainder of FY26 and going forward, T&D Operations management should maintain a complete listing of all tools purchased and retired, regardless of cost, for the purposes of safeguarding assets and tracking tool warranties.
2. T&D Operations management, working with Accounting and Facilities management, should define, document and communicate the policy and procedures for tracking and recording tools, the assignment of T numbers and recording/reporting tools to be capitalized in the General Ledger through the end of fiscal year 2026.
3. T&D Operations management and Accounting management should define, document and communicate the policy and procedures for tracking and recording tools to be capitalized for years beginning fiscal year 2027, according to the FY27 capitalization policy. Beginning FY27, Internal Audit recommends that the Service Centers provide item descriptions, purchase information, cost and other required information directly to Accounting, and that Accounting maintain assignment of the T numbers.
4. T&D Operations management should include in their tools policy and procedures a provision for performing periodic physical counts to verify the existence of assets and completeness of their asset listings.
5. North Service Center management should limit access to the excess tools storage area to the Operations Manager and Field Superintendent, consistent with the practice at West and Donelson Service Centers, and should ensure the area is used at all times.

6. For the remainder of FY26, Facilities management should move all T number assignments to an electronic format and maintain documentation only for the periods required per the NES Retention Policy.

***Management's Response:***

1. a) The T&D Operations Manager for each service center will request the assigned T number list for all assets not currently in the general ledger from Accounting for their center by March 31, 2026. Each T&D Operations Manager will work with their direct reports to verify if these assets exist, and where they do will provide Accounting the description and purchase information if records exist by April 15, 2026.  
  
b) Once a complete listing of tools has been updated in the General Ledger, the T&D Operations manager for each service center will select ten tools from current listings under the existing capitalization policy to verify they exist. Any discrepancies will be resolved. This first spot check will be completed by April 30, 2026.  
  
c) For the remainder of FY26 and going forward, the T&D Operations Manager for each center will ensure a complete listing of all tools purchased and retired, regardless of cost, is maintained for the purposes of safeguarding assets and tracking tool warranties. Each T&D Operations Manager will verify this is in place by April 30, 2026.
2. The T&D Operations Managers for all centers will schedule a meeting with Accounting and Facilities management to define, document and communicate this process by March 31, 2026.
3. The T&D Operations Managers for all centers along with Accounting management will meet to define, document and communicate the policy and procedures for tracking and recording tools to be capitalized for years beginning fiscal year 2027, according to the FY27 capitalization policy by June 30, 2026. Beginning FY27, the T&D Operations Managers will comply with the policy and provide item descriptions, purchase information, cost and other required information directly to Accounting, and that Accounting maintains assignment of the T numbers.
4. T&D Operations management will begin an annual physical count of all tools to verify the existence of assets and completeness of their asset listing in March of each year.
5. The T&D Operations Manager for the North Service Center limited access to the excess tools storage area to the Operations Manager and Field Superintendent, consistent with the practice at West and Donelson Service Centers and ensures going forward the area will be used at all times.

6. For the remainder of FY26, Facilities management will document all T number assignments within a spreadsheet and will maintain documentation only for the periods required per the NES Retention Policy going forward.

**Responsibility:** Brad Heck, Tabitha Beach, and Tim Simons

**Implementation Plan:**

1. a) Compile a complete listing of tools  
b) Verify asset existence  
c) Maintain current asset listings
2. FY26 asset tracking and capitalization policy
3. FY27 asset tracking and capitalization policy
4. Annual physical count of tools
5. North Service Center access restriction
6. FY26 T number assignment digitalization

**Implementation Date:**

April 15, 2026  
April 30, 2026  
April 30, 2026  
March 31, 2026  
June 30, 2026  
March 31, 2026  
Complete  
Complete

**Nashville Electric Service**  
**1st Quarter Fiscal Year 2026 Follow-up and Remediation**  
**March 25, 2026**

Findings Noted During the FY2024 Corporate Governance and Legal Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
2024-3 Departmental Policies - There are no formal enterprise guidelines that address creating, formatting, reviewing, and approving departmental specific policies and procedures. Departmental policies and procedures are created, reviewed, and updated individually by each department and may expand on or are in addition to those polices included in the NES Policy Manual. NES has a Policy Manual Committee which is primarily tasked with reviewing, maintaining, and approving the entity-wide NES Policy Manual, but is not currently involved in setting entity-wide departmental policy and procedure guidelines. Additionally, multiple versions of policies are maintained on the NES Power SharePoint site, and it can be difficult to identify the most current version.	Low	Management will develop a policy to establish guidelines for adopting, maintaining, and approving departmental-specific policies and procedures.  Implementation Date: September 1, 2025	Management developed and approved guidelines for adopting, maintaining, and approving departmental-specific policies and procedures, and revised the NES Policy manual accordingly.	Resolved

**Nashville Electric Service**  
**1st Quarter Fiscal Year 2026 Follow-up and Remediation**  
**March 25, 2026**

Findings Noted During the FY2024 Corporate IT Department Controls				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
2024-01 Backup Replication and Policy - Production servers are not all configured for backup replication. Four out of a sample of twenty production servers were assigned to backup policies that were not configured with replication. IT management enabled backup replication for these four servers at the time it was identified by Internal Audit.	Medium	I.T. Management agrees with these findings. The four systems identified during the audit that were not replicated to DR were immediately resolved once brought to our attention. All production servers have been reviewed to ensure they are configured properly. To prevent this from happening again, I.T. will conduct quarterly reviews of production servers. These reviews will be to ensure all needed data is backed up/replicated in accordance with the backup standards. I.T. is creating. The standards will include proper assignment of roles and responsibilities for backup job configuration.  Implementation Date: September 1, 2025	Management has performed the most recent quarterly reviews of production servers as of August and November 2025 and has scheduled future reviews to occur each quarter. The System and File Share backup and replication standards have been formalized and include assignment of roles and responsibilities.	Resolved
2024-03 Policies - The Information Technology and Information Security departments do not have comprehensive or formal policies, procedures, or standards related to: *Secure Code Repositories *Third-Party Patch Management *Backup and Replication	Low	I.T. Management agrees with the finding and will perform the following: · Secure Code Repositories – I.T. will review and update the secure coding standard document to reflect the approved source code repositories that developers are allowed to use for NES development work. · Third Party Patch Management – I.T. will modify existing patch management standards or create a 3rd Party Application Patching Standard to ensure all third-party application updates are reviewed and patched on a regular cadence. · Backups and Replication - I.T. will formalize a System and Data Backup Standard to ensure all systems and data are backed up and replicated to off-site storage where appropriate.  Implementation Date: September 1, 2025	Management formalized IT Standards for Third-Party Patch management, and System and File Share Backup processes. The Secure Code Repositories standard was remediated at the original target implementation date of December 31, 2024.	Resolved

**Nashville Electric Service**  
**1st Quarter Fiscal Year 2026 Follow-up and Remediation**  
**March 25, 2026**

Findings Noted During the FY2025 Power System Operations				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2025-01  Off-Site Tape Backups - Although NES is performing digital backups as required by the NERC standard “Recovery Plans for Critical Cyber Assets” (CIP-009), NES no longer complies with its internally written BES Cyber System Requirement Plan policy which requires NES to maintain tape backups that are periodically taken to an offsite location. Additionally, the internal policy does not require tapes to be catalogued when transferred offsite; therefore, management was unable to produce a log of all tape backups that have been transferred offsite.</p>	Low	<p>NES will modify its Cyber System Recovery Plan to define a monthly tape rotation cadence. Additionally, NES will develop a method to log and track the transfer of those tapes.</p> <p>Implementation Date: September 30, 2025</p>	<p>Management revised and approved the Bulk Electric System Recovery Plan to include the backup tape rotation and offline storage cadence. Additionally, management implemented a process to log and track the backup tape transfers and rotations. Internal Audit determined that the log is being used in accordance with the revised Recovery Plan.</p>	Resolved

**RECOMMENDATION FOR APPROVAL OF THE SELECTION OF BAKER TILLY TO PROVIDE OUTSOURCED INTERNAL AUDIT SERVICES AND CONSULTING SERVICES**

Baker Tilly has been providing internal audit services for Nashville Electric Service (NES) since 2014. In 2021 the Board approved the most recent contract effective June 1, 2021, for 5 years. The 5-year term is set to expire May 31, 2026.

In addition to internal audit services, Management requests Baker Tilly to perform consulting projects. Recent examples include advising NES executive management on the Encompass project and performing a fraud investigation. Consulting projects are consistent with the expectations of the Internal Audit charter and Baker Tilly has been able to accommodate these under the existing agreement with approval from the Audit Committee.

With this being a professional service, there is no requirement for this to go through a formal bid process.

Baker Tilly proposed the following rate schedule over the life of a new 5-year contract for both internal audit and consulting services:

<b>Experience Level</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Principal</b>	<b>300</b>	<b>315</b>	<b>327</b>	<b>340</b>	<b>350</b>
<b>Director</b>	<b>250</b>	<b>263</b>	<b>273</b>	<b>285</b>	<b>295</b>
<b>Senior Manager</b>	<b>200</b>	<b>210</b>	<b>218</b>	<b>226</b>	<b>235</b>
<b>Manager</b>	<b>175</b>	<b>183</b>	<b>190</b>	<b>200</b>	<b>205</b>
<b>Senior</b>	<b>155</b>	<b>163</b>	<b>170</b>	<b>177</b>	<b>185</b>
<b>Staff</b>	<b>140</b>	<b>147</b>	<b>153</b>	<b>159</b>	<b>165</b>

**Internal Audit Services Estimated Costs**

<b>Year - June 1 - May 31</b>	<b>Estimated Average Hourly Rate</b>	<b>Annual Estimate at 7,000 Hours</b>
<b>2027</b>	<b>\$160</b>	<b>\$1,114,500.00</b>
<b>2028</b>	<b>\$167</b>	<b>\$1,170,000.00</b>
<b>2029</b>	<b>\$174</b>	<b>\$1,218,325.00</b>
<b>2030</b>	<b>\$181</b>	<b>\$1,266,850.00</b>
<b>2031</b>	<b>\$188</b>	<b>\$1,316,875.00</b>
<b>Total</b>		<b>\$6,087,175.00</b>

A scope of work and cost estimate will be provided for each consulting project for approval by Management and the Audit Committee before work begins. Consulting services that require a specialized skillset not considered in the proposed rate schedule may require a change request to be negotiated and approved by the Audit Committee on a project basis.

Management recommends a new 5-year contract with Baker Tilly effective June 1, 2026, with a not-to-exceed amount of \$7,000,000.00.

## Miscellaneous

## Executive Session