

**Tennessee Public Utility Commission
Audit Committee
Meeting Minutes
June 20, 2023**

Present: Chair Herbert Hilliard
Vice Chair David Jones
Commissioner Clay Good
Commissioner Robin Morrison
Commissioner David Crowell
Commissioner John Hie
Commissioner Kenneth Hill (by telephone)

In attendance: Earl Taylor, Executive Director
Kelly Grams, General Counsel
Ashlee Hatfield, Operations Director
Michelle Mairs, Deputy Director of Utilities/Internal Auditor
David Foster, Director of Utilities
Craig Cox, Financial Regulatory Analyst
Emily Qingshe, Audit Manager
Grace Marek, Utilities Consultant
Joe Shirley, Audit Committee Secretary

MINUTES OF MEETING

A. Call to Order

Public notice having been issued on June 9, 2023, Chair Hilliard called the meeting of the Audit Committee to order on June 20, 2023, in the Fourth Floor Conference Room of the Commission's offices at 502 Deaderick Street, Nashville, Tennessee.

B. Quorum

A quorum of the Audit Committee was deemed present, and the meeting was opened for business.

C. Presentation of Internal Audit Report

Mr. Foster made opening comments, introducing Utilities Division staff who worked on the internal audits and thanking management for their cooperation and responsiveness during the audit process. Mr. Foster also stated that this year's internal audits recognized that the agency's procedures in certain areas were modified in response to the COVID-19 health emergency when many staff worked primarily at home, but now that operations have started to normalize with hybrid schedules of staff working both in-office and at-home, the audits focused on appropriate procedures that should be implemented on a going forward basis to improve the agency's control environment.

Ms. Mairs presented the internal audit report for the fiscal year ended June 30, 2023. The report was distributed to Committee members for review and discussion. Ms. Mairs stated that, as detailed in the report, five audits were performed in accordance with the annual

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audit plan approved previously by the Committee: (1) Inspection Fees and Charges; (2) Purchases and Internal Action Requests; (3) Receipt of Online Payments; (4) Compliance with Small and Minority-Owned Business Plan Requirements; and (5) Compliance with Title VI Requirements.

Ms. Mairs reported that, based on the audit work conducted, Internal Audit makes recommendations in all five areas audited as follows:

- An examination of inspection fees disclosed that some companies receiving delinquent notices still had not paid their inspection fees after a year or more past the statutory due date. Additionally, the process for compiling the annual list of companies to receive inspection fee notices should be improved to ensure appropriate cut-off procedures to include all certificated utilities. It was discussed, and confirmed by Ms. Grams, that procedures to address delinquent companies that do not pay their fees will include a referral to the Legal Division for appropriate action, which may include show-cause proceedings.
- A review of the purchasing process revealed that the agency's mail procedures should be updated to strengthen the prompt receiving and accounting for mails and parcels.
- A review of the online payment processing system disclosed the lack of written procedures for the agency's handling of online payments; and that payments received through the online payment processing system were not reconciled to Edison and internal databases to ensure accuracy and completeness of online payment processing and reporting, and that written procedures should be developed and implemented addressing the agency's handling of online payments.
- Ms. Mairs noted that the Commission has a statutory duty to require regulated telecommunications companies to provide and update annually a Small and Minority-Owned Business Participation Plan; and that a review of the agency's administration of this statute showed (a) that procedures should be developed to follow-up with companies that fail to make timely submissions of their plans and (b) that documentation supporting the agency's compliance with its statutory responsibilities should be strengthened.
- Finally, Ms. Mairs noted that as a recipient of federal funds, the Commission must affirm its compliance with the nondiscrimination requirements of Title VI of the Civil Rights Act of 1964, and that to strengthen evidence of the agency's compliance with Title VI requirements, management should retain documentation of annual Title VI employee training. It was noted that management and the Title VI Coordinator had revised procedures and was currently addressing this recommendation during the agency's annual Title VI training cycle ongoing in June 2023.

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Ms. Mairs stated that management concurred with each of these recommendations and developed responsive corrective action plans to address them.

Upon inquiry by Chair Hilliard and further discussion among Committee members and Internal Audit staff, it was determined that management's corrective action plans made in response to the audit recommendations should include specific target completion dates for implementation of corrective actions, as well as identification of persons responsible for their implementation. Ms. Mairs stated that Internal Audit will follow-up with management to include such information in the corrective action plans and will revise the internal audit report accordingly.

Ms. Mairs addressed the follow-up of internal audit recommendations from the prior years' reports. The Committee was informed that one prior audit recommendation regarding compliance with the agency's tariff specifications rule had been satisfactorily resolved, but three other prior audit recommendations remained unresolved since planned corrective actions have not been fully implemented. The three open recommendations concern the following areas: (1) adherence to general filing requirements; (2) documentation for reimbursement of personnel costs related to Underground Utility Damage Prevention; and (3) documentation of shipping and postal costs related to the federal Gas Pipeline Safety Grant. After inquiries by Chair Hilliard and discussion by the Audit Committee, it was determined that Internal Audit will provide a written follow-up report by the end of the calendar year regarding the status of the three unresolved audit recommendations. Ms. Mairs stated Internal Audit will continue following up on management's plans to address these areas and report back to the Audit Committee in a written report by December 31, 2023.

D. Approval of Internal Audit Report

Following review and discussion, on motion duly made, seconded, and carried by unanimous vote, it was resolved that the internal audit report for the fiscal year ending June 30, 2023, be approved with revisions to include specific completion dates and responsible persons for management's corrective action plans. In accordance with the Audit Committee Charter, a copy of the report, as revised, will be submitted to the Comptroller of the Treasury.

E. Presentation of Internal Audit Plan

Ms. Mairs presented the internal audit plan for the upcoming fiscal year ending June 30, 2024. The proposed plan was distributed to Committee members for review and discussion. Upon inquiry by Chair Hilliard and discussion by staff, including Michelle Mairs, David Foster and Joe Shirley, it was expressed that internal audit had sufficient available resources to carry out the agency's internal audit function, given the agency's size and the Utilities Division's allocation of approximately one-third of a full-time position to performing audits. Based on available resources, a plan to conduct internal

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audits in the following areas was recommended: (1) Inspection Fees; (2) Purchase Card Transactions; (3) Compliance with ARM Requirements; (4) Compliance with Mandatory Training Requirements; and (5) Follow-up of Prior Audit Recommendations. A report on the results of all internal audits will be issued prior to the end of the fiscal year ending June 30, 2024.

F. Approval of Internal Audit Plan

Following review and discussion, on motion duly made, seconded, and carried by unanimous vote, it was resolved that the proposed internal audit plan for the fiscal year ending June 30, 2024, be approved. In accordance with the Audit Committee Charter, a copy of the plan will be submitted to the Comptroller of the Treasury.

G. Follow-Up Report

After discussion by Chair Hilliard and the Audit Committee, it was determined that Internal Audit will submit a written report to the Audit Committee by December 31, 2023, on the status of management's implementation of corrective actions responsive to the three unresolved audit recommendations carried forward from prior year audits.

H. Scheduling of Next Meeting

Following discussion it was determined that a meeting of the Audit Committee will be scheduled on the date of the June 2024 Commission conference to consider the internal audit report for the fiscal year ending June 30, 2024, and the internal audit plan for the fiscal year ending June 30, 2025. It was noted that if the June 2024 Commission conference was canceled, the scheduled meeting of the Audit Committee will be postponed until the date of the following Commission conference.

I. Adjourn

There being no further business, Chair Hilliard adjourned the meeting.

Minutes prepared by Joe Shirley, Secretary, on 6/23/2023