



Audit & Ethics Committee Meeting

Wednesday, 5/28/2025

8:00 - 8:30 AM CT

Committee Chair Rob McCabe

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2. Safety Tip - Adam Harris

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4. Internal Audit Reports - Kraft CPAs - Scott Nalley

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APPA LINEMEN'S RODEO

NES fielded two journeyman teams and three apprentice linemen for the 2025 APPA Public Power Lineworkers Rodeo in Roseville, CA, March 28-29.

NES' journeyman teams placed 6th and 8th overall out of 61 journeyman teams from across the United States. To achieve this ranking, both NES' journeyman teams received perfect scores – meaning, they ran all five events with no technical mistakes or safety deductions. Final placement came down to total combined time to complete all events. It is worth noting, there were only 8 perfect scoring teams. This was an excellent accomplishment for the NES journeymen and highlights how skilled and competitive our teams were. Events included: 4kV Cross Arm Change Out, 12kV Rider Pole Arrester Replacement, 12kV 3-Phase Conductor Tie-In, 4kV Double Dead End Bell Change Out, and Hurt Man Rescue.

Journeyman Teams were:

Derrick Pennington
Michael Shannon
Adam Harris
Durwood Burks

Daniel Pease
Spencer Huffines
Kyle Robinson
Tommy Barksdale

NES had three Apprentice Linemen compete as well. One of the NES Apprentices finished with a perfect score among 115 entrants in the Apprentice category. Apprentice events included a written Safety test, Sidewalk Guy Installation, Obstacle Course, Hurtman Rescue, and a Lightning Arrester Jumper Replacement,

Apprentices included:

Tanner Versluis – Perfect Score
Trevor Atwood
Charlie Hopper

May is Motorcycle Safety Awareness Month

Motorcyclists face 28 times the chance of dying in a fatal accident compared with those in passenger cars, and four times the injury risk.

Although, motorcycles account for only 3% of registered vehicles in the U.S., they are involved in a high number of fatality crashes. 14% of all traffic fatalities are attributed to motorcyclists.

January sees the fewest fatalities by month, with August being the highest. Most of this is attributed to weather trends.

- **Top Five Tips to Drivers**

- Take an extra moment to look for motorcycles
- Predict a motorcycle is closer than it looks
- Keep a safe distance. Allow 3 to 4 seconds between your vehicle and a motorcycle
- Understand lane shifting. Motorcyclists adjust lane positions for a purpose
- See the person. See more than just a motorcycle. This could be your friend, neighbor, or relative

- **Top Five Tips to Riders**

- Be visible. Avoid riding in blind spots
- Pretend you are invisible. Assume others on the road can't see you. This will make you hyper-aware of your surroundings while traveling
- Always wear your proper gear. Helmets, jackets, pants, gloves, boots, etc.
- Before you ride check your bike. Always check lights, tires, wheels, electronics, etc. before hitting the road
- Use good strategies. Always search the road for changing conditions to allow proper response to hazards before they become an emergency

AUDIT AND ETHICS COMMITTEE MEETING MINUTES APRIL 23, 2025

The Audit and Ethics Committee meeting was held on Wednesday, April 23, 2025.

Committee Members Present: Committee Chair Rob McCabe, Michael Vandenberg, and Anne Davis; Members Casey Santos and Clifton Harris attended virtually

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

Committee Chair Rob McCabe called the meeting to order at 8:00 a.m.

SAFETY TIP

Jack Baxter presented a safety tip on flood safety.

MINUTES

Upon motion by Member Vandenberg and seconded by Member Davis, the Committee approved the minutes from the Audit and Ethics Committee meeting held March 26, 2025, with five ayes and zero nays.

CONTROLS AND COMPLIANCE INTEGRITY LINE UPDATE

Sandra Chapman reviewed the Integrity Line reports received from the independent reporting service. The update highlighted the status of six cases for the reporting period. She stated that each case has been investigated and all have been properly resolved.

Chair McCabe asked if the integrity line process is working to management and employee's satisfaction. Ms. Chapman responded yes. He commented that the cases have been resolved and asked if it was due to corrective actions or unsubstantiated allegations. Ms. Chapman replied resolutions were due to both.

Chair McCabe asked if employees believe that management is taking the allegations seriously and that they are taking action. Ms. Chapman answered yes.

Teresa Broyles-Aplin commented that most of the cases are anonymous; therefore, there is not sufficient ability to follow-up with the individual to ensure they are satisfied with the outcome. In some cases, if there is disciplinary action or anything that results from the investigation, we are not positioned to share that publicly.

KRAFT INTERNAL AUDIT REPORTS

Scott Nalley presented the Audit and Ethics Committee Calendar and stated that today the Committee will receive four audit reports. He reviewed the Internal Audit Status Report and reported that everything is on schedule.

Infrastructure Design and Construction

Mr. Nalley presented the results of the Infrastructure Design and Construction internal audit and stated that during the course of their work, no reportable findings were identified. He stated that there were several observations that they shared with management throughout the audit and said those details were provided in the board materials.

FY25 Board, Executive and Employee Accounts

Mr. Nalley shared the results of the annual FY25 Board, Executive and Employee Accounts internal audit which ensures no one on the Board or an employee of the organization is receiving any preferential treatment in terms of delivery of electric service to their homes or businesses. He stated that no significant findings were noted, nor any recommendations necessary during the audit.

Member Vandenberg commented that this is a good governance system that has been put in place that people would not otherwise know about. He said it is important to emphasize that we have those systems in place.

Contract Administration – PATH Company

An internal audit was completed for Contract Administration–Path Company in which no evidence of any abnormal findings was determined. Mr. Nalley noted that Path Company provides services for the Metro LED streetlight conversion project. He stated that a project plan was identified, contracts were complete and accurate, and operating effectiveness of controls evaluated during the audit appear reasonable.

Contract Administration – BG Staffing

Mr. Nalley reported that BG Staffing provides a substantial amount of information technology staffing services to NES. He provided the scope of the audit and stated that it revealed no deficiencies. Recommendations were provided for management’s consideration.

Member McCabe asked how BG Staffing is involved with the Encompass project. Brent Baker responded that an abundance of the IT resources for the project were provided by BG Staffing.

Member Santos asked if the BG staffing team will be performing maintenance support moving forward. Mr. Baker replied yes, as the hypercare support staff is being developed, a lot of the resources will come from BG Staffing.

David Frankenberg added that there will be additional outside firms that will be used, along with BG Staffing, to fill these positions.

EXECUTIVE SESSION

The Committee did not go into Executive Session.

MISCELLANEOUS

There were no miscellaneous items to present.

ADJOURNMENT

The meeting adjourned at 8:10 a.m.

APPROVED: _____
Committee Chair Rob McCabe

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

AUDIT & ETHICS COMMITTEE CALENDAR

COMMITTEE ACTIONS	1st Qtr*	2nd Qtr*	3rd Qtr*	4th Qtr*	As Needed
EXTERNAL AUDITORS					
Advise the Board as to appointment and compensation of the external audit firm					X
Review external audit plan	January				
Confirm independence of external auditors	January		August		X
Review any “second opinions” obtained on accounting and financial reporting policies					X
Receive external communications required under generally accepted auditing standards	January		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
EXECUTIVE MANAGEMENT					
Consider the effectiveness of internal controls	X	X	X	X	
Review Enterprise Risk Management program			September		
Review letter of representations certifying appropriateness of financial statements and disclosures			September		
INTERNAL AUDIT					
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			

COMMITTEE ACTIONS	1st Qtr*	2nd Qtr*	3rd Qtr*	4th Qtr*	As Needed
COMPLIANCE					
Review effectiveness of system for monitoring compliance	X	X	X	X	
Review findings of examinations of regulatory agencies					X
OTHER					
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-FY25
As of May 28, 2025

CURRENT AUDITS	
Audit Description	Date Started
Power Systems Operations	April 2025
Timekeeping & Payroll	April 2025
NERC/SERC Reporting and Compliance	April 2025
Network and Cybersecurity - Corporate	May 2025
UPCOMING AUDITS	
Audit Description	Scheduled Start Date
Grant, Electric Vehicle, and Other Stewardship Initiatives Program Management	June 2025
NON-AUDIT SERVICES	
Service Description	Status/Scheduled Date
Enterprise Risk Management Assistance	Complete
Oracle System Implementation (Encompass, Ellipse, Command Center)	In Process
TimeClock Plus Implementation	In Process
Completed AUDITS	
Audit Description	Completion Date
Travel Expenses	July 2024
Q4 FY24 Follow-up and Remediation	August 2024
Metered Electric Billing and Customer Service	October 2024
Q1 FY25 Follow-up and Remediation	October 2024
Employee and Contractor Management (Hiring, Onboarding, Benefits)	December 2024
Purchased Power	January 2025
Vegetation Management Lifecycle (Clearion post implementation review)-FY24	January 2025
Infrastructure Design and Construction	February 2025
Board, Executive, and Employee Accounts	February 2025
Contract Administration	April 2025
Accounting Processes	May 2025
Q2 FY25 Follow-up and Remediation	May 2025
Q3 FY25 Follow-up and Remediation	May 2025



Nashville Electric Service

FY2025 Accounting Processes

Internal Audit Report

For the Period: December 1, 2023 through November 30, 2024



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

Accounting Processes
Internal Audit – FY2025

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Report Distribution:	<u>Name</u>	<u>Title</u>
	David Frankenberg	VP Chief Financial Officer
	Tabitha Beach	Corporate Controller

Additional Distribution:	<u>Name</u>	<u>Title</u>
	Rob McCabe	Audit Committee Chair
	Teresa Broyles-Aplin	President & CEO
	Laura Smith	VP Chief Legal Officer & General Counsel
	Ron Womble	VP Chief Information Officer

I. Executive Summary

Introduction

KraftCPAs PLLC has performed certain internal audit services for Nashville Electric Service (NES) related to financial reporting, accounts payable, sales tax management, investments, Payment in Lieu of Taxes (PILOT), bank reconciliations, bad debt, petty cash, and debt management processes. Our fieldwork was performed February 2025 through March 2025. The audit covered the period December 1, 2023 through November 30, 2024. Our primary objective was to independently and objectively test and assess the internal controls related to **Accounting Processes**. 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 financial reporting, accounts payable, sales tax management, investments, PILOT, bank reconciliations, petty cash, and debt management are in place and current,
- Segregations of duties over recording, authorizing, and reconciling transactions are adequate,
- Journal entries are supported by adequate evidence, processed timely, and approved in accordance with policy and procedures,
- Accurate, timely, and complete financial information (i.e., monthly financial packet to the CFO and the Board) is captured, maintained, reported, and met accounting standards and statutory requirements,
- Account reconciliations are prepared, reviewed, approved, and supported, in accordance with policy and procedures,
- Period-End financial closing procedures are performed timely and reviewed by management in accordance with policy and procedures,
- Sales and Use tax returns are prepared, reviewed, and filed timely,
- Sales tax payments are valid, authorized, and disbursed timely,
- Investments are managed in accordance with NES policy,
- Investment oversight committee meets and reviews investment activity and investment decisions,
- Annual investment activities are presented timely to the Electric Power Board,

- Payments made in-lieu of taxes comply with laws, are accurate, approved and paid timely in accordance with policy and procedures,
- Bad debt reserve is periodically reviewed, calculated consistently, and approved in accordance with policy and procedures,
- Payments agree with supporting documentation (e.g., invoices, purchase orders, receiving reports),
- Accounts payable three-way match variances are investigated and resolved in accordance with policy,
- Petty cash disbursements are approved and agree with supporting documentation,
- Appropriate approval is obtained prior to issuing debt (e.g., Electric Power Board and Metropolitan Government of Nashville and Davidson County),
- Compliance with debt covenants is sufficiently documented and maintained,
- Bond interest and principal payments are made consistent with the date required per the Official Statement, and
- Access to Accounting functions within Ellipse, Flexi, and the Pinnacle and First Horizon banking portals are properly restricted based on roles and responsibilities and monitored in accordance with NES policy.

Management Initiatives and Other Changes Considered

In planning our audit, we considered certain management initiatives and changes in the control environment which included:

- The Corporate Controller position was filled by the Manager of Financial Planning and Analysis on an interim basis upon retirement of the incumbent Controller, and was subsequently hired to permanently fill the Controller position,
- I.T. system upgrades of Ellipse (Work Management and Accounting) and Flexi (Financial Reporting) were implemented in November 2024, and
- With the Ellipse upgrade there was a known issue with the work order capitalization process, for which management implemented a work-around process.

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, no reportable findings were identified. The design and operating effectiveness of controls evaluated during the audit appear adequate and reasonable. However, due to 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.

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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**Nashville Electric Service
Accounting Processes
Recommendations and Best Practices**



To: David Frankenberg, Chief Financial Officer, and Tabitha Beach, Corporate Controller

From: KraftCPAs

Date: May 9, 2025

During our review covering the period December 1, 2023 through November 30, 2024, 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:

Flexi User Access

Access to the Flexi application was not removed timely for the former Manager of Financial Planning and Analysis, when hired to permanently fill the Corporate Controller position. During our review, we determined the Corporate Controller retained access to the Flexi application that was appropriately assigned when she was the Manager of Financial Planning and Analysis. Once identified by Internal Audit, the Controller's access was removed. Management performs an annual review of user access to the Flexi application which typically occurs in August each year. The Manager of Financial Planning and Analysis was hired to permanently fill the Controller position in October. Management should follow the practice of reviewing user access when employees transfer between departments.

Nashville Electric Service
2nd & 3rd Quarters Fiscal Year 2025 Follow-up and Remediation
May 28, 2025

Findings Noted During the FY2017 Meter Reading to Electric Customer Billing Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2017-02</p> <p>As communicated by Customer Relations management prior to the audit, late fees are not always appropriately applied to customer accounts due to a known system limitation. There are two known circumstances that could result in late fees not being properly assessed. During our review of 50 randomly selected customer bills, we identified four bills for which late fees totaling \$24.89 were not applied.</p> <p>Due to the complexity of obtaining information from CIS specific to these scenarios, we were unable to quantify the potential financial exposure. However, Kraft will continue to work with management and IT to obtain and evaluate necessary information.</p>	Medium	<p>Customer Services and IT management are aware of the inconsistencies with late fees. This is one of the many issues with CIS that was considered when determining the order of the Oracle implementation. To correct the legacy CIS was cost prohibitive and may have resulted in unwanted consequences. Therefore, we do not plan to address this within the legacy CIS but it will be addressed within the Oracle C2M application.</p> <p>Implementation Date: March 31, 2025</p>	As part of the Oracle C2M implementation, management redesigned, tested and approved the late fee process successfully. The late fee process and related internal controls have been documented and users have been trained.	Resolved

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May 28, 2025

Findings Noted During the FY2019 Equipment and Storeroom Inventory Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2019-02</p> <p>Certain areas that are used to store and requisition certain materials (specifically utility poles) are not adequately secured or monitored. There are four pole yards that are not staffed and security cameras are not used to monitor activities.</p>	Medium	<p>Staffing the four pole locations that are contained within substations would not be an efficient use of resources. RFID is ultimately the best option to help identify and track the materials as they leave these locations. As stated above, IT is working to identify and implement an RFID system; however, the date for implementing this software is still unknown. Because RFID is not yet in place, the next best option would be to install cameras at these locations. Materials management will work with Facilities to identify options that might be available within each of these locations to install cameras that would enable us to review periods of time when poles have been reported as missing.</p> <p>Implementation Date: July 1, 2019 Revised Implementation Date: June 30, 2020 Revised Implementation Date: June 30, 2021 Revised Implementation Date: June 30, 2022 Revised Implementation Date: June 30, 2023 Revised Implementation Date: December 30, 2025</p>	<p>After evaluation of the analysis and remediation efforts performed to date, we have determined that this risk has been reduced to an acceptable level.</p>	Resolved

Nashville Electric Service
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May 28, 2025

Findings Noted During the FY2024 Corporate Governance and Legal Department Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2024-02</p> <p>The Emergency Response Plan (ERP) was last updated in 2019, and a policy is not currently in place specifying the interval at which the plan should be reviewed and revised. As a result, employee titles for plan implementation and role succession are outdated. For example, the plan currently includes the title “Executive Vice President & CFO” and does not include “Executive Vice President and Chief Engineer,” or “Vice President Chief Financial Officer.”</p>	Low	<p>Management will revise the Emergency Response Plan to update guidelines and procedures relating to emergency response. Additionally, the revision will address current titles and will provide for annual review of the plan document.</p> <p>Implementation Date: October 1, 2024</p>	The Emergency Response Plan was revised November 2024 and incorporated the recommended updates.	Resolved
<p>2024-03</p> <p>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 policies 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.</p>	Low	<p>Management will develop a policy to establish guidelines for adopting, maintaining, and approving departmental-specific policies and procedures. Longer range, Management will consider automated options to support policy management.</p> <p>Implementation Date: Policy guidelines by October 1, 2024; Implementation Date: Consideration of and implementation of an automated solution by July 1, 2027</p> <p>Revised Implementation Date: Policy guidelines by September 1, 2025</p>	Implementation date for developing entity-wide departmental specific policy guidelines has been extended. The long-term component of the action plan is due at a future date.	Revised Target Date

Nashville Electric Service
2nd & 3rd Quarters Fiscal Year 2025 Follow-up and Remediation
May 28, 2025

Findings Noted During the FY2024 Vegetation Management Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2024-01</p> <p>1 & 2) There is an absence of a formally documented plan to meet the long-term cycle trimming goal that covers the entire distribution system, the annual trimming goal used in tracking completion is inconsistent across various reports, and formal contractor performance evaluations are not performed. During our review, we identified the following: Contractor summary reports used to track planning and trimming miles completed by contractors are based on a goal of 800 trim miles annually, which is less than the Vegetation Management department's planned annual goal of 970 miles for FY25. Additionally, the FY25 annual trimming goal of 1,000 miles was communicated and approved by the Electric Power Board at the November 2024 board meeting. The actual miles trimmed year-to-date for FY25 have not been meeting weekly goals, and the miles completed are behind by 148 miles as of information obtained during September 2024, based on the department's annual goal of 970 miles.</p> <p>3) Quarterly Contractor Evaluations were suspended at the beginning of FY24. The evaluations formalized communications with the contractor on performance metrics including tracking of trim miles completed and rework.</p> <p>4) Power BI reporting capabilities within Clearion are not fully utilized for trim cycle reporting.</p>	Medium	<p>1. Development of a Formal Long-Term Plan: To address this gap: Vegetation Management will create and formally approve a comprehensive long-term trimming plan that covers the entire distribution system. The plan will incorporate a three- or four-year rolling cycle approach with appropriate funding, including planned trim miles/circuits and estimated average trim costs. The plan will be subject to annual review and adjustment to account for operational changes, contractor performance, and updated financial projections. The plan will be completed and presented for review and approval by June 2025.</p> <p>2. Alignment of Annual Trim Goals: To address this issue: Moving forward, the annual trim goals presented to the Electric Power Board will be reviewed and aligned with the long-term plan. This issue has been resolved for FY2025 and for FY2026, the approved board goal will be consistently used as the standard across all reporting systems and documents, ensuring consistency in tracking and reporting.</p> <p>3. Reintroduction of Contractor Performance Evaluations: To improve contractor oversight and ensure accountability: Quarterly contractor performance evaluations will be reintroduced starting Q3 FY2025 (March 31, 2025). These evaluations will formalize feedback to contractors on performance metrics such as trim miles completed, rework requirements, and adherence to goals. Appropriate actions, including potential penalties, will be implemented for under-performance as per contractual agreements.</p> <p>4. Utilization of Clearion and Power BI Reporting: Vegetation Management will collaborate with Clearion and IT teams to explore and implement Power BI by January 2026.</p>	Management Action Item #3 - Reintroduction of the Contractor Performance Evaluations has been completed and performed as of Q3 FY25. Other components of the action plan are due at a future date.	Resolved

Nashville Electric Service
2nd & 3rd Quarters Fiscal Year 2025 Follow-up and Remediation
May 28, 2025

Findings Noted During the FY2024 Vegetation Management Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2024-05</p> <p>The Utility Vegetation Management Manual (UVM) contains processes and information that do not reflect current practices. The UVM Manual was updated in January 2024 at the time the Clearion application was implemented, however, other changes have occurred since that time. During our review, we identified the following:</p> <ul style="list-style-type: none"> •The trim cycle goal previously stated as three and a half to four years, does not align with the current planned goal. •Duties previously performed by Administrative Contractors are mentioned throughout the manual. •Contractors ACRT and DRG are referenced in the manual but are not current contractors. •References to Quality Control Inspection Scorecards are included, but these have been discontinued, and instead, trim work audits are now tracked within the Clearion application. •References to regulation FAC-003-2 are outdated as this regulation has been replaced by FAC-003-5. 	Low	<p>1.Trim Cycle Goal: The UVM Manual will be updated to align with the revised trim cycle goal.</p> <p>2.Administrative Contractors: References to former Administrative Contractors will be removed or updated to reflect the current contractor arrangements.</p> <p>3.Contractor References: ACRT and DRG will be replaced with current contractors to ensure that the UVM Manual is reflective of the current contractor roster.</p> <p>4.Quality Control Inspection Scorecards: The UVM Manual will be updated to remove references to discontinued scorecards and instead highlight the Clearion application as the system used for trim work audits.</p> <p>5.FAC-003 Regulation: References to FAC-003-2 will be updated to reflect the current FAC-003-5 regulation.</p> <p>Implementation Date: January 1, 2025</p>	The Utility Vegetation Management Manual was revised January 2025 and incorporated all five components of management's action plan.	Resolved

Nashville Electric Service
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Findings Noted During the FY2024 MDM Post Implementation Review				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2024-01</p> <p>The strategic direction, support model, and support plan for the MDM application have not been agreed upon or developed. While an original business case did exist, an understanding of the future objectives that the MDM application is intended to accomplish is unclear. Understanding the objectives of the application is critical in ensuring that the application is configured and supported to achieve these objectives. During our interviews, we determined that over 55% of the data collected in the MDM application was determined by business stakeholders to be duplicative or unnecessary to perform the user's planned job responsibilities. While this data is no longer collected in the MDM application, it is an example of how unclear objectives resulted in unnecessary collection of data and inefficient use of project resources.</p> <p>In addition, NES has yet to decide on a future support model for functional and IT support of the application. While there are several models that this can be achieved through (e.g., Core Team, a siloed departmental approach, outsourced, or a combination of the three), the lack of a decision regarding future support has resulted in confusion among the Encompass Team and business stakeholders with regard to support and maintenance responsibilities.</p>	Medium	<p>Meter will review previous documentation related to post go-live management of MDM and work with IT and Finance to develop an initial functional support model with the understanding this model may need to be adjusted as more is learned about the use cases for MDM.</p> <p>Implementation Date: July 31, 2024 Revised implementation Date: November 1, 2024</p>	As part of the Encompass C2M implementation NES management prepared and approved documentation defining the post go-live functional and IT support models for C2M/MDM which consisted of the Production Run Model Strategy and Framework, Production Support Plan and Production Stabilization Approach.	Resolved

Nashville Electric Service
2nd & 3rd Quarters Fiscal Year 2025 Follow-up and Remediation
May 28, 2025

Findings Noted During the FY2024 MDM Post Implementation Review				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2024-04</p> <p>While significant reporting over system completeness and accuracy appears to be in place, reporting to validate meter read completeness and accuracy between the head-in systems, CIS, and MDM is not performed. With meter read data being the most important data collected in the system, reporting or source to Implementation validation identifying missing reads, meters generating significant estimation of reads, or other anomalies could provide value in identifying and correcting meter reading issues.</p>	Low	<p>Because of the method used to implement C2M and MDM, along with the system running simultaneously alongside CIS, at any given point in time there is the possibility of having data that doesn't match exactly. As certain VEE rules are implemented, additional checks can be performed on this data to verify that it is indeed correct. These evaluations will continue through the VEE rule evaluations and implementations. This process improvement activity is something that will be ongoing throughout the project and will be necessary to fine tune after C2M go-live.</p> <p>Implementation Date: May 31, 2024 Revised Implementation Date: November 1, 2024</p>	<p>In advance of the C2M implementation, validation, editing, and estimation rules (VEE) for the MDM system were re-evaluated and tested by Meter Department personnel to ensure that system measurement data and their associated To-Dos were relevant, complete, and accurate. Additionally, feedback for Meter Department reporting needs were provided during the C2M Reporting Workshops. Ongoing, the C2M Center of Excellence has developed management dashboards to monitor To-Dos by type, status, and priority.</p>	Resolved

Nashville Electric Service
2nd & 3rd Quarters Fiscal Year 2025 Follow-up and Remediation
May 28, 2025

Findings Noted During the FY2024 MDM Post Implementation Review				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2024-05</p> <p>User access to the MDM application does not appear to be based on least privilege or does not agree with the approved job role assigned during the MDM implementation. During testing of MDM and ODM user access groups with transactional access, we identified eight MDM and nine ODM user groups containing users that are no longer working on the Encompass project or who had job titles which did not align to the approved job roles for those groups. It was determined that most access issues were the result of access granted to select users assisting in post go-live support. After conversations with management, user access was removed for those individuals no longer on the Encompass project. Misaligned access based on approved job roles remains.</p>	Low	<p>NES will evaluate user access needs immediately and begin an annual review of users and privileges.</p> <p>Implementation Date: June 30, 2024 Revised Implementation Date: March 1, 2025</p>	<p>User access in the previous MDM production environment was completely reevaluated as a part of the Oracle C2M implementation. All NES employee job titles and all Contractor access loaded into C2M during go-live activities were reviewed and approved by NES management.</p>	Resolved

Nashville Electric Service
2nd & 3rd Quarters Fiscal Year 2025 Follow-up and Remediation
May 28, 2025

Findings Noted During the FY2023 Network and Cybersecurity-Corporate Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2023-02</p> <p>During inspection of patching for hardware devices, we were not able to obtain documentation to substantiate that routers and switches are monitored and patched, at least biannually, in accordance with management's documented internal control. While we did not identify any devices that were not patched, discussion with IT personnel indicates that procedures to ensure patching is performed may not be consistently applied.</p>	Low	<p>As part of the Service Now Implementation, a process is being defined whereby all network assets are reconciled annually to verify currency of OS and Firmware as appropriate. Additionally, a process has been implemented in Service Now to log all changes, including patches. Information Security will continue to run scans weekly to detect devices that are out of compliance with patching requirements, and report to IT management.</p> <p>Implementation Date: December 31, 2024</p>	I.T. management completed the annual reconciliation of network assets, documented the hardware patching process, is now logging patch activity in ServiceNow, and is performing weekly scans for devices out of compliance with patching requirements.	Resolved

Nashville Electric Service
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May 28, 2025

Findings Noted During the FY2024 IT Department Controls Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2024-01</p> <p>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.</p>	Medium	<p>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.</p> <p>Implementation Date: December 31, 2024 Revised Implementation Date: September 1, 2025 (Server/Backup Standard)</p>	<p>I.T. management completed a quarterly scan of the production server backups.</p> <p>I.T. management is in process of updating the server/backup replication standards.</p>	<p>Resolved</p> <p>Revised Target Date</p>
<p>2024-02</p> <p>A formal process to track and remediate all vulnerabilities detected by Tenable is not currently in place and may not allow IT management the ability to adequately monitor remediation efforts. Although weekly meetings are held to discuss current vulnerabilities, vulnerability remediation is informally assigned and dispersed between many application teams.</p>	Low	<p>I.T. Management agrees with the finding and will document and implement a process that defines the responsibilities for the tracking and remediation of critical and high severity vulnerabilities that exist on NES systems. Due to the volume; Informational, Low, and Medium severity vulnerabilities will be evaluated, but not tracked unless they are determined to carry significant risk in our environment.</p> <p>Implementation Date: December 31, 2024</p>	<p>I.T. management documented and implemented the vulnerability management standard.</p>	Resolved

Nashville Electric Service
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May 28, 2025

Findings Noted During the FY2024 IT Department Controls Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
2024-03 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: December 31, 2024 Revised Implementation Date: September 1, 2025 (System and Data Backup Standard and 3rd Party Application Patching)	I.T. management updated the source code repositories standard. I.T. management is in process of updating the system and data backup standard and creating a new third-party application patching standard.	Resolved Revised Target Date

Nashville Electric Service
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May 28, 2025

Findings Noted During the FY2025 Employee and Contractor Management Audit				
Finding Description	Risk Level	Management Action Plan	Disposition	Status
<p>2025-01</p> <p>401(a) Annual Contribution</p> <p>The query used to generate the Base Earnings Report, which is used in calculating the 401(a) contribution, does not programmatically include and exclude all eligible and ineligible employees, and requires manual adjustments. For the 2023 annual contribution, one ineligible employee was incorrectly included. The contribution amount attributable to this employee was \$9,410.55 and was communicated to the employee at the time the contribution was funded in April 2024. We determined that this individual is an active employee and is a participant in the Defined Benefit Plan, and therefore not eligible for the 401(a) Plan. In addition to the employee's standard profile in HCM, this employee also has a survivor profile that was created in July 2023. The survivor profile appears to have caused the employee to be included in the Base Earnings Report, and upon review by management, a manual adjustment should have been made to exclude the ineligible employee.</p>	Medium	<p>C&B has added a step to their written process so that the 401(a) contributions will be measured against the report that lists the specific employees eligible for the Defined Benefit Plan. C&B will work with IT to see if the report can be modified to programmatically include only those that are eligible for the plan. Seeking ways to be more automated and less manual is a critical goal for C&B as issues are addressed moving forward.</p> <p>Implementation Date: February 28, 2025</p>	<p>Compensation & Benefits (C&B) management updated their 401(a) contribution checklist to include identifying employees included in the 401(a) contribution that are also in the Defined Benefit Plan. C&B management performed this validation for the April 2025 contribution. C&B management collaborated with I.T. personnel and adjustments were made to the 401(a) eligibility query to eliminate the need for certain manual adjustments.</p>	Resolved



Annual Communications Internal Audit May 28, 2025



According to the Audit & Ethics Committee calendar and as required annual communications per the IIA Global Standards, there are six Internal Audit-related items that should be addressed in this meeting, as follows:

1. Review and approval of the annual audit plan,
2. Reviewing the effectiveness of the internal audit (IA) function,
3. Reviewing compliance with Institute of Internal Auditors (IIA) standards,
4. Confirming organizational independence,
5. Advising the Board as to appointment and compensation of the internal audit firm, and
6. Approving the Internal Audit and Audit & Ethics Committee charters.

Additionally, the IIA Global Standards require that we discuss, on an as needed basis, and at least annually, certain aspects of governance of the internal audit function with the board and senior management to maintain alignment among respective responsibilities of the board, senior management, and the internal audit function. In the spirit of these communications, we affirm that:

- The purpose of internal auditing is to help strengthen the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight,
- The Internal Audit function is established, approved, and supported by the board,
- The Internal Audit function's authority, roles, and responsibilities are documented in the Internal Audit Charter,
- The Internal Audit Charter is approved by the board and senior management,
- The Internal Audit Director provides the board and senior management with information needed to support the internal audit function throughout the organization,
- The Internal Audit function is positioned independently,
- The Internal Audit Director maintains and enhances the qualifications and competencies needed to fulfill the roles and responsibilities expected by the board and senior management, and
- The Internal Audit function is overseen by the board and provides sufficient communications to the board and senior management regarding the sufficiency of internal audit resources, potential impairments to independence, results of internal audit services, and results from internal and external quality assurance assessments and improvement programs.

1. Annual Audit Plan Approval

We updated the prior year's risk assessment by interviewing key members of management including board members, the CEO, EVP, CFO, CIO, and all VPs. Adjustments were made to rename one risk area and revise its risk description. Additionally, while risk ratings were adjusted for work order capitalization the overall ranking for this risk area remained consistent with the previously assessed risk ranking. The risk assessment is included in your materials for review.

The audit plan for fiscal year 2026 is the third year of the three-year plan proposed in June 2023. Consistent with our prior methodology, we used the results of the most recent risk assessment to update the audit plan, and we are proposing several changes to the fiscal year 2026 plan. Those changes include adjustments to hours for several projects, with consideration for the impact of various and expected implementation of a governance, risk management, and compliance (GRC) platform. The proposed fiscal year 2026 audit plan is included in the packet for your review, and we will ask for a motion to approve the plan.

2. Effectiveness of the Internal Audit Function

Evaluation by the Audit Committee

The Committee should evaluate IA's effectiveness based on the following IIA performance standards:

- **Management of the Internal Audit Function:** Management is effective when the work achieves the purpose and responsibility included in the IA Charter; the IA activity conforms to the definition of internal auditing; and individuals who are part of the IA activity demonstrate conformance with the Code of Ethics.
- **Planning:** There must be a risk-based audit plan to determine the priorities of the IA activity, consistent with the organization's goals.
- **Communication and Approval:** The plans and resource requirements must be communicated for review and approval, as well as the impact of any resource limitations.
- **Resource Management:** IA resources must be appropriate, sufficient, and effectively deployed to achieve the approved plan.
- **Policies and Procedures:** There must be established policies and procedures to guide the IA activity.
- **Coordination:** Information should be shared, and activities coordinated with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
- **Reporting to Senior Management and the Board:** IA must report periodically to senior management and the Board on the IA activity's purpose, authority, responsibility, and performance relative to the IA plan. Reporting must include significant risk exposures and control issues.
- **External Service Provider & Organizational Responsibility for IA:** Because we are an external service provider, you must be aware of your responsibility for maintaining an effective IA activity.

In 2015, the Audit & Ethics Committee adopted a standard set of questions to be used by the Committee to assess the effectiveness of the internal audit function. These questions were distributed to the members of the Committee earlier this month with the results to be presented at the June meeting.

Evaluation by Management

We have adopted a Quality Assurance and Improvement Program that includes individual audit performance surveys completed by NES, and periodic performance surveys completed by VPs. Individual audit survey results for fiscal year 2025 projects to date are favorable. Respondents were asked to rate the quality of our service on a scale of 1-5 in six performance areas, with 5 being the highest ranking. For all survey responses received the average score for each question was **4 or above** in all areas, with an **overall average score of 4.8** which is consistent with the prior year.

3. Compliance with the IIA Standards

In 2024, the IIA performed a quality review of the internal audit function. Their review was performed to assess the internal audit function's compliance with internal auditing standards. The IIA determined that the internal audit activity generally conforms to the standards. This is the highest rating given by the IIA. KraftCPAs has continued to follow the same practices that were in place at the time of the quality review. The next external quality review will be performed in 2027.

4. Organizational Independence

According to the IIA standards, the Director of Internal Audit must confirm to the Audit Committee annually that there is organizational independence for the IA activity. First, IA reports to a level within the organization that allows fulfillment of responsibilities by reporting administratively to the CEO and functionally to the Audit Committee. Second, the IA function has been free from interference in determining the scope of internal auditing, performing work, and communicating results. Finally, IA communicates and interacts directly with the Audit Committee. These conditions allow IA to have an impartial, unbiased attitude, and avoid any conflict of interest. Accordingly, we can confirm organizational independence.

5. Appointment and Compensation of the Internal Audit Firm

In May 2021, the Board approved a new contract effective June 1, 2021. The contract between NES and KraftCPAs for Internal Audit services is a five-year contract.

The KraftCPAs Risk Assurance and Advisory Services executive and senior management team members in charge of NES' IA activity average more than 20 years of experience in the audit and accounting fields, and our manager level team member has over 10 years of experience, with emphasis in Information Technology and Cybersecurity. Credentials held include the following designations: Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certification in Information Systems Risk and Control (CRISC), and Certified Information Technology Professional (CITP), as well as others. Each team member is required to obtain at least 40 hours of continuing professional education every year. Bios for management team members in charge of the NES IA activity are provided in your materials.

Where additional expertise is required, Kraft utilizes other experts at KraftCPAs (including Kraft Technology Group, Kraft Forensics, and others), as well as experts from our alliance network.

6. Charter Approval

Both the Audit & Ethics Committee and the Internal Audit charters have been reviewed in consideration of the new Global IIA standards and accordingly we are recommending updates to align with the new standards. The proposed charters have been included in the packet for your review, and we will ask for a motion to approve both the Audit & Ethics Committee and Internal Audit Charters.

**Nashville Electric Service
2025 Audit Risk Assessment
(preparation for FY 2026 Internal Audit Plan)**

Risk Area	Risk Area Description	Risk Score	Risk Ranking	Audit Frequency
Cybersecurity (Operations)	Protecting the Operations network from electronic crime such as network outages, data compromised by hackers, computer viruses, and lack of security patches. Includes preventing, detecting, and responding to cyber threats.	5.40	High	Annual
IT Strategy	Designing and implementing a plan that drives the IT direction for NES, including the types of hardware and software that will be used and the level of integration of the systems to achieve NES' mission.	5.30	High	Annual
Cybersecurity (Corporate)	Protecting the Corporate network from electronic crime such as network outages, data compromised by hackers, computer viruses, and lack of security patches. Includes preventing, detecting, and responding to cyber threats.	5.30	High	Annual
Metered Electric Billing	Calculating, reviewing and issuing bills to customers for electric usage tracked using a meter. This includes residential, commercial and manufacturing customers.	5.25	High	Annual
Network Security	Protecting information on the network from unauthorized modification, destruction, or disclosure. This includes logical (e.g., firewalls, passwords) and physical (e.g., controlling access to the data center) security. It also includes the user provisioning process for adding, changing, and removing users from the network.	5.15	High	Annual
North American Electricity Reliability Corporation (NERC)/ Southeastern Electricity Reliability Corporation (SERC)	Ensuring compliance with NERC/SERC requirements. NERC develops electric reliability standards and SERC enforces the standards for the region in which TVA and NES operate.	4.95	High	Annual
Timesheet Process	Documenting, calculating and approving the number of hours an employee works. This is used to both determine the amount to pay an employee and the amount of labor cost to allocate to work orders.	4.90	Medium	Every 2 Years
Contribution in Aid to Construction/Construction Invoicing	Calculating the amount of additional revenues a change in a customer's service will provide in order to determine the amount of construction costs in excess of NES' standard level of service that the customer must pay. This also includes invoicing the customer for the amount they must pay NES for the additional construction costs.	4.85	Medium	Every 2 Years
Financial Reporting (General Ledger)	The primary accounting record used to track all financial transactions and prepare financial statements. This consists of the Ellipse and Flexi systems.	4.85	Medium	Every 2 Years
Business Continuity and Disaster Recovery Planning	Developing and testing procedures to ensure NES can continue critical business operations in the event of an internal or external disaster.	4.85	Medium	Every 2 Years

* Audit frequency is not applicable, the risk will be considered as part of all audits performed.

** The Electric Power Board has requested that the Risk Area be audited annually.

**Nashville Electric Service
2025 Audit Risk Assessment
(preparation for FY 2026 Internal Audit Plan)**

Risk Area	Risk Area Description	Risk Score	Risk Ranking	Audit Frequency
Work Order Capitalization	Identifying capital costs charged to work orders and properly classifying and calculating depreciation costs for accurate financial statement presentation.	4.80	Medium	Every 2 Years
Application Change Management Process	The sequence of steps or activities that are followed to apply changes to applications to ensure the integrity of the related data and processes.	4.70	Medium	Every 2 Years
Supervisory Control and Data Acquisition (SCADA) system	The SCADA system is the software and network components that allow NES to monitor and manage the electric grid.	4.70	Medium	Every 2 Years
Accounts Receivable and Collections	Tracking, collecting, and recording payments due to NES for services provided, including electric power, construction, pole attachments, etc.	4.60	Medium	Every 2 Years
Work Order Process	Creating, processing, and closing work orders for utility plant construction projects (e.g., installing a new pole). Ellipse is the system in which work orders are processed.	4.60	Medium	Every 2 Years
Accounts Payable and Disbursements	Recording, tracking and issuing payments for amounts payable to vendors, suppliers and service providers. This includes controlling and setting-up vendors for payment.	4.50	Medium	Every 2 Years
Lack of Process Documentation	Documenting and communicating business processes to the individuals responsible for performing the function to ensure that business operations continue effectively and efficiently.	4.50	Medium	ALL*
Shadow Information Technology Groups	IT functions and activities that are not visible to or controlled by the CIO including unauthorized use of technology, which may include hardware, software, resources and cloud services, by employees within the organization. Additionally, known functions within the organization that are not overseen or managed by the CIO may not adhere to the organization's IT governance policies and control procedures.	4.50	Medium	ALL*
Termination/Retirement Process and Benefits	Processing retirement paperwork, including calculation of retirement benefits, and managing retiree benefits post-employment.	4.50	Medium	Every 2 Years
Vegetation Management	Tree trimming and other vegetation controls to prevent damage to electrical lines and equipment.	4.50	Medium	Every 2 Years
Disconnect/Reconnect	Disconnecting service for customers who are past due on their customer account or no longer need service and reconnecting service for customers who were previously disconnected.	4.45	Medium	Every 2 Years

* Audit frequency is not applicable, the risk will be considered as part of all audits performed.

** The Electric Power Board has requested that the Risk Area be audited annually.

**Nashville Electric Service
2025 Audit Risk Assessment
(preparation for FY 2026 Internal Audit Plan)**

Risk Area	Risk Area Description	Risk Score	Risk Ranking	Audit Frequency
Physical Security	Security of buildings, sub-stations, and equipment for the protection of NES' employees, customers, and the electric grid.	4.45	Medium	Every 2 Years
Electrical Infrastructure Maintenance & Replacement	Developing and implementing a plan for maintaining the electrical grid and its components (poles, transformers, sub-stations, etc.)	4.40	Medium	Every 2 Years
Reliability and Capacity Planning	Developing and implementing a plan for maintaining the current level of service to its customers and having the capacity to handle new customers as Nashville grows.	4.40	Medium	Every 2 Years
Customer Deposits	Collecting upfront payments from new customers to cover potential loss if a customer does not pay NES for services provided.	4.35	Medium	Every 2 Years
Purchased Power	Calculating and paying TVA for the amount of power NES uses and delivers to its customers. There are many factors in the power invoice from TVA including various program credits.	4.35	Medium	Every 2 Years
Voltage Management\Distribution Management	Monitoring and managing the amount of voltage on the system to ensure adequate service is provided to NES customers. This includes managing the voltage during periods of high demand.	4.35	Medium	Every 2 Years
Employee Safety/Drug Testing/Driver Requirements (CDL)	Ensuring safety of employees, contractors, customers and the general public during NES business operations. This includes ensuring that employees and contractors are qualified and capable of performing a job that could cause harm to themselves or the public.	4.30	Medium	Every 2 Years
Payroll	Paying employees for time worked at the appropriate rate, including overtime or other differentials. This includes ensuring that payroll tax and other payroll withholdings are remitted to the appropriate party timely.	4.30	Medium	Every 2 Years
Facility Construction Projects	Any construction cost related to maintenance, remodeling or expansion of existing buildings or development and construction of new buildings, such as a new service center.	4.30	Medium	Every 2 Years
Meter Reading	Reading meters and uploading readings into the Oracle Utilities (Customer To Meter) System for billing purposes. This includes all methods of reading meters (e.g., manual, remote) and systems used in the process (MV-RS).	4.25	Medium	Every 2 Years
Meter Testing & Quality Control	Ensuring that newly purchased meters are working properly upon receipt and installed meters are operating within NES and American National Standards Institute (ANSI).	4.25	Medium	Every 2 Years

* Audit frequency is not applicable, the risk will be considered as part of all audits performed.

** The Electric Power Board has requested that the Risk Area be audited annually.

**Nashville Electric Service
2025 Audit Risk Assessment
(preparation for FY 2026 Internal Audit Plan)**

Risk Area	Risk Area Description	Risk Score	Risk Ranking	Audit Frequency
Debt Management (Bond Issuance, etc.)	Managing the process for issuing debt in accordance with NES policy and applicable laws and regulations.	4.25	Medium	Every 2 Years
Standard Unit Costing (Compatible Units)	Calculating, monitoring and adjusting the standard cost, including materials and labor, of performing a task (e.g., installing a pole). The standard cost is used in estimating the cost of a work order and capitalizing the resulting asset for accounting purposes.	4.25	Medium	Every 2 Years
Equipment & Storeroom Inventory	Recording, controlling and counting equipment and materials owned by NES.	4.20	Low	Every 3 Years
Capital Expense Classification	Budgeting and accurately classifying capital purchases (e.g., buildings, equipment, infrastructure components)	4.15	Low	Every 3 Years
Environmental Safety	Preventing adverse environmental incidents such as oil or gas spills, including clean-up and reporting these events when necessary.	4.10	Low	Every 3 Years
Key Employee Issues	Planning needed to limit organizational impact of losing a key member of the NES team that holds a large amount of knowledge related to a significant department or process.	4.10	Low	ALL*
Staffing	The ability to staff the department with professionals capable of servicing the needs of NES. This includes total number of professionals along with their qualifications, and succession planning.	4.10	Low	ALL*
Investments	Investing cash on hand in accordance with applicable laws and regulations.	4.10	Low	Every 3 Years
Regulatory Compliance	Compliance with existing regulatory requirements (e.g., Civil Rights, ADA, FLSA, FMLA, HIPAA, OSHA, TOSHA, EPA, FERC, GASB, IRS, Sales and Use tax, data privacy).	4.05	Low	ALL*
Corporate Governance, Culture, Stewardship	Ensuring that the company has adequate oversight and tone at the top to achieve organizational objectives and influence compliance with regulations, policies, and the code of ethics. Creating a culture that encourages responsible behavior, creates trust, promotes employee and public safety, prioritize service reliability and supports vulnerable customers, and empowers employees fostering a culture of respect and innovation. Creating customer confidence through a focus on ethical, social, environmental, cultural, and economic impacts of the organization (e.g., electric vehicles, charging stations, energy efficiency programs, customer response, employee and contractor diversity programs).	3.95	Low	Every 3 Years
Outage Reporting Process	Reporting and responding to electric power outages.	3.95	Low	Every 3 Years

* Audit frequency is not applicable, the risk will be considered as part of all audits performed.

** The Electric Power Board has requested that the Risk Area be audited annually.

**Nashville Electric Service
2025 Audit Risk Assessment
(preparation for FY 2026 Internal Audit Plan)**

Risk Area	Risk Area Description	Risk Score	Risk Ranking	Audit Frequency
Sales Tax Management	Ensuring that sales tax is applied to customers bill at the correct rate and collections are remitted to the state of TN timely.	3.95	Low	Every 3 Years
Meter Installation and Repair	Installing and repairing meters to ensure that customer usage can be accurately tracked and billed timely.	3.90	Low	Every 3 Years
Requisition Process	Requesting, approving and processing purchase requisitions for materials or services from vendors. This includes, but is not limited to, documenting and approving reasons for using a sole source or sole brand.	3.90	Low	Every 3 Years
Vendor Contract Management	Developing and executing contracts with vendors for materials and services, and monitoring to ensure vendor compliance with contract terms.	3.90	Low	Every 3 Years
Hiring Process (Internal and External)	Hiring and filling job openings with qualified candidates timely and in accordance with federal guidelines, NES policy, etc.	3.90	Low	Every 3 Years
Conflict of Interest Process	Employees reporting relationships that could create a potential conflict and negatively impact NES' business. This also includes the process for reviewing reported conflicts and managing as determined necessary.	3.85	Low	Every 3 Years
Non-Metered Electric Billing	Calculating, reviewing and issuing bills to customers for electric usage not tracked with a meter (e.g., street lights).	3.85	Low	Every 3 Years
Pole Attachments	Tracking and billing customers for non-electric lines and equipment attached to poles for the benefit of individuals or the community. This includes phone and cable TV lines paid for by large companies and a variety of items (e.g., speakers) paid for by small companies or individuals.	3.85	Low	Every 3 Years
IT Asset Maintenance & Replacement	Ensuring that IT equipment is current (i.e., not obsolete) and capable of meeting the needs of NES.	3.85	Low	Every 3 Years
Customer Assistance Programs	Administering customer assistance programs (e.g., Home Uplift, Project Help).	3.80	Low	Every 3 Years
Plant Fixed Asset Inventory	Controlling, recording, depreciating and accounting for utility plant fixed assets. Utility plant fixed assets are the structures and components that allow NES to provide electricity to its customers.	3.80	Low	Every 3 Years
Payment In-Lieu of Taxes	The arrangement between NES and the Davidson County Metropolitan government for NES to compensate Metro government for some or all of the tax revenue that it loses because of the nature of the ownership/use of NES' property (i.e., foregone property tax revenue).	3.75	Low	Every 3 Years

* Audit frequency is not applicable, the risk will be considered as part of all audits performed.

** The Electric Power Board has requested that the Risk Area be audited annually.

**Nashville Electric Service
2025 Audit Risk Assessment
(preparation for FY 2026 Internal Audit Plan)**

Risk Area	Risk Area Description	Risk Score	Risk Ranking	Audit Frequency
Property and Right of Way Lease Agreements	Agreements that NES maintains with various individuals and organizations for installing poles and other components of the electrical grid.	3.75	Low	Every 3 Years
Customer Loan Program	Tracking and collecting loan payments from customers and passing those on to TVA. TVA makes loans to customers that meet specific requirements and NES is responsible for collecting the loan payments through the billing process.	3.70	Low	Every 3 Years
Personnel Management	Ongoing development of NES personnel, including, but not limited to, training, performance appraisals, grievances, and compensation. In addition, ongoing communication and engagement with employees.	3.70	Low	Every 3 Years
Customer Contract Management	Issuing and maintaining contractual agreements with customers for services provided. This includes contracts for customers with more than 50kW of electric usage, pole attachments, etc.	3.65	Low	Every 3 Years
Bank Reconciliations	Ensuring that all monies received and paid out by NES are tracked and controlled.	3.55	Low	Every 3 Years
Fleet Maintenance and Replacement	Procuring and maintaining vehicles and other similar equipment.	3.55	Low	Every 3 Years
Material Requisition and Management	Purchasing, tracking and controlling materials used by NES. This includes ensuring that adequate materials (both quantity and quality) used regularly are on hand to meet business needs in a timely manner (e.g., poles, wire).	3.45	Low	Every 3 Years
Bad Debt	Process for collecting and/or writing-off customer account balances for which the customer is unwilling or financially unable to pay.	3.40	Low	Every 3 Years
Petty Cash	Managing cash maintained on-hand to pay for miscellaneous goods or services.	3.30	Low	Every 3 Years
Board, Executive, and Employee Accounts	Ensuring that members of NES management and staff do not or cannot receive free or reduced cost of services provided by NES.	3.30	Low	Annual**
Employee Benefits	Managing and providing health insurance, time off and other benefits to employees.	3.30	Low	Every 3 Years
Travel Expenses	Ensuring that travel costs for members of NES management and staff do not personally benefit the traveler above and beyond the needs of NES.	3.30	Low	Annual**
Customer Setup and Maintenance	Setting up customers in the Oracle Utilities (Customer To Meter) system to ensure customers are billed at the correct rate, location and have the financial ability to pay for requested services.	3.25	Low	Every 3 Years

* Audit frequency is not applicable, the risk will be considered as part of all audits performed.

** The Electric Power Board has requested that the Risk Area be audited annually.

**Nashville Electric Service
2025 Audit Risk Assessment
(preparation for FY 2026 Internal Audit Plan)**

Risk Area	Risk Area Description	Risk Score	Risk Ranking	Audit Frequency
Grant Compliance	Administration of programs funded through grant opportunities, including but not limited to, preparing grant proposals, funds management, expenditure approval, and regulatory reporting.	3.20	Low	Every 3 Years
Asset Damage Billing	Identifying, calculating, and processing invoices to businesses or individuals who have damaged NES equipment. Billing for damage to NES property includes intentional damage, such as meter tampering, or accidental damage, such as hitting a pole with a vehicle. The risk area also includes evaluating, and processing payments to repair or replace property damaged by NES.	3.15	Low	Every 3 Years
General Fixed Asset Inventory	Recording, tracking, and depreciating capital assets such as computers, tools, desks, etc.	3.15	Low	Every 3 Years
Policy Documentation and Update	Documenting, updating and communicating NES policies to ensure the consistent performance of processes and consistent treatment of customers.	3.10	Low	ALL*
Budgeting & Forecasting	Preparing and approving annual budgets. Monitoring and managing budget to actual, including forecasting, review and approval of changes.	2.85	Low	Every 3 Years
Expenditures Related to Community Involvement	Managing funds expended for community involvement ensuring that electric revenues are not used for this purpose and does not directly benefit an NES employee.	2.55	Low	Every 3 Years
Contractor Management	Monitoring, onboarding, and termination of contract workers in accordance with NES policy and contractual obligations.	2.25	Low	Every 3 Years

* Audit frequency is not applicable, the risk will be considered as part of all audits performed.

** The Electric Power Board has requested that the Risk Area be audited annually.

Nashville Electric Service
Proposed Audit Plan - Fiscal Year 2026

Audit Description	Audit Type	Hours
Cybersecurity Operations	Operational	350
Board, Executive, and Employee Accounts	Operational	100
Travel Expenses	Operational	75
Network and Cybersecurity - Corporate	IT	650
Meter to Cash	Integrated	950
Contribution in Aid to Construction	Integrated	400
Equipment and Material Management	Integrated	600
Non-Metered Electric Billing and Miscellaneous Revenues	Integrated	850
Environmental Safety	Integrated	300
T&D Operations	Integrated	650
Physical Security & Employee Safety	Integrated	325
Capital Projects and Capitalization Process	Integrated	500

Additional Items	
Planning, Administration, and Consulting	350
Internal/External Quality Assurance and Improvement Program	100
Audit Committee and Board Meetings	100
Risk Assessment	125
Internal Control Framework and GRC/IRM Assistance	250
ERM Assistance	75
Follow-up and Remediation	250

Total FY26 Audit Plan Hours	7,000
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**THE ELECTRIC POWER BOARD
OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
AUDIT & ETHICS COMMITTEE CHARTER**

I. INTRODUCTION

The Audit Committee at Nashville Electric Service (NES) was established in October 1990 by the Electric Power Board (the "Board"). In August 1996, the Board made a decision to combine the Audit Committee and the Ethics Committee into one committee named the Audit & Ethics Committee. It represents the Board's commitment to maintaining management's accountability by providing independent oversight of the financial reporting and audit process. This independent committee directly influences the control environment. Through the Audit & Ethics Committee, the Board provides the ultimate level of public accountability and trust to NES 's customers.

II. COMPOSITION AND ROLE OF THE AUDIT & ETHICS COMMITTEE

A. COMPOSITION

The Audit & Ethics Committee consists of:

1. Two or more Board members and the Chair of the Board, who is an ex officio member, all of whom shall be independent.
2. The Vice President Chief Financial Officer shall serve as a nonvoting ex officio member.
3. Board members on the Audit & Ethics Committee will be appointed by the Chair of the Board, and one will be designated to serve as the Committee Chair.
4. At least one member must meet the definition of a financial expert. This individual should possess the following skills: understands financial statements; can assess accounting for estimates, reserves, and accruals; has experience in preparing or analyzing financial statements; and understands internal controls.

B. ROLE

1. The Audit & Ethics Committee's role is one of oversight, whereas management is responsible for the adequacy of the systems of internal control and procedures and for preparing the financial statements.
2. The Audit & Ethics Committee plays a key role in the integrity of the organization's financial reporting process and internal control structure, as well as the legal and ethical conduct of the organization's management and employees. The Audit & Ethics Committee shall:

- a) Oversee the accounting and financial reporting processes and ensure effective and continuing internal and external independent audits and control procedures.
- b) Ensure auditor independence.
- c) Ensure that proper and timely attention is paid to control and compliance weaknesses.

III. AUTHORITY AND RESPONSIBILITY OF THE AUDIT & ETHICS COMMITTEE

A. AUTHORITY

- 1. Final decision-making authority is the responsibility of the full Board; therefore, the Audit & Ethics Committee will advise and make recommendations to the Board.
- 2. The Audit & Ethics Committee will advise management and the Outsourced Internal Audit Firm as their duties relate to financial accounting, reporting, internal controls, and compliance. In this manner, the Audit & Ethics Committee assists the Board in fulfilling its fiduciary responsibilities as to the accounting and reporting practices of NES, the adequacy of its auditing, and the adequacy of its disclosures to the public.
- 3. The Audit & Ethics Committee may cause special examinations or investigations to be conducted because of inefficiencies, improprieties, alleged illegal activities, and reports of impediments to the auditors.
- 4. The Chair of the Audit & Ethics Committee may have legal counsel present at any meeting or may seek legal counsel, accountants, or others to advise concerning the responsibilities and/or actions of the Committee.

B. RESPONSIBILITY

- 1. The Audit & Ethics Committee is to serve as a focal point for communication between the Board members, the independent external auditors, the Outsourced Internal Audit Firm, and the organization's management as their duties relate to financial accounting, reporting, internal controls, and compliance.
- 2. The Audit & Ethics Committee should adhere to and enforce the Ethics Policy contained in the NES Policy Manual.

IV. OPERATIONAL GUIDELINES

A. AUDIT & ETHICS COMMITTEE MEETINGS

1. Meetings will be held at least four times a year and more frequently if the Audit & Ethics Committee deems it necessary.
2. The President & CEO and Vice President Chief Legal Officer & General Counsel may attend Audit & Ethics Committee meetings.
3. The Secretary of the Board will attend Audit & Ethics Committee meetings to perform the duties required by the Bylaws of the Board.
4. Other members of NES management may attend Audit & Ethics Committee meetings, as needed.
5. Representatives of the independent external auditors may attend Audit & Ethics Committee meetings.
6. The Audit & Ethics Committee may invite others to attend meetings; input may be sought from employees and/or the public if deemed beneficial.
7. The Audit & Ethics Committee may meet in executive session with the independent external auditors when they are present and/or with the Outsourced Internal Audit Firm. The Audit & Ethics Committee and the Outsourced Internal Audit Firm should meet at least annually without management present.

B. AUDIT & ETHICS COMMITTEE MINUTES AND REPORTS

1. The Secretary of the Board will be responsible for calling meetings, filing reports, and recording minutes.
2. The Secretary will prepare the minutes of each meeting and obtain signed approval for the minutes from the Chair of the Audit & Ethics Committee.
3. The Secretary will forward a copy of the approved minutes to the other Board members.
4. The minutes will be formally approved at the next Audit & Ethics Committee meeting and recorded as such in those minutes.
5. Approved minutes will be made available for public inspection.
6. The Board will be apprised of significant developments through minutes or special presentations.

7. An update of significant items discussed in the Audit & Ethics Committee meetings will be presented to the Board following each Audit & Ethics Committee meeting.

C. INDEPENDENT EXTERNAL AUDITORS

The Audit & Ethics Committee will:

1. Advise the Board as to the appointment and compensation of the external audit firm, including any non-audit services, and provide external auditor oversight. The Bylaws of the Board place some restrictions on non-audit services.
2. Review, prior to the annual audit, the scope and general extent of the external auditors' planned examination. The Audit & Ethics Committee should have an understanding from the external auditors of the factors to be considered in determining the audit scope, including:
 - a) Risk characteristics of NES.
 - b) External reporting requirements.
 - c) Dollar amount and activities considered material.
 - d) Quality of internal accounting, administrative, information technology, and compliance controls.
 - e) Extent of the Outsourced Internal Audit Firm's involvement in the audit examination.
 - f) Areas to be covered during the audit engagement.
3. Review with management and the external auditors' instances, if any, where management has obtained "second opinions" on accounting and financial reporting policies from other accountants.
4. Review with management and the external auditors, upon completion of their audit, financial statements for the year prior to their release to the public. The review should consider whether the financial statements are complete and consistent with information known to the Audit & Ethics Committee members and include discussion of:
 - a) Significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and the impact on the financial statements.
 - b) Selection of and changes in accounting principles or their application, if any, during the year.

- c) Significant adjustments proposed by the external auditors.
 - d) The process used by management in formulating accounting estimates and the external auditors' conclusion regarding the reasonableness of those estimates.
 - e) Any disagreements between the external auditors and management about matters which could significantly affect the financial statements or the auditors' report.
 - f) Difficulties encountered in performance of the audit.
 - g) The accuracy and completeness of other sections of the annual report.
5. Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
 6. Review any reported recommendations the external auditors may have, management's written responses to the external auditors' recommendations for adequacy, and, if necessary, discuss with management the implementation of the recommendations along with completion dates.
 7. Review the status of the implementation of prior-period recommendations and corrective action plans.
 8. Make any necessary recommendations to the Board regarding the resolution of issues relative to the external audit.
 9. Review the performance of the external auditors and make recommendations to the Board regarding appointment or discharge of the auditors.
 10. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the organization, including non-audit services, and discussing the relationships with the auditors.
 11. On a regular basis, meet separately with the external auditors to discuss any matters that the Audit & Ethics Committee or auditors believe should be discussed privately.
 12. If the firm retains the contract for more than five years, consider whether the lead partner or lead member of the engagement team should rotate off of the audit.

D. EXECUTIVE MANAGEMENT

The Audit & Ethics Committee will:

1. Consider the effectiveness of the organization's enterprise risk management program and internal control system, including information technology security and control.
2. Review the President & CEO and Vice President Chief Financial Officer's signed letter of representations addressed to the Audit & Ethics Committee certifying the appropriateness of the financial statements and disclosures contained in the annual report, and that those financial statements and disclosures fairly present, in all material respects, the operations and financial condition of NES.

E. INTERNAL AUDIT

The Audit & Ethics Committee will:

1. Review and approve the Internal Audit Charter and consider amendments to the Charter, as may be required.
2. Review and approve the annual audit plan, including budgeted hours, prepared by the Outsourced Internal Audit Firm and any changes to the plan. The annual plan will include a tentative plan for two additional years. In evaluating the annual audit plan, the Audit & Ethics Committee may consider prior internal audit reports and heightened risk identified by enterprise risk management processes.
3. Review with management and the Outsourced Internal Audit Firm the activities of the internal audit function.
4. Advise the Board as to the appointment and compensation of the Outsourced Internal Audit Firm and review and approve any contractual adjustments.
5. Review internal audit reports and management responses and, if necessary, discuss with management the implementation of the recommendations along with completion dates.
6. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Outsourced Internal Audit Firm.
7. At least once per year, evaluate the performance of the Outsourced Internal Audit Firm.
8. At least once per year, receive and review confirmation of the Outsourced Internal Audit Firm's organizational independence. This includes communicating incidents where independence may have been impaired, and the actions or safeguards employed to address any impairment.

9. Review the effectiveness of the internal audit function and determine whether the Outsourced Internal Audit Firm has reviewed the reliability and integrity of financial and operating information and examined compliance with regulations, laws, policies, and the internal systems in place to assure compliance.
10. Review compliance with The Institute of Internal Auditors' mandatory elements of the International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements, including the principles of Ethics and Professionalism,
11. Review compliance with the Government Accountability Office (GAO) Government Auditing Standards.
12. On a regular basis, meet separately with the Outsourced Internal Audit Firm to discuss any matters that the Committee or the Outsourced Internal Audit Firm believes should be discussed privately, including anonymous Integrity Line submissions of concerns by employees.

F. COMPLIANCE

The Audit & Ethics Committee will:

1. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.
2. Review the findings of any examinations by regulatory agencies and any auditor observations.
3. Obtain regular updates from management and legal counsel regarding compliance matters.
4. Review the process for monitoring conflicts of interest.

G. AMENDMENTS

Any recommended modification or amendment to this Charter must be included on the official Audit & Ethics Committee meeting agenda, and a draft of the modification or amendment must be provided to the members of the Committee in advance. The Audit & Ethics Committee may modify or amend this Charter by an affirmative vote of a majority of its members. Amendments or modifications approved by the Audit & Ethics Committee will be submitted to the Board for final approval.

H. MISCELLANEOUS

The Audit & Ethics Committee may:

1. Perform other activities related to this Charter as requested by the Board and appeal to the Board issues which it cannot resolve.
2. Recommend any appropriate extensions or changes in the duties of the Committee to the Board for approval.
3. Review and assess the adequacy of the Committee Charter annually and request Board approval for proposed changes.
4. Confirm annually that all responsibilities outlined in this Charter have been carried out.
5. Evaluate the Committee's and individual members' performance on a regular basis.

Approved this 28th day, May 2025

Chair of the Electric Power Board

Chair of the Audit & Ethics Committee

Approved as to Form and Legality:

VP Chief Legal Officer & General Counsel

Outsourced Internal Audit Firm:

KraftCPAs PLLC

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D. EXECUTIVE MANAGEMENT

The Audit & Ethics Committee will:

1. Consider the effectiveness of the organization's enterprise risk management program and internal control system, including information technology security and control.
2. Review the President & CEO and Vice President Chief Financial Officer's signed letter of representations addressed to the Audit & Ethics Committee certifying the appropriateness of the financial statements and disclosures contained in the annual report, and that those financial statements and disclosures fairly present, in all material respects, the operations and financial condition of NES.

E. INTERNAL AUDIT

The Audit & Ethics Committee will:

1. Review and approve the Internal Audit Charter and consider amendments to the Charter, as may be required.
2. Review and approve the annual audit plan, including budgeted hours, prepared by the Outsourced Internal Audit Firm and any changes to the plan. The annual plan will include a tentative plan for two additional years. In evaluating the annual audit plan, the Audit & Ethics Committee may consider prior internal audit reports and heightened risk identified by enterprise risk management processes.
3. Review with management and the Outsourced Internal Audit Firm the activities of the internal audit function.
4. Advise the Board as to the appointment and compensation of the Outsourced Internal Audit Firm and review and approve any contractual adjustments.
5. Review internal audit reports and management responses and, if necessary, discuss with management the implementation of the recommendations along with completion dates.
6. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Outsourced Internal Audit Firm.
7. At least once per year, evaluate the performance of the Outsourced Internal Audit Firm.
8. At least once per year, receive and review confirmation of the Outsourced Internal Audit Firm's organizational independence. This includes communicating incidents where independence may have been impaired, and the actions or safeguards employed to address any impairment.

9. Review the effectiveness of the internal audit function and determine whether the Outsourced Internal Audit Firm has reviewed the reliability and integrity of financial and operating information and examined compliance with regulations, laws, policies, and the internal systems in place to assure compliance.
10. Review compliance with The Institute of Internal Auditors' mandatory elements of the International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements, including the principles of Ethics and Professionalism. ~~International Professional Practices Framework consisting of the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards).~~
11. Review compliance with the Government Accountability Office (GAO) Government Auditing Standards.
12. On a regular basis, meet separately with the Outsourced Internal Audit Firm to discuss any matters that the Committee or the Outsourced Internal Audit Firm believes should be discussed privately, including anonymous Integrity Line submissions of concerns by employees.

F. COMPLIANCE

The Audit & Ethics Committee will:

1. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.
2. Review the findings of any examinations by regulatory agencies and any auditor observations.
3. Obtain regular updates from management and legal counsel regarding compliance matters.
4. Review the process for monitoring conflicts of interest.

G. AMENDMENTS

Any recommended modification or amendment to this Charter must be included on the official Audit & Ethics Committee meeting agenda, and a draft of the modification or amendment must be provided to the members of the Committee in advance. The Audit & Ethics Committee may modify or amend this Charter by an affirmative vote of a majority of its members. Amendments or modifications approved by the Audit & Ethics Committee will be submitted to the Board for final approval.

H. MISCELLANEOUS

The Audit & Ethics Committee may:

1. Perform other activities related to this Charter as requested by the Board and appeal to the Board issues which it cannot resolve.
2. Recommend any appropriate extensions or changes in the duties of the Committee to the Board for approval.
3. Review and assess the adequacy of the Committee Charter annually and request Board approval for proposed changes.
4. Confirm annually that all responsibilities outlined in this Charter have been carried out.
5. Evaluate the Committee's and individual members' performance on a regular basis.

Approved this 28th day, May 2025

Chair of the Electric Power Board

Chair of the Audit & Ethics Committee

Approved as to Form and Legality:

VP Chief Legal Officer & General Counsel

Outsourced Internal Audit Firm:

KraftCPAs PLLC

NASHVILLE ELECTRIC SERVICE INTERNAL AUDIT CHARTER

I. MISSION AND SCOPE OF WORK

The mission of NES Internal Audit Outsourcing is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit assists the organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

The scope of work of the Outsourced Internal Audit Firm is to determine whether the NES risk management, control, and governance processes, as designed and implemented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Actions comply with policies, procedures, and applicable laws and regulations.
- Assets are acquired economically, used efficiently, and adequately protected.

The Outsourced Internal Audit Firm will adhere to the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements, including the principles of Ethics and Professionalism. The Outsourced Internal Audit Firm will report periodically to the Electric Power Board through the Audit & Ethics Committee and NES senior management regarding the Internal Audit Function's conformance to the Standards, which will be assessed through a quality assurance and improvement program. In addition, the internal audit activity will adhere to Government Accountability Office (GAO) Government Auditing Standards, relevant NES policies and procedures, and the internal audit activity's standard operating procedures manual.

II. ACCOUNTABILITY

The Outsourced Internal Audit Firm shall be functionally accountable to the Electric Power Board through the Audit & Ethics Committee with administrative oversight provided by the President & CEO to:

- Provide an assessment of the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.

- Report significant issues related to the processes for controlling the activities of NES, including potential improvements to those processes.
- Provide information periodically on the status and results of the annual audit plan.
- Coordinate with the external auditors, Legal, Utility Compliance, Environmental Compliance Group, and Security, as appropriate.

III. INDEPENDENCE AND OBJECTIVITY

The Outsourced Internal Audit Firm reports to the Audit & Ethics Committee of the Electric Power Board and will annually confirm the organizational independence of the internal audit activity. This includes communicating incidents where independence may have been impaired, and the actions or safeguards employed to address any impairment.

The Audit & Ethics Committee is responsible for the evaluation, appointment, or removal of the Outsourced Internal Audit Firm. The Outsourced Internal Audit Firm will communicate and interact directly with the Electric Power Board, through the Audit & Ethics Committee, including in executive sessions and between meetings, as appropriate. The Audit & Ethics Committee will make appropriate inquiries to determine whether there is inappropriate scope or resource limitations.

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will exhibit the highest level of professional integrity, objectivity, and confidentiality in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment.

Internal auditors will disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Internal Audit Director, Board, and management.

RESPONSIBILITY

The Outsourced Internal Audit Firm is responsible for:

- Developing an annual audit plan using risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to the Audit and Ethics Committee for review and approval. The audit plan will consist of a work schedule as well as budget and resource requirements.
- Implementing the approved audit plan, including, as appropriate, special projects requested by management or the Audit & Ethics Committee.
- Maintaining an Internal Audit Function that collectively possesses the knowledge, skills, experience, and professional certifications to meet the requirements of this Charter and the Global Internal Audit Standards.
- Establishing a review process by which the Outsourced Internal Audit Firm assures the effectiveness of the operation of internal auditing activities.
- Performing facilitation, process design, or training at management's request to assist management in meeting its objectives.
- Evaluating and assessing new or changing processes and control activities coincident with their development or implementation.
- Issuing periodic reports to management and the Audit & Ethics Committee summarizing results of audit activities.
- Following up on findings and recommendations and maintaining an open issues file until cleared.
- Performing periodic analyses of the audit plan versus emerging or changing risks and communicating any significant deviations from the approved plan.
- Reporting periodically on the internal audit activity's purpose, authority, and responsibility.
- Performing consulting and advisory services related to governance, risk management and control as determined appropriate.
- Keeping management and the Audit & Ethics Committee informed of emerging trends and successful practices in internal auditing.
- Providing measurement goals and results to the President & CEO.

- Assisting in the investigation of significant suspected fraudulent activities within the organization and notifying management and the Audit & Ethics Committee of the results.
- Reviewing and assessing the adequacy of the Internal Audit Charter annually and requesting Audit & Ethics Committee approval for proposed changes.
- Facilitating and reporting the results of the annual Enterprise Risk Management (ERM) process performed by NES Management to the Audit & Ethics Committee. Internal Audit is not responsible for developing or implementing any of the mitigating controls identified by NES Management.

The Outsourced Internal Audit Firm is not authorized to:

- Perform any operational duties for the organization, including, but not limited to, implementing internal controls, developing procedures, installing systems, preparing records, or engaging in any activity that may impair internal auditor's judgment.
- Initiate or approve accounting transactions.
- Direct the activities of any employee.

IV. AUTHORITY

In carrying out the internal audit objectives, the Outsourced Internal Audit Firm is authorized to:

- Have access to all of NES's functions, records, properties, and personnel. This authority extends to third-party processors and independent contractors.
- Have access to the Audit & Ethics Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.

V. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement, and conformance with GAO Government Auditing Standards. This program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Outsourced Internal Audit Firm will communicate to executive management and the Electric Power Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every three years.

VI. AMENDMENTS

Any recommended modification or amendment to this Charter must be included on the official Audit & Ethics Committee meeting agenda, and a draft of the modification or amendment must be provided to the members of the Committee in advance. The Audit & Ethics Committee may modify or amend this Charter by an affirmative vote of a majority of its members. Amendments or modifications approved by the Audit & Ethics Committee will be submitted to the Electric Power Board for final approval.

Approved this 28th day, May 2025

Chair of the Electric Power Board

Chair of the Audit & Ethics Committee

Approved as to Form and Legality:

VP Chief Legal Officer & General Counsel

Outsourced Internal Audit Firm:

KraftCPAs PLLC

NASHVILLE ELECTRIC SERVICE INTERNAL AUDIT CHARTER

I. MISSION AND SCOPE OF WORK

The mission of NES Internal Audit Outsourcing is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit assists the organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

The scope of work of the Outsourced Internal Audit Firm is to determine whether the NES risk management, control, and governance processes, as designed and implemented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Actions comply with policies, procedures, and applicable laws and regulations.
- Assets are acquired economically, used efficiently, and adequately protected.

The Outsourced Internal Audit Firm will adhere to the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements, including the principles of Ethics and Professionalism. The Outsourced Internal Audit Firm will report periodically to the Electric Power Board through the Audit & Ethics Committee and NES senior management regarding the Internal Audit Function's conformance to the Standards, which will be assessed through a quality assurance and improvement program. ~~consisting of the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. The Institute of Internal Auditors' Implementation Guidance and Supplemental Guidance will also be adhered to as applicable to guide operations.~~ In addition, the internal audit activity will adhere to Government Accountability Office (GAO) Government Auditing Standards, relevant NES policies and procedures, and the internal audit activity's standard operating procedures manual.

II. ACCOUNTABILITY

The Outsourced Internal Audit Firm shall be functionally accountable to the Electric Power Board through the Audit & Ethics Committee with administrative oversight provided by the President & CEO to:

- Provide an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of NES, including potential improvements to those processes.
- Provide information periodically on the status and results of the annual audit plan.
- Coordinate with the external auditors, Legal, Utility Compliance, Environmental Compliance Group, and Security, as appropriate.

III. **INDEPENDENCE AND OBJECTIVITY**

The Outsourced Internal Audit Firm reports to the Audit & Ethics Committee of the Electric Power Board and will annually confirm the organizational independence of the internal audit activity. This includes communicating incidents where independence may have been impaired, and the actions or safeguards employed to address any impairment.

The Audit & Ethics Committee is responsible for the evaluation, appointment, or removal of the Outsourced Internal Audit Firm. The Outsourced Internal Audit Firm will communicate and interact directly with the Electric Power Board, through the Audit & Ethics Committee, including in executive sessions and between meetings, as appropriate. The Audit & Ethics Committee will make appropriate inquiries to determine whether there is inappropriate scope or resource limitations.

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will exhibit the highest level of professional integrity, objectivity, and confidentiality in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment.

Internal auditors will disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Internal Audit Director, Board, and management.

RESPONSIBILITY

The Outsourced Internal Audit Firm is responsible for:

- Developing an annual audit plan using risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to the Audit and Ethics Committee for review and approval. The audit plan will consist of a work schedule as well as budget and resource requirements.
- Implementing the approved audit plan, including, as appropriate, special projects requested by management or the Audit & Ethics Committee.
- Maintaining an Internal Audit Function that collectively possesses the knowledge, skills, experience, and professional certifications to meet the requirements of this Charter and the Global Internal Audit Standards.
- Establishing a review process by which the Outsourced Internal Audit Firm assures the effectiveness of the operation of internal auditing activities.
- Performing facilitation, process design, or training at management's request to assist management in meeting its objectives.
- Evaluating and assessing new or changing processes and control activities coincident with their development or implementation.
- Issuing periodic reports to management and the Audit & Ethics Committee summarizing results of audit activities.
- Following up on findings and recommendations and maintaining an open issues file until cleared.
- Performing periodic analyses of the audit plan versus emerging or changing risks and communicating any significant deviations from the approved plan.
- Reporting periodically on the internal audit activity's purpose, authority, and responsibility.
- Performing consulting and advisory services related to governance, risk management and control as determined appropriate.

- Keeping management and the Audit & Ethics Committee informed of emerging trends and successful practices in internal auditing.
- Providing measurement goals and results to the President & CEO.
- Assisting in the investigation of significant suspected fraudulent activities within the organization and notifying management and the Audit & Ethics Committee of the results.
- Reviewing and assessing the adequacy of the Internal Audit Charter annually and requesting Audit & Ethics Committee approval for proposed changes.
- Facilitating and reporting the results of the annual Enterprise Risk Management (ERM) process performed by NES Management to the Audit & Ethics Committee. Internal Audit is not responsible for developing or implementing any of the mitigating controls identified by NES Management.

The Outsourced Internal Audit Firm is not authorized to:

- Perform any operational duties for the organization, including, but not limited to, implementing internal controls, developing procedures, installing systems, preparing records, or engaging in any activity that may impair internal auditor's judgment.
- Initiate or approve accounting transactions.
- Direct the activities of any employee.

IV. AUTHORITY

In carrying out the internal audit objectives, the Outsourced Internal Audit Firm is authorized to:

- Have access to all of NES's functions, records, properties, and personnel. This authority extends to third-party processors and independent contractors.
- Have access to the Audit & Ethics Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.

V. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the ~~Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Standards, application~~

~~of the Code of Ethics, Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement,~~ and conformance with GAO Government Auditing Standards. This program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Outsourced Internal Audit Firm will communicate to executive management and the Electric Power Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every three years.

VI. AMENDMENTS

Any recommended modification or amendment to this Charter must be included on the official Audit & Ethics Committee meeting agenda, and a draft of the modification or amendment must be provided to the members of the Committee in advance. The Audit & Ethics Committee may modify or amend this Charter by an affirmative vote of a majority of its members. Amendments or modifications approved by the Audit & Ethics Committee will be submitted to the Electric Power Board for final approval.

Approved this 28th day, May 2025

Chair of the Electric Power Board

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Approved as to Form and Legality:

VP Chief Legal Officer & General Counsel

Outsourced Internal Audit Firm:

KraftCPAs PLLC



Scott Nalley

CPA, CITP, CIA, CISA, CISSP, CHQP

Member-in-Charge Risk Assurance and Advisory Services

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Scott Nalley is the member-in-charge with the risk assurance and advisory services (RAAS) group at KraftCPAs PLLC. He is responsible for overall management and oversight of the RAAS practice, including its staffing, daily operations, quality control, and client relationships.

Additionally, Scott provides a variety of risk management, internal control, and regulatory compliance consulting services, including internal audits, system and organization controls (SOC) attestation examinations, HITRUST assessments, and HIPAA risk analysis. His areas of expertise include risk assessments, network security assessments, network vulnerability assessments, IT audit, data privacy compliance, and risk management, as well as designing, implementing, and testing internal controls.

Scott works extensively with clients in the governmental, manufacturing/wholesale/distribution (MWD), utility, technology, healthcare, and professional service industries. As leader of the firm's internal audit team, Scott also works with internal audit departments and public accounting firms to provide quality assurance and peer reviews.

Scott has more than 20 years of experience in public and private sector accounting. His previous public accounting experience includes performing external audits for nonprofit and governmental entities, dealerships, and MWD clients, as well as audits of employee benefit plans. Scott also worked for six years as an internal auditor for Vanderbilt University.

CERTIFICATIONS

- » Certified Public Accountant
- » Certified Information Systems Auditor
- » Certified Information Technology Professional
- » Certified Internal Auditor
- » Certified Information Systems Security Professional
- » HITRUST Certified CSF Practitioner
- » HITRUST Certified HITRUST Quality Professional
- » Certified HIPAA Compliance Officer
- » AICPA Advanced SOC Practitioner Certificate
- » AICPA SOC for Cybersecurity Certificate
- » AICPA National SOC Peer Reviewer

INVOLVEMENT

Current Involvement

- » American Institute of Certified Public Accountants
- » Tennessee Society of Certified Public Accountants
- » The Institute of Internal Auditors, Academic Relations Committee; Board of Governors
- » Leadership Health Care
- » Tennessee State University, Accounting Advisory Board

Previous Involvement

- » Rebuilding Together Nashville, President, Treasurer

EDUCATION

- » BBA in Accounting, University of Memphis
- » Minimum 40 hours per year of continuing professional education

PROFESSIONAL ACHIEVEMENTS

- » Practice Development and Internal Service Awards, KraftCPAs
- » Frequent presenter to organizations including:
 - East TN IIA Chapter, Auditing Accounts Payable from an IA and Fraud Examiner Perspective
 - Public Utility Accountant Association, Effective Internal Controls
 - Fraud: When Truth is Stranger Than Fiction: Middle Tennessee ACFE, Lipscomb Accounting Conference, Association of Government Accountants
 - Keep Your Boat Afloat: Are You Cybersecure?
 - Lipscomb Accounting Conference: Auditing IT Internal Controls and IT Security
 - TSCPA Healthcare Conference, HIPAA Update: The 2020 Impact



Patrick Clark

CIA, CPA

Senior Manager
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Patrick Clark is a senior manager with the risk assurance and advisory services (RAAS) practice at KraftCPAs PLLC. He is responsible for planning and executing integrated internal audit engagements, evaluating effectiveness and efficiency of clients' business processes, building client relationships, and preparing and presenting reports to management and boards of directors.

Patrick primarily works with manufacturing/wholesale/distribution (MWD), utility, and governmental clients. In addition to internal audit and risk management consulting, he has extensive experience assisting clients in the design and implementation of Sarbanes-Oxley (SOX) compliance programs using the COSO 2013 Integrated Internal Controls Framework, as well as overseeing SOX testing, compliance, and reporting. Patrick's internal audit and SOX experience includes assessments of entity level controls, general controls over information technology, fraud risk assessments, and financial and operational business processes and controls.

Patrick currently manages a fully outsourced, fully integrated internal audit engagement that consists of more than 30 audit projects and more than 9,000 hours annually. Specifically for this engagement, he is responsible for performing annual risk assessments, developing internal audit plans, supervising and training staff, assisting with enterprise risk management (ERM) updates, assisting with internal control framework documentation, performing special projects, and providing best practice recommendations.

Prior to joining KraftCPAs, Patrick had more than 15 years combined experience serving as vice president of internal audit for a publicly traded global manufacturing company, and as audit director for a restaurant holding company that had U.S. and international operations and both company-owned and franchised stores. As VP of internal audit, Patrick was instrumental in implementing the company's first internal audit department, including establishing audit guidelines and approach, reporting, internal audit charter, formal communications to the board, preparing job descriptions, and hiring staff. In both roles, he was responsible for managing day-to-day activities of the internal audit department, preparing the annual risk assessment and audit plan, overseeing the SOX compliance programs, coordinating audit plans with external auditors, and communicating results with management and the board.

Overall, Patrick has 30 years of professional accounting and internal audit experience, including as senior manager of business risk services at a Big Four firm.

CERTIFICATIONS

- » Certified Internal Auditor
- » Certified Public Accountant

EDUCATION

- » BS in Finance and Accounting, Murray State University
- » Minimum 40 hours per year of continuing professional education

INVOLVEMENT

- » American Institute of Certified Public Accountants
- » Institute of Internal Auditors, Nashville Chapter Past President
- » Friends of Nashville Opera, President, Former VP of Strategic Development/Finance



Jamie Braswell

CIA

Senior Manager
Risk Assurance and Advisory Services

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Jamie Braswell is a senior manager with the risk assurance and advisory services (RAAS) practice at KraftCPAs PLLC. She has more than 10 years of experience working with clients in multiple industries, including financial, manufacturing/wholesale/distribution, utility, governmental, and others.

Jamie is primarily responsible for planning, performing, and executing internal and external audits, risk assessments, Sarbanes-Oxley (SOX) program implementations, SOX controls testing, and system and organization controls (SOC) attestation examinations, as well as enterprise risk management and other consulting engagements.

In addition, Jamie regularly evaluates the effectiveness and efficiency of business processes, internal controls, and risk management strategies. Specifically for financial institutions, she performs internal audits, loan reviews, National Automated Clearing House Association (NACHA) audits, trust department audits, and compliance audits.

Jamie has successfully managed projects for several of the firm's largest clients, including all aspects for a public financial institution with more than \$47 billion in assets; outsourced integrated internal audit and consulting projects for the 11th-largest public utility in the United States; and for a private food manufacturer with more than \$1 billion in annual revenue. She also has international work experience in China and Singapore, where she performed SOC engagements.

Jamie began her career in public accounting with an internship at KraftCPAs in 2010 before becoming a full-time team member in 2011.

CERTIFICATIONS

- » Certified Internal Auditor

EDUCATION

- » MBA, Tennessee Tech University
- » BS in Accounting, Tennessee Tech University
- » Minimum 40 hours per year of continuing professional education

INVOLVEMENT

- » American Institute of Certified Public Accountants
- » The Institute of Internal Auditors

PROFESSIONAL ACHIEVEMENTS

- » KraftCPAs Practice Development Award



Alex Herrin

CPA, CISA

Manager
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Alex Herrin is a manager with the risk assurance and advisory services (RAAS) practice at KraftCPAs PLLC. He has more than eight years of experience and is responsible for coordinating, supervising, and executing IT internal audit services, network security and cybersecurity assessments, and system and organization controls (SOC) attestation examinations, as well as evaluating the effectiveness and efficiency of business processes.

His experience includes IT audits, network and cybersecurity assessments, and SOC readiness reviews and examinations for clients in a variety of industries, including manufacturing, utilities, managed IT, and information security. Additionally, he has experience with FFIEC IT regulatory audits and Sarbanes-Oxley (SOX) testing for financial institutions ranging between \$1 billion in assets to approximately \$47 billion in assets.

Alex previously worked with the RAAS practice at KraftCPAs from 2016 to 2019. Before returning to KraftCPAs in 2023, Alex was an information security analyst and IT internal auditor for a public regional bank with more than \$12 billion in assets. As an information security analyst, Alex focused primarily on managing governance, risk, and compliance for the information security department. He also managed the phishing and event monitoring programs while interfacing with both internal and external audit to ensure successful regulatory and SOX audits. As an internal IT auditor, Alex led internal and SOX audits.

CERTIFICATIONS

- » Certified Public Accountant
- » Certified Information Systems Auditor

EDUCATION

- » BS in Accounting, Mississippi State University
- » Master of Accountancy with concentration in Accounting Systems, Mississippi State University
- » Minimum 40 hours per year of continuing professional education

INVOLVEMENT

- » American Institute of Certified Public Accountants
- » Tennessee Society of Certified Public Accountants
- » ISACA
- » Institute of Internal Auditors
- » Cloud Security Alliance

Executive Session
(if needed)

Miscellaneous