

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
FEBRUARY 25, 2025, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the February 25, 2025, Regular Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), George Cheatham, Lynn Hampton, and William Summers V. Attending on behalf of KRS, Mary Eaves. Attending on behalf of CERS, J. T. Fulkerson. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Rebecca Adkins, Erin Surratt, Victoria Hale, Nathan Goodrich, Stephanie Hold, Michael Lamb, Kristen Coffey, Madeline Evans, William Prince, Elizabeth Smith, Connie Davis, Zachary Curtis, Angela Stevens, Ashley Gabbard, Phillip Cook, Sandy Hardin, and Sherry Rankin. Also present were Ryan Graham and Jordan Miller with Blue and Co.

1. Mr. O'Mara called the meeting to order.
2. Ms. Hale read the Opening Video Teleconference Statement.
3. Ms. Rankin called roll.
4. Ms. Rankin noted no *Public Comments* were received.
5. Mr. O'Mara introduced the agenda item *Approval of November 19, 2024, KPPA Audit Committee Minutes (Video 00:05:54 to 00:06:35)*. Ms. Eaves made a motion to approve the minutes as presented. The motion was seconded by Ms. Hampton and passed unanimously.
6. Mr. O'Mara introduced agenda item *GASB 68 and GASB 75 Proportionate Share Audits (Video 00:06:35 to 00:12:25)*. Mr. Ryan Graham with Blue and Company presented the GASB 68 and GASB 75 Proportionate Share Audits. He explained the changes in reporting, including separate reports for KERS and CERS pensions with their own opinions. The methodology of allocation remained consistent year-over-year. Mr. O'Mara

asked for a motion to accept the CERS and KERS Draft GASB 68 and GASB 75 Proportionate Share Audits as presented. Before making a motion, Mr. Cheatham requested that the audits be released earlier to help employers complete their audits. Mr. Lamb noted that the draft Excel files could be posted on the website with a statement indicating that they are subject to change until final approval by the KPPA Board.

*** Mr. Fulkerson entered the meeting. ***

Mr. Cheatham made a motion to accept the CERS and KERS Draft GASB 68 and GASB 75 Proportionate Share Audits as presented. The motion was seconded by Ms. Hampton, and this passed unanimously.

7. Mr. O'Mara introduced agenda item ***Memorandum on Submission of FY 2024 CERS and KRS ACFR*** (Video 00:12:25 to 00:13:49). Ms. Connie Davis presented the Memorandum on Submission of the FY 2024 CERS and KRS Annual Comprehensive Financial Reports (ACFR). She explained that KPPA, in accordance with Kentucky Revised Statutes, is required to provide copies of its audited financial statements to the Legislative Research Commission and the Auditor of Public Accounts. The reports were uploaded to the website on December 6, 2024, and notifications were sent out to ensure the availability of the reports and related findings were properly communicated.
8. Mr. O'Mara introduced agenda item ***Update on External Audit RFP*** (Video 00:13:49 to 00:19:41). Angela Stevens gave the Update on External Audit RFP. She announced that the new closing date for the RFP for auditing services is set for March 13, 2025. The anticipated contract start date is July 1, 2025, contingent on potential oral presentations and negotiations that may impact the timeline. Concerns were raised regarding the timeline, but a contingency plan is in place involving the existing contract, which can be extended if necessary. No RFP responses have been received yet.
9. Mr. O'Mara introduced agenda item ***Legal Updates*** (Video 00:019:41 to 00:23:41).
 - a. Regarding ***Information Disclosure Incidents***, Mr. Nathan Goodrich presented Potential Information Disclosures/Breaches affecting the KPPA for the Fiscal Year 2025, Quarter 2. Mr. Goodrich reported there were a total of six (6) disclosures/breaches that

were investigated. A total of nine (9) members were affected by the potential disclosures/breaches. There was one (1) implicated state law which affected seven (7) members due to a technological glitch, allowing a member to view forms on file. Steps were taken to notify affected members, and affidavits are being sought to determine whether the information was retained. Policies were adhered to in notifying external agencies as required. Additionally, two (2) internal data disclosure issues involved unauthorized attempts to change members' direct deposit information. These matters were resolved without any loss of funds to members.

- b. Ms. Stephanie Hold provided an update regarding the *Anonymous Tips* received regarding fraud, waste, and abuse. Since the KPPA Audit Committee met on November 19, 2024, KPPA received three (3) new fraud tips, with two (2) still pending, and one (1) closed after a review. Ms. Hold reported there were seven (7) cases in open status and provided current information for all the open cases as of November 19, 2024. Then Ms. Hold explained that two (2) cases have been closed since the last meeting of the KPPA Audit Committee.

10. Mr. O'Mara introduced the agenda item *KPPA Audit Committee Administrative Updates* (Video 00:23:41 to 00:55:22).

- a. Ms. Coffey presented the *Internal Audit as of December 31, 2024*. Ms. Coffey reviewed the Fiscal Year 2025 Internal Audit Budget as of December 31, 2024, and noted that we are currently on target.
- b. Next, Ms. Coffey presented the *Status of Current Internal Audit Projects*. Ms. Coffey reviewed the status of their projects and explained the phases. She reported that halfway through the fiscal year, 63% of the budget remains, which is on target given the heavier expenses anticipated in the second half of the year. An intern will join in May, and software expenses are planned towards year-end. Upcoming conferences were discussed.

Ms. Coffey introduced a new reporting format showing estimated hours spent by both audit and non-audit staff to provide a comprehensive view of project resource

allocation. Efforts are ongoing to refine time-tracking methods, including trial use of a project tracker to better monitor staff hours for internal audits.

The committee expressed appreciation for the addition of staff-hour tracking, recognizing its value in planning and resource management. Ms. Coffey confirmed that the Audit team uses an electronic timekeeping system to record hours by project phases, while non-audit staff tracking remains a work in progress.

c. Ms. Coffey brought forth the next topic, *Issued Reports and/or Memoranda*, and invited Ms. Madeline Evans to begin her presentation.

- i. Ms. Evans delivered her report on the *Review of Investment Administrative Fees*. Following her detailed review, Ms. Evans concluded there were no reportable findings or major issues, though a recommendation was made to ensure the timely submission of invoices to Accounting.

Mr. Cheatham made the motion to accept the Issued Report on the Review of Investment Administrative Fees as presented. Ms. Eaves seconded the motion, and the motion passed unanimously.

- ii. Ms. Evans reported on the *Review of Office of Investments Policies*. Ms. Evans presented the audit on investment policies, which included a review to ensure compliance with state and federal laws and consistency within internal policies. Three reportable findings were identified: (1) Monitoring compliance with all investment policies was lacking, with recommendations for improvements, including a compliance officer (now hired). (2) Insufficient evidence of proper policy approvals and confusion over responsibilities for policy establishment and enforcement, with suggestions for clearer processes. (3) Issues with the securities trading policy, including inadequate measures to prevent noncompliance, with recommendations for revisions.

Regarding the investment policies, Ms. Evans noted that the Procurement Policy was the policy they could not verify had been approved appropriately. They

recommended that the CEOs talk to the Legal Department and CIO to see if it needed to be presented again for proper approval. Regarding the confusion over responsibility for establishing and enforcing policies, they recommended the CEOs establish a process to ensure proper approval. Additionally, for the signature process, documentation should verify that the version approved by the Board and was signed is the same one uploaded to the KPPA website. Ms. Evans noted that management stated that they would work with the CEOs about implementing any policies and procedures they adopt regarding the posting of the documents to the website.

Ms. Eaves asked Mr. Chilton and Mr. Owens if they thought it was appropriate for them as CEOs to take the lead on this. Mr. Owens responded that he would be glad to do so. He stated that he thought it was very appropriate that the CEO take the lead position.

Mr. Cheatham made the motion to accept the Issued Report of the Office of Investments Policies as presented. Mr. Fulkerson seconded the motion, and the motion passed unanimously.

- iii. Ms. Coffey reported on the *Review of Procurement Card Process*. She noted a minor change was implemented in the audit process to include the identified strategic risks from the audit plan approved by the Committee, allowing the clearer alignment between risks and audits. This audit was a follow-up to a 2018 review and focused on compliance with statutes and regulations, as well as the effectiveness of internal controls.

The audit found no reportable findings, though they noted certain other matters that were communicated to the Division of Accounting in a separate management letter. The first involved a few instances of sales tax being paid on subscriptions and purchases (e.g., *The Wall Street Journal*, Walmart, and Kroger). Staff has since communicated tax-exempt status to vendors to avoid future payments, and attempts to recover past payments were made, though only a minor amount remained uncovered. The second item concerned the proper coding of

expenditures, which impacts budget preparation. Four items were identified as potentially misclassified; two were corrected, and the remaining two required no further action as they stayed within the same overall line item. All issues raised have been corrected and verified as resolved, and the audit is considered closed.

Mr. Fulkerson made the motion to accept the issued Report on the Review of the Procurement Card Process as presented. Ms. Eaves seconded the motion, and the motion passed unanimously.

Ms. Coffey added that the risk assessment process for the fiscal year 2026 has begun, with surveys sent out to KPPA management and soon to the Audit Committee. These surveys seek feedback on potential risks or concerns to guide the development of the audit plan. Feedback is already being received, and the audit chair and vice chair will collaborate on finalizing the audit plan with KPPA management. The risk assessment and audit plan will be presented for approval in May.

In addition, an update was provided regarding interns. While interns across the state start on May 16, KPPA is still in the process of interviewing candidates, having conducted interviews last week and continuing this week, with positive responses so far.

Referring back to the investment policies' audit finding, Ms. Eaves highlighted the need for a follow-up report at the next meeting, specifically addressing the consistency, authority, and actions taken in response to the findings. She suggested delegating this responsibility to the CEOs or Mr. Barrow to provide ongoing updates. Mr. Barrow agreed to take on this responsibility.

11. Mr. O'Mara introduced the agenda item ***Professional Article*** (Video 00:55:22 to 00:58:32).

Mr. Prince presented a summary of the article, *Who Owns Transaction and Controls Monitoring* by Vincent M. Walden, CFE, CPA. The article explores who is responsible for monitoring high-risk transactions within organizations and emphasizes the importance of a multidisciplinary approach to fraud risk management.

12. There being no further business, Mr. O'Mara ***adjourned*** the meeting.

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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded above the action of the Committee 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 connection with this meeting.


Recording Secretary

I, as Chair of the Audit Committee of the Kentucky Public Pensions Authority, do certify that the Minutes of the meeting held on February 25, 2025, were approved by the Audit Committee on November 18, 2025.


Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on February 25, 2025, for form, content, and legality.


Executive Director
Office of Legal Services