County Employees Retirement System
Employer Audit Committee - Regular Meeting
September 23, 2026 at 2:00 PM ET (1:00 PM CT)
Live Video Conference/Facebook Live

AGENDA

1.	**Call to Order**	**Steven Webb**
2.	**Legal Public Statement**	**Eric Branco**
3.	**Roll Call**	**Sherry Rankin**
4.	**Public Comment**	**Sherry Rankin**
5.	**Approval of Minutes* - July 13, 2026**	**Steven Webb**
6.	**Chief Auditor Employer Audit Plan***	**Kristen Coffey**
	a. Peery Survey Results	**Madeline Evans**
	b. Audit vs Review	
	c. Job Descriptions – Internal Audit vs ERCE	
	d. Information Learned from Peers	
	e. Proposed KPPA Internal Audit Risk Assessment	
	f. Draft KPPA Internal Audit Employer Audit Plan	
7.	**Adjourn**	**Steven Webb**

Committee Action May be Taken

MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
EMPLOYER AUDIT COMMITTEE
JULY 13, 2026, AT 2:00 P.M. ET (1:00 P.M. CT)
VIA LIVE VIDEO TELECONFERENCE

At the July 13, 2026, County Employees Retirement System (CERS) Employer Audit Committee Meeting, the following Committee members were present: Steven Webb (Chair), Dr. Patricia Carver, Jim Tony Fulkerson, Tommy McGraw, and George Cheatham. Staff members present were CERS CEO, Ed Owens III, Ryan Barrow, Michael Lamb, Odette Gwandi, Victoria Hale, D'Juan Surratt, Kristen Coffey, James Westbay, Crystal Sorrell, Anita Smith, Dan Peters, Shaun Case, Sherry Rankin, and Mary Hill. Others present included Eric Branco of Johnson Bowman Branco & Collins, LLP and Green County Judge Executive, John Frank.

1. Mr. Webb called the meeting to ***order.***

2. Mr. Branco read the ***Opening Statement***.

3. Ms. Rankin called the ***roll***.

4. Ms. Rankin noted that no ***Public Comments*** were submitted.

5. Mr. Webb introduced agenda item ***Approval of Minutes*** *(Video 00:07:06 to 00:7:44).* Mr. Cheatham made a motion to approve the minutes, as presented, and Mr. McGraw seconded the motion. A vote was held and the motion carried unanimously.

6. Mr. Webb introduced agenda item ***Frequency of Committee Meetings*** *(Video 00:07:49 to 00:09:22).* Mr. Webb initially recommended a bi-monthly schedule for the cadence of meetings for this Committee and Mr. Cheatham and Dr. Carver agreed. Dr. Carver made a motion to hold bi-monthly meetings going forward and Mr. Cheatham seconded. A vote was held and the motion carried unanimously.

7. Mr. Webb introduced agenda item ***Auditor of Public Accounts (APA) Referral Recap*** *(Video*

00:09:26 to 00:17:38). Mr. Owens gave a brief recap of the origin of the Committee and explained that CERS became involved in employer audits after receiving two (2) letters from the State Auditor, Allison Ball, in mid-2025 which identified discrepancies between payroll and reported receipts for two (2) employers. He stated that CERS sent Ms. Ball a response letter and outlined actionable steps, including the formation of an ad hoc committee and a plan to review approximately 1,200 employers. Mr. Owens noted that during his investigation he discovered there had been several letters sent from the APA to KPPA of which he had been previously unaware. He went on to note that employer audits were identified as the highest risk in the KPPA agency in 2018 (then KRS), but no program was established at that time due to various reasons. Action was not taken until mid-2025. Mr. Owens stated that he requested a review of audits conducted by the State Auditor and it was found that approximately one third of CERS employers are audited by Ms. Ball's office.

The chief auditor was subsequently asked to conduct a second review of the audits, with new data to be presented later in the meeting. Mr. Owens clarified that the audit program was not intended to punish employers, but to establish a reliable system that benefits both employers and employees by reducing unexpected contribution issues and lump sum bills. He noted that the ad hoc committee was converted into a standing committee to continue addressing employer audit issues and improve outcomes for both employers and employees.

8. Mr. Webb introduced agenda item ***Chief Auditor Investigation*** *(Video 00:17:40 to 00:37:19).* Ms. Coffey presented an updated review of 360 employers that resulted in changes to the numbers and categories since the previous presentation in October, including more reports from fiscal years 2024 and 2025, refined criteria for impact assessment, and expanding audit categories. The Committee discussed the scale of the issue, noting that the number of employers needing review far exceeds the number of audits completed in recent years. Ms. Coffey also touched on expanded methodology and categories used to assess audit findings.

   Mr. Webb and Mr. Cheatham had inquiries about the "yes" categories in the findings and how many of those were repeat entities as opposed to new entities. A quick count revealed that approximately 25% of those flagged were repeat entities appearing in multiple years. Mr. Cheatham highlighted that roughly ninety (90) employers identified in the current grouping need to be reviewed, which is three (3) to four (4) times the number of audits completed in the past four (4) to five (5) years, underscoring the scale of the issue.

Mr. Owens noted the lack of retirement payment matching payroll audits for CERS employers from 2021 to 2025. He explained that House Bill 8 (2022) required five (5) audits per year for KERS employers, but CERS employers were not audited to verify receipt of all funds due to the system. He noted that while the system has reported negative cash flow, it remains healthy as the negative cash flow is less than 1% of assets, which is below the industry standard threshold of 3%. He clarified for Dr. Carver that while there had been no action taken prior to the notification from Auditor Ball, since receiving her letter, there had been significant activity initiated, including the Committee's preference for the Chief Auditor to develop an audit plan, while KPPA's preference is for the ERCE team to perform the audits.

Mr. Cheatham highlighted the importance of addressing both sides of the equation; assessment and verification, and education to prevent continually having these issues. Mr. Surratt noted that the ERCE team has, in fact, performed audits on CERS employers, and has recently formed a team to focus on producing more in the future. Following this discussion, Mr. Webb asked Ms. Coffey if she would develop a protocol for employer audit procedures and she agreed.

Ms. Coffey also shared a benchmarking exercise that was conducted by reaching out to fifty-three (53) pension systems. Of the twenty-four (24) responses received, 73% (16 agencies) have internal audit conduct employer audits, four (4) use outside auditors, and two (2) (including KPPA) use another internal division.

9. Mr. Webb introduced agenda item ***Draft Audit of ERCE Employer Audits*** *(Video 00:37:20 to 00:43:43).* Mr. Owens discussed the preliminary phase of the draft KRS employer audit and expressed concerns about the quality and reliability of findings. Ms. Coffey clarified that the report is scheduled for final issuance and will be presented to the KPPA Audit Committee at their next meeting. Mr. Cheatham explained that House Bill 8 mandates KPPA to conduct five (5) audits of KRS members annually. There are approximately 300 employers involved, and over the past three (3) years, sixteen (16) audits have been initiated. Of those, fifteen (15) could not be completed due to lack of information, and the one (1) audit that was completed was

found to be incorrect. He emphasized the complexity of employer audits, including the need for expertise in reviewing employer reporting and payroll records, and the importance of developing a transparent and verifiable mechanism to ensure trust in the process.

10. Mr. Webb introduced agenda item ***Green County Judge Executive*** *(Video 00:43:45 to 01:05:03).* Mr. Webb introduced Green County Judge Executive, John Frank, to discuss Green County's experience with an omitted billing invoice from KPPA, which resulted from a part-time employee working for both the county fiscal court and the school system. He stated that the county was unaware of the need to remit contributions for this employee until receiving a bill for approximately $6,000 plus an interest penalty of about $1,500, covering six (6) years of omitted contributions. Mr. Lamb noted that monthly reports were sent to Green County's reporting official indicating the employee's part-time status and the need to adjust reporting. He acknowledged the communication gap and apologized for the delay in awareness.

    Mr. Cheatham clarified that the biggest concern seemed to be the education and training available to reporting officials. He suggested implementing mechanisms to track training completion and certification and considering in-person or regional training sessions. Mr. Surratt stated that KPPA has been considering the need for some more training for official reporters. He also stated that all reporting information may be found in the employer manual, which should be utilized by employers. Mr. Surratt further noted that employers receive a packet each month which includes information about non-participating employees. Additionally, he stated that ERCE has been preparing an employer newsletter to be distributed, which will explain the reporting process and omitted billing procedures for educational purposes.

    There was a brief discussion about the differences between education and auditing and the importance of both. Mr. Webb highlighted the challenges faced by smaller counties and cities, where clerks often handle multiple roles and may lack specialized fiscal training. He suggested instituting required annual training and certification, similar to practices in other states, to ensure all officials receive necessary education.

11. Mr. Webb introduced agenda item ***ERCE Preliminary Steps*** *(Video 01:05:20 to 01:38:09).* Mr. Lamb began his presentation by acknowledging the backlog of issues that had been uncovered and assured the Committee that the concerns were not being ignored. He then went on to give some background on the formation and staffing of the Employer Reporting Group. He stated that the branch was created in 2025, with staffing completed in January 2026. Three (3) employees with over twenty (20) years' of experience were moved into the branch. The team conducts comprehensive reviews of employer payroll records and has completed several audits, invoiced significant amounts, and updated risk assessment protocols to include both large and small employers. Mr. Lamb noted that the Employer Reporting Group is dedicated to comprehensive reviews of employer payroll records and reporting, not traditional audits. Every employee at each employer is reviewed, rather than just a sampling.

    He noted there are nearly 1,200 CERS employers, who reported nearly 117,000 members and submitted almost $1 billion in employer contributions in fiscal year 2026. Of these, 250 employers reported 12,500 hazardous duty employees, with $300 million in contributions. Since January 2026, four (4) audits have been completed: Anderson County Fiscal Court, City of Carlisle, City of Henderson, and Clay County Fiscal Court. Ten (10) additional audits are in progress, with half nearing completion. In six (6) months, $2.5 million had been invoiced or will be invoiced as a result of these reviews, with approximately $1 million collected. Additional billing may occur as more issues are identified during ongoing reviews.

    Mr. Lamb explained that the risk assessment for selecting employers to review has been updated to include both large and small employers, with small employers (10 or fewer employees) now considered higher risk due to limited financial expertise and resources. The risk assessment incorporates factors such as position type (hazardous vs. non-hazardous), past due invoices, reporting errors, tip line and APA referrals, external audit results, and annual assessment survey responses. The list of employers to be reviewed is updated quarterly based on new metrics. He explained that at the start of each audit, a letter is sent to the employer outlining statutory authority, required documents, and deadlines. After completion, a summary letter is provided internally and externally, detailing issues found, dollar amounts billed, and next steps.

Regarding the timeline for the completion of the reviews, Mr. Lamb stated that with current staffing, and the level of detail required, it would not be likely to complete 1,200 employer reviews in a span of five (5) years. He noted that alternative approaches, such as targeted sampling or focusing on specific issues (e.g., hazardous employees, retired/re-employed positions), are being considered to increase coverage. Mr. Cheatham highlighted the importance of timely reviews to prevent employees from facing substantial lump sum payments to correct pension credits, sometimes for periods as long as 10-12 years. There was concern that delayed reviews may result in significant financial burdens for both employees and employers. Mr. Lamb explained that KPPA is working with IT to develop an averaging batch tool to annually review service credits for all employees, aiming to identify discrepancies earlier and bill employers automatically.

Mr. Owens questioned the effectiveness of the risk assessment approach and stated that confidence in risk scores is limited until all 1,200 employers have been reviewed as many issues were identified when employees retired, rather than through risk-based reviews. Mr. Webb suggested considering a tiered audit structure, providing reasonable assurance for all employers and escalating reviews where issues are found, rather than aiming for complete assurance for every employer. Mr. Lamb clarified that KPPA has initiated an annual attestation survey for all employers, requiring them to certify correct reporting and answer targeted questions. Survey results will be incorporated into the risk assessment process to help ensure all 1,200 employers are reviewed. Additional risk factors, such as past due employer invoices were also being considered in prioritizing reviews.

12. There being no further business, Mr. Webb ***adjourned*** the meeting.

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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Trustees on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.

____

Recording Secretary

I, Steven Webb, the Chair of the CERS Employer Audit Committee, do certify that the Minutes of Meeting held on July 13, 2026, were approved on September 23, 2026.

____

Chair of the CERS Employer
Audit Committee

I have reviewed the Minutes of the July 13, 2026, CERS Employer Audit Committee Meeting for content, form, and legality.

____

Executive Director
Office of Legal Services

Employer Audits

- Peer Survey Results
- Audit vs Review and Independence
- Job Descriptions
- Example of Peer Employer Audit Plan
- Proposed KPPA Internal Audit Risk Assessment
- Draft of KPPA Internal Audit Employer Audit Plan

Comparing to peers

SURVEY RESULTS

The Division of Internal Audit reached out to 53 pension systems across the country and asked for responses to two questions:

1. Are employer audits performed?

2. If so, who performs these audits?

We have received responses from 24 of the pension systems. Two of the systems indicated they only oversee investments, so no employer audits are conducted. Of the remaining 22 agencies:

1. 16 of these agencies (73%) have their internal audit team conduct the employer audits.

2. Four (18%) have the state auditor (similar to our APA) conduct the employer audits.

3. Two had a non-audit internal agency division conducting the audits (one of those being KPPA).

LESSONS LEARNED

1. In person visits are vital to ensure independent and accurate records are used in audits.

2. Employer policies on additional pay to explain variances between expected wages and actual wages must be documented and on file at KPPA.

3. A templated audit program helps to keep audits in scope and completed quickly.

Audits vs Reviews

KRS 61.675 (2) states “the system may at any time conduct an **<u>audit</u>** of the employer..”

An audit is a systematic and intelligent examination of records and activities performed to determine compliance with laws, regulations, and policies. An audit provides **<u>reasonable assurance</u>** that the results accurately depict the state of what was reviewed. Internal auditors are independent assessors who do not own any step of the process under review.

A review is an evaluation of records to determine if the records appear to be accurate. Reviews are not held to official standards and only provide **<u>limited assurance</u>** that results accurately reflect the state of what was reviewed.

<u>Independence</u>

ERCE is not organizationally or functionally independent of the processes reviewed during an employer audit, which is a vital element to ensure veracity of results. The following factors impact their independence:

- ERCE is the main group who works with employers with all processes to submit, balance, and correct contributions.
- ERCE counselors are assigned employers to review each month, and assignment are not rotated to prevent familiarity with reporting officials or other approved agency contacts.
- The current procedures (and job description) instruct the ERCE “auditor” to make corrections in LOB.

Job Description – Auditor II

Experience – One year of professional auditing experience.

Education – Graduate of a college or university with a bachelor's degree (which includes twenty semester hours or thirty quarter hours in accounting).

<u>Examples of Job Duties</u>

1. Conducts audits to ensure compliance with state laws, regulations and policies. Including examining and testing ledgers, journals and other **<u>books of original entry</u>** for compliance with federal and/or state policies and regulations.
2. Applies professional auditing standards, methods and procedures to identify, analyze and make recommendations.
3. Prepares workpapers and accumulates documenting evidence in support of recommendations and reports.
4. Assists in explaining findings to agency officials, third parties, and other interested parties

Job Description – Retirement System Counselor IV

Experience – Three years of retirement benefits experience.

Education – Graduate of a college or university with a bachelor's degree.

Examples of Job Duties

1. Provides **counseling and consultative** services to members and beneficiaries.
2. **Resolves** complex discrepancies.
3. Trains staff and stakeholders in all aspects of retirement benefits.
4. **Audits** agency and member records **and adjusts records** and benefits based on the audit, correcting salary, service, and contribution records ensuring compliance with laws governing retirement coverage.

Examples of Information Contained in Peer Audit Programs

A templated Audit Program that lists the applicable laws and the specific way the related tests will be performed to ensure compliance.

List of all documentation needed from the employer to complete the audit.

List of questions to be asked during employer interviews.

List of all employees and their wage type categorized as covered, conditionally covered, and not covered.

List of reporting requirements and specific details on how to ensure these requirements are being met.

Internal audit risk assessment methodology

Created a list of all active CERS employers as of July 2026 and used the following factors to calculate a risk score:

1. Count of members as of fiscal year 2025.
2. Count of outstanding invoices.
3. Average age of invoices
4. Count of errors from the monthly reporting process for June 2026.
5. Reporting official change
6. History of penalty invoices
7. Litigation with KPPA

The base risk score for each employer is the average of the count of members, employers, outstanding invoices, and invoice age. The average base risk was then added for a reporting official change or history of penalty invoices.

As more audits are conducted, each factor can be weighted according to its ability to accurately predict risk.

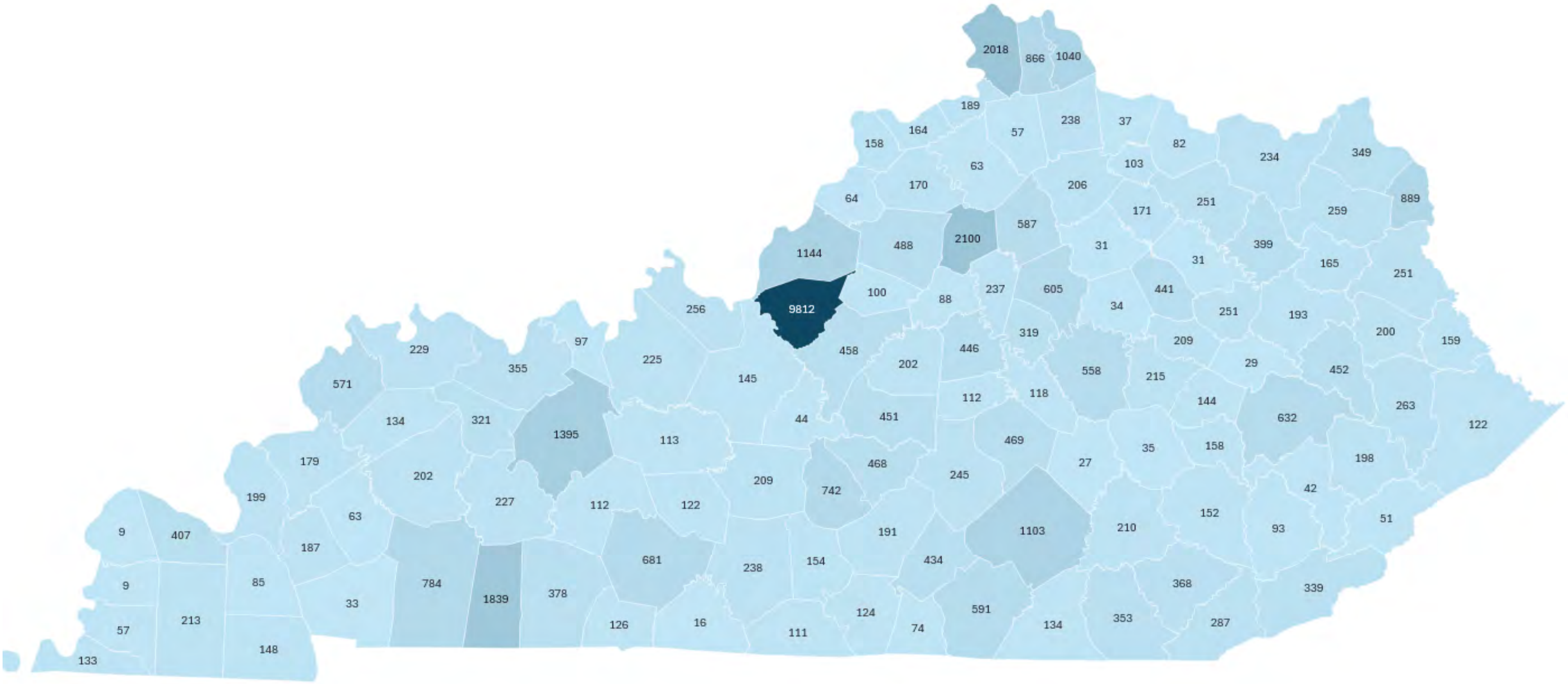
Employers in litigation with KPPA are removed from consideration and the risk score is adjusted to 0.

Counties were then given a risk score based on the average employer risk score for each agency in the county.

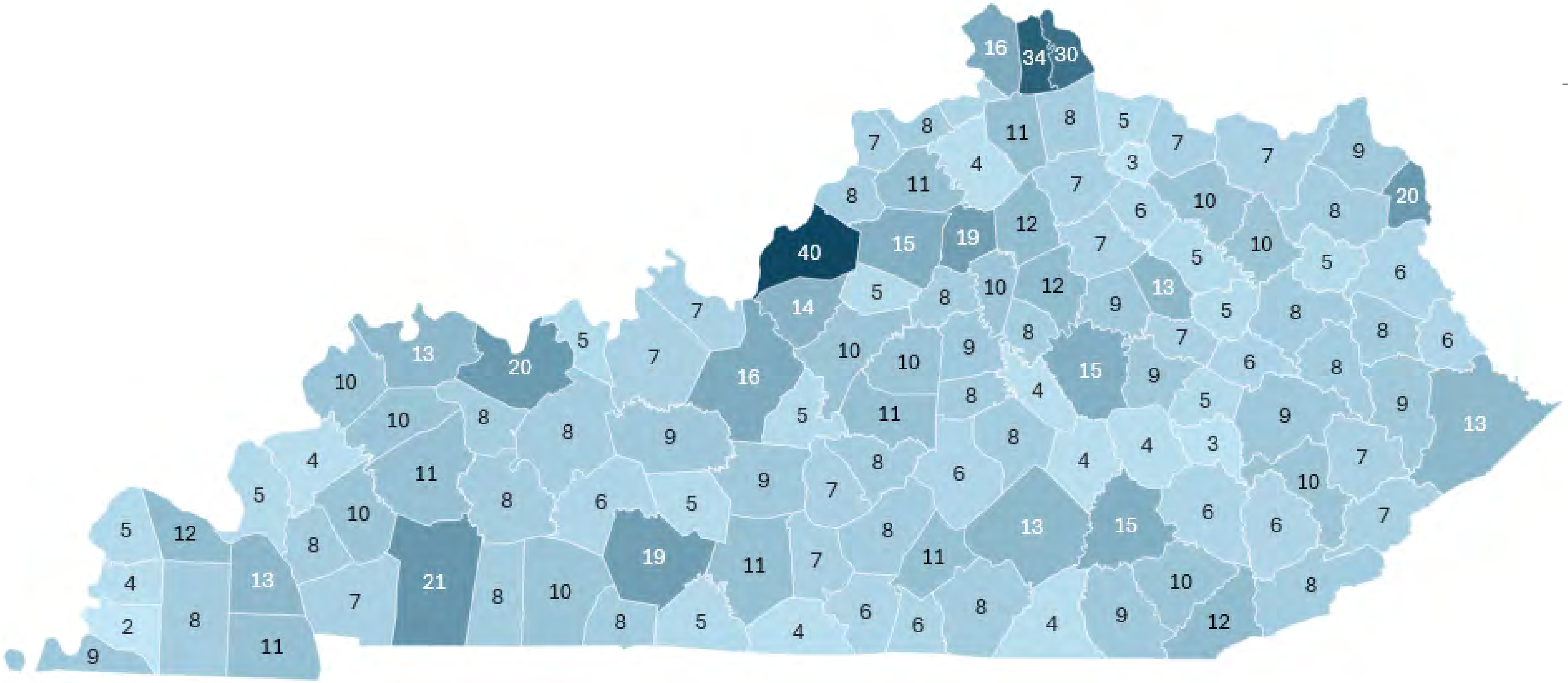
Creating the audit plan

- There are a total of 1,117 active employers as of July 2026.
- Approximately 20 will be selected for a trial year of audits to test the templated Audit Program and to train staff to perform audits.
- The remaining 1,097 active employers can be audited in a five-year period among four auditors by assigning roughly 55 employers to each auditor. Which will result in approximately 220 employers audited each year.
- Counties were sorted from largest to smallest by the county risk score and assigned an audit year with the highest risk counties being selected first.
- Counties in each year were then assigned to four auditors so that each person had about 55 employers. Counties with large employer counts may be shared by several auditors.

Count by Outstanding Invoice

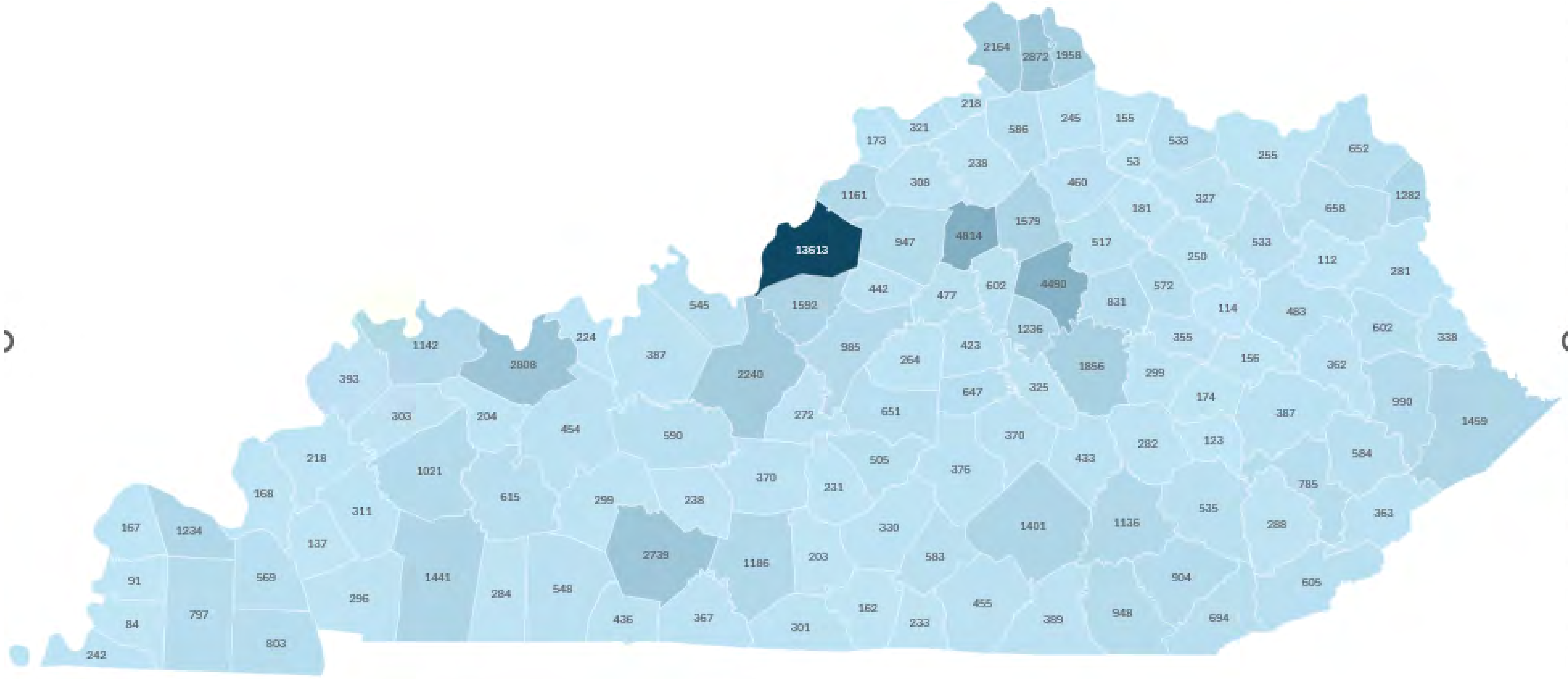


Count by Errors



Count by Employers

Count by Members



Draft of Proposed Audit Steps (complete list of steps still in progress)

Planning

- Notify employers of counties that they have been selected for an audit and provide a list of documentation needed for in person visit.
- Notify ERCE, QA and IT of the selected employers and ask about common issues found in the monthly reporting process and the post-retirement audit process.
- Determine the expected member count and demographics, wages, rate of pay, policies documented on file and a list of contracted employees reported to KPPA.
- Run various reports needed for audit – outstanding invoices, error counts, list of employees, etc.

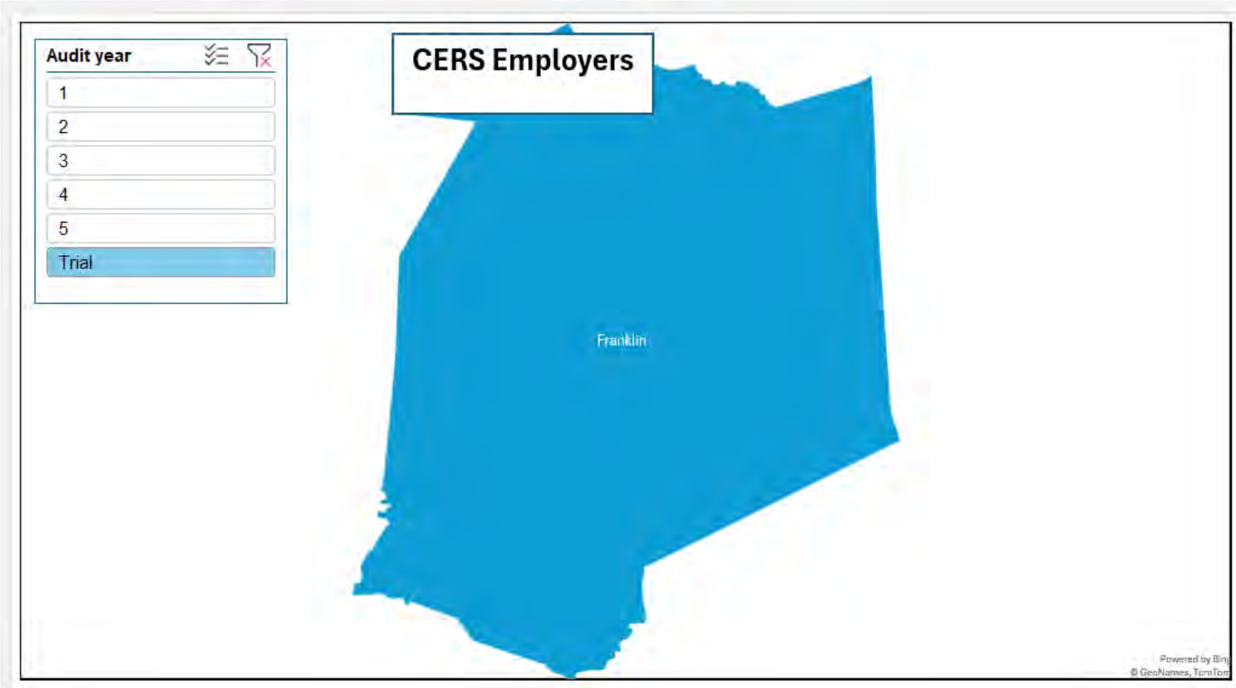
Fieldwork

- Conduct reporting official interview
- Assess documentation requested and compare to Line of Business information collected during planning.
- Using available audit tools, test 100% of employees.
- Inquire about items that fail testing expectations.

Completion

- Notify ERCE, QA, and IT of audit results. Work together to determine corrective action needed.
- Notify each employer individually of audit results and corrective action required.
- Prepare audit file for library manager and upload to the employer's file.
- Present audit results to the CERS Employer Audit Committee and CERS Board of Trustees. Results will also be presented to the KPPA Audit Committee, upon request.

Questions?



Audit year
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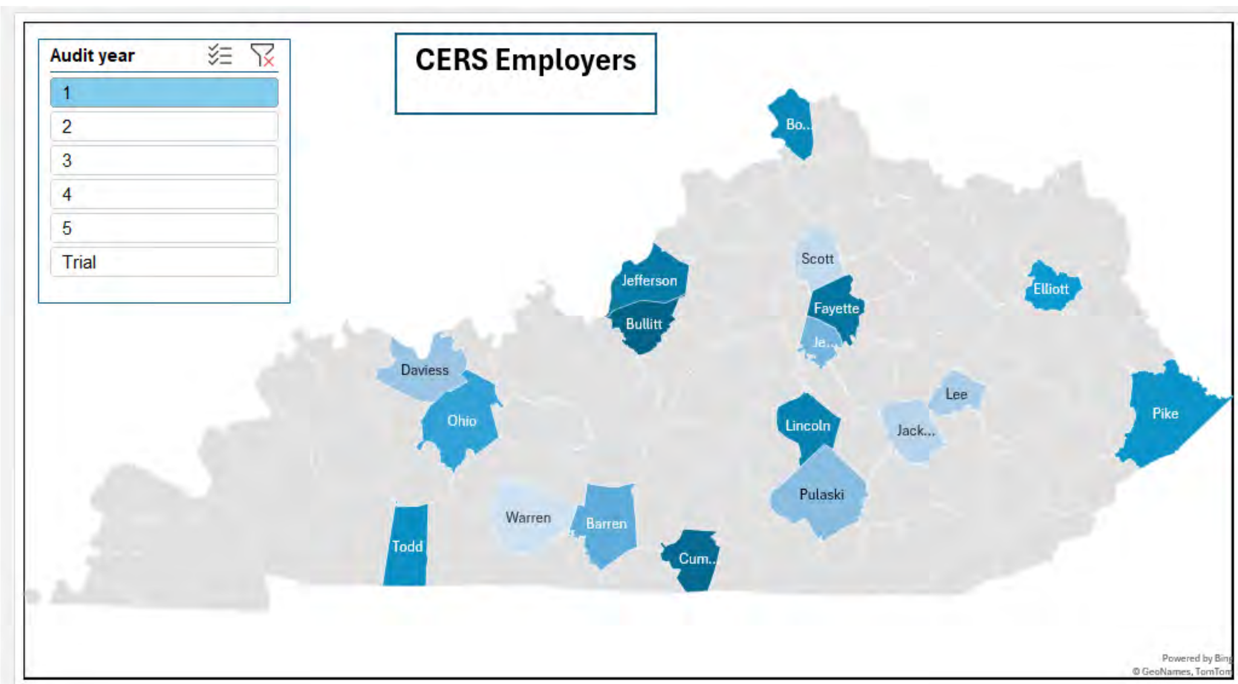
4
5
Trial
CERS Employers
Franklin



Audit year
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CERS Employers
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Jefferson
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Bullitt
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Daviess
Lee
Ohio
Lincoln
Jack...
Pike
Pulaski
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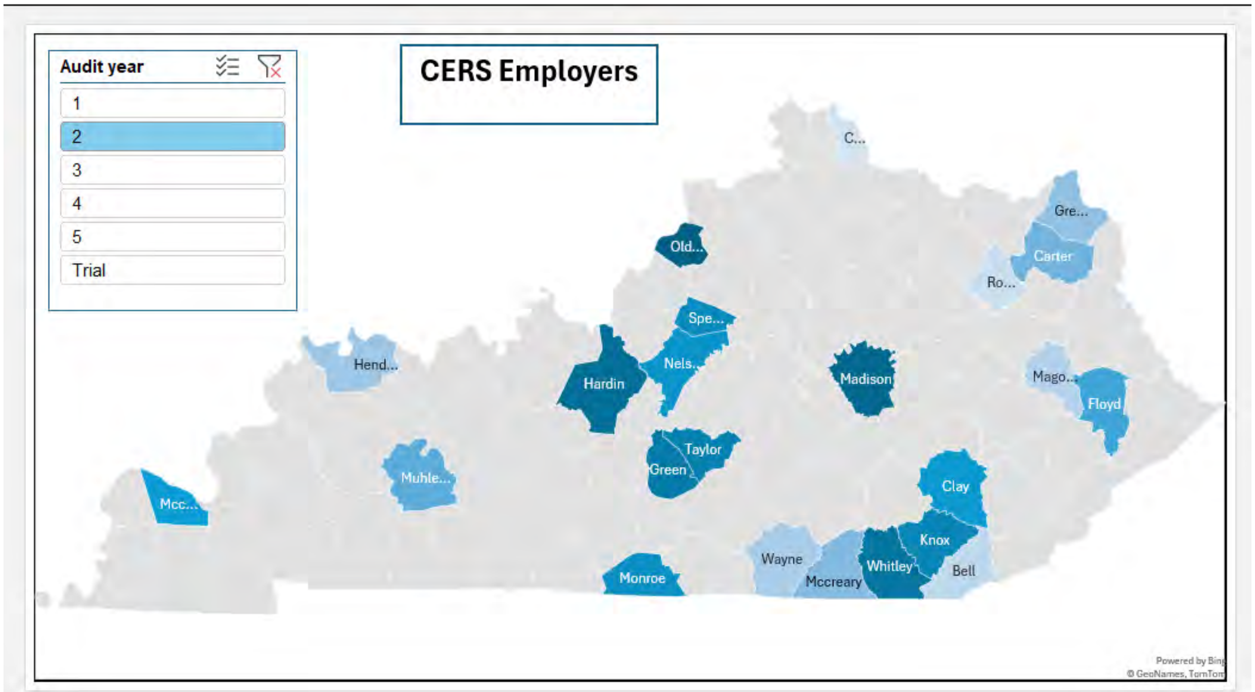
Audit year
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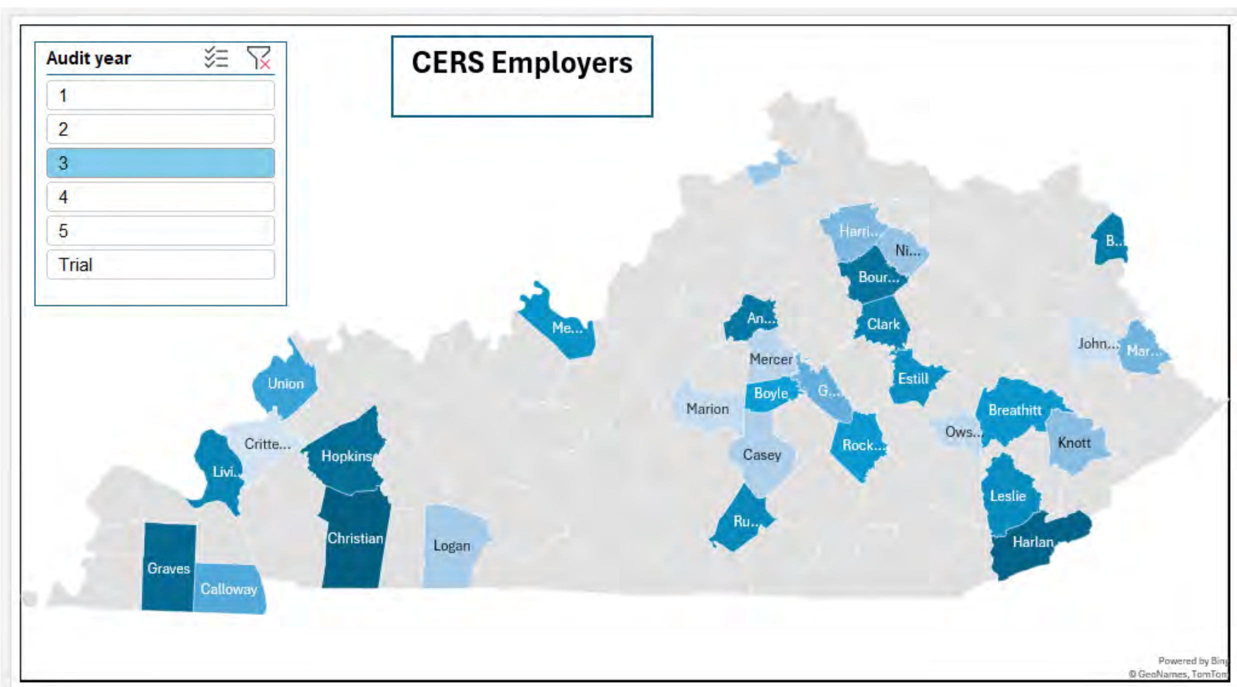
Audit year
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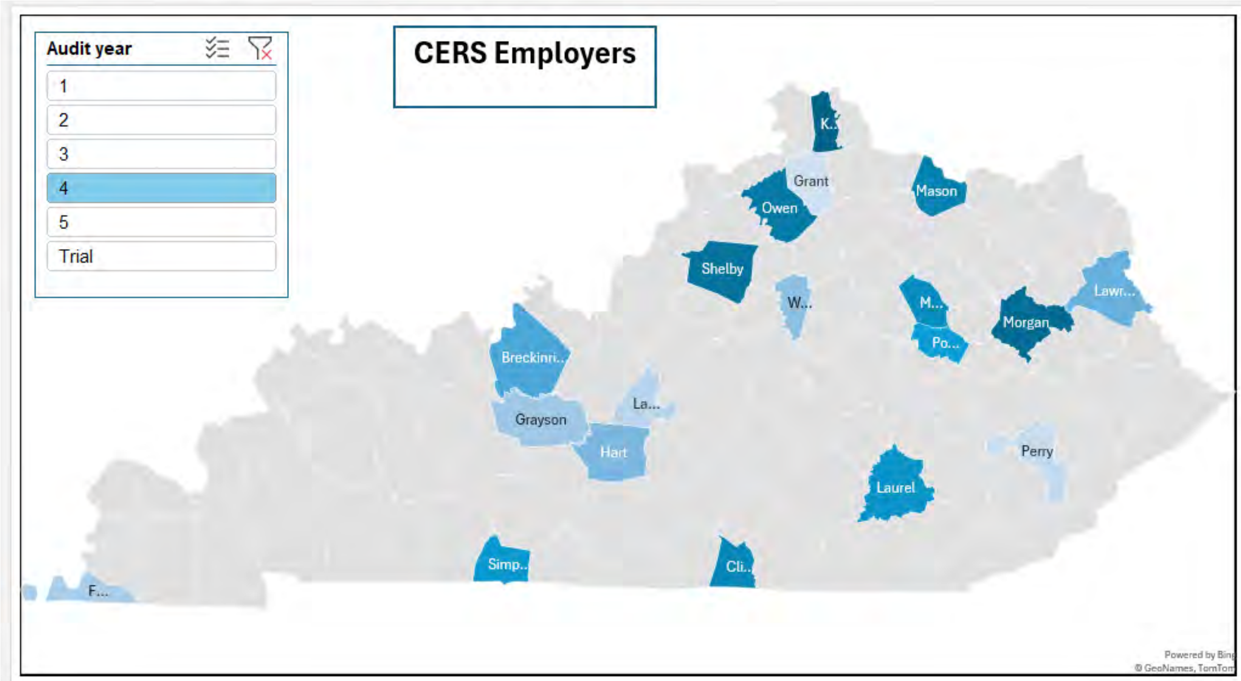
Audit year
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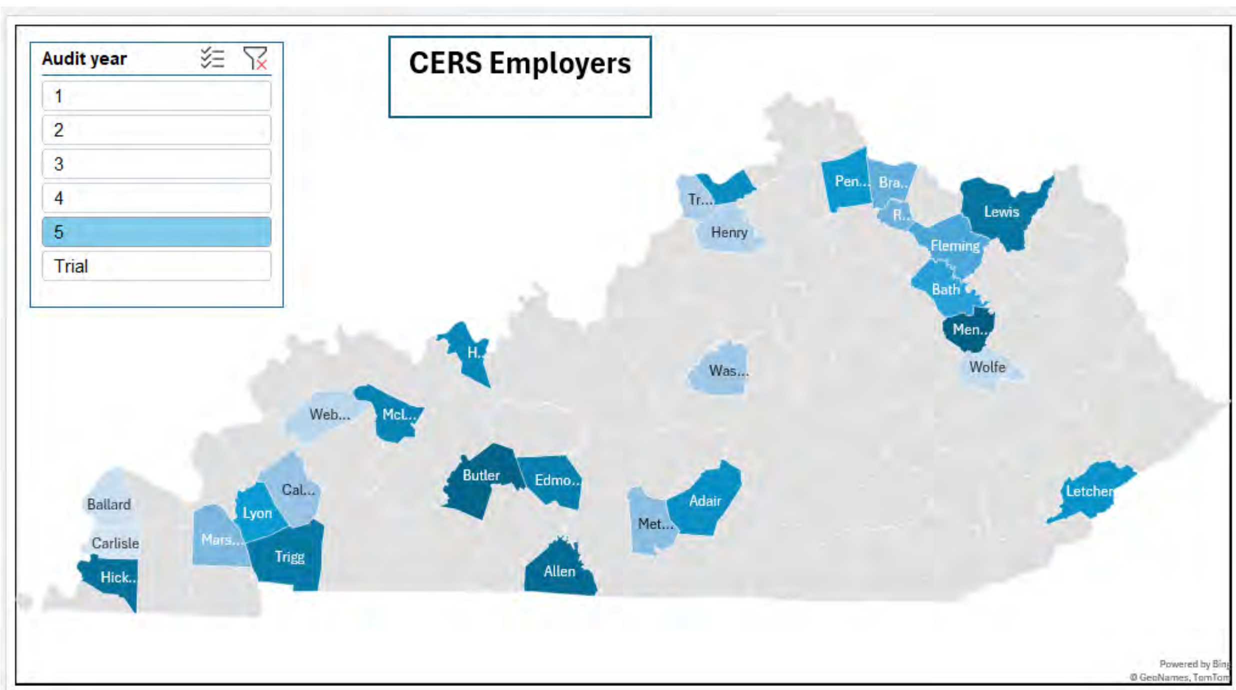
Audit year
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