**NES Power Board**
**Audit Committee**
**March 25, 2026**
**Executive Summary – Internal Audit**

**FY26 Internal Audit Status Report**

| CURRENT AUDITS | |
|---|---|
| **Audit Description** | **Date Started** |
| 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 |
| **UPCOMING AUDITS** | |
| **Audit Description** | **Scheduled Start Date** |
| 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 |
| **NON-AUDIT SERVICES** | |
| **Service Description** | **Status/Scheduled Date** |
| 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 |
| **Completed AUDITS** | |
| **Audit Description** | **Completion Date** |
| Travel Expenses | November 2025 |
| Q1 FY26 Follow-up and Remediation | January 2026 |
| Environmental Safety | March 2026 |
| T&D Operations | March 2026 |

## <u>Request for Revision to the FY26 Audit Plan</u>

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.

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 | |
| **Total FY26 Audit Plan Hours** | | **7,000** | **7,200** | **200** | |

** 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.*

## Summary of Audit Reports Issued – March 2026

### Audit: Environmental Safety

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. 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.

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 | High | Medium | Low |
|---|---|---|---|
| Toxic Substances Control Act Compliance | - | 1 | - |
| Bioretention Pond Remediation Status | - | 1 | - |
| Environmental Compliance Training | - | 1 | - |
| Dry Pond Maintenance | - | - | 1 |
| Vendor Invoicing | - | - | 1 |
| **Total** | **-** | **3** | **2** |

### Audit: Transmission & Distribution Operations

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. 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.

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 | High | Medium | Low |
|---|---|---|---|
| Capital Tools Tracking and Safeguarding | - | 1 | - |
| **Total** | **-** | **1** | **-** |

### Audit: Q1 FY26 Follow-up & Remediation

On a quarterly basis Internal Audit performs a follow-up review and testing of internal controls, as needed, to determine and confirm the remediation status of prior audit observations with target implementation dates during the fiscal quarter.

For Q1 FY26, 4 audit observations were reviewed and were determined to be remediated.