

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
MAY 29, 2025, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the May 29, 2025, Regular Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), Mary Eaves, J. T. Fulkerson, Lynn Hampton, and William Summers V. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Rebecca Adkins, Erin Surratt, Mike Lamb, Michael Board, Victoria Hale, Carrie Bass, Beth Camic, Stephanie Hold, Liza Welch, Kristen Coffey, Madeline Evans, William Prince, Elizabeth Smith, Connie Davis, Zachary Curtis, James Westbay, Ashley Gabbard, Shaun Case, Sherry Rankin, and Sandy Hardin.

1. Mr. O'Mara called the meeting to order.
2. Mr. Board 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 *Election of KPPA Audit Committee Vice Chair (Video 00:03:53 to 00:04:53)*. Mr. O'Mara opened the floor for the election of the KPPA Audit Committee Vice Chair. Mr. Summers V nominated Ms. Lynn Hampton for the position. With no further nominations received, Mr. O'Mara closed the nominations and called for a motion to approve Ms. Hampton as Vice Chair. Ms. Eaves moved to approve the motion. Mr. Summers V seconded the motion. With no further discussion, the motion passed unanimously. Mr. O'Mara welcomed Ms. Hampton as Vice Chair of the KPPA Audit Committee for the current year and expressed appreciation for her willingness to serve.

6. Mr. O'Mara introduced the agenda item *Approval of February 25, 2025, KPPA Audit Committee Minutes*. (Video 00:04:53 to 00:17:07). A motion was made by Ms. Eaves and seconded by Mr. Summers V to approve the minutes. During discussion, Ms. Hampton raised concerns about language in the minutes referring to investment policy review by "the CEO," suggesting it should reflect either "CEOs" or the "Executive Director" for accuracy. Due to ongoing concerns, Ms. Eaves made a motion to amend the original motion to table the minutes for further review. Ms. Hampton seconded the motion. The motion passed unanimously.

7. Mr. O'Mara introduced agenda item *Approval of External Audit Request for Proposal (RFP)* (Video 00:17:07 to 00:19:26). Mr. Lamb provided an update on the external auditor RFP process, noting that the procurement remains under confidentiality status. A contract has been drafted with the highest-scoring vendor and is currently awaiting final approval from the Finance Cabinet. While the timeline is tighter than preferred, Mr. Lamb expressed confidence in both KPPA staff and the vendor's capabilities to begin work by July 1, 2025. He also noted potential additional review by the Government Contract Review Committee. No action was taken at this time. This was for informational purposes only.

8. Mr. O'Mara introduced agenda item *Legal Updates* (Video 00:19:26 to 00:22:41).
 - a. **Information Disclosure Incidents:** Ms. Beth Camic, on behalf of Nathan Goodrich, presented the report on Information Disclosure Incidents. She reported that four (4) potential information disclosures were reviewed in the third quarter of FY 2025. Three (3) incidents met the criteria of the internal disclosure policy, involving one (1) mail mix-up and two (2) email misdeliveries due to auto-populated addresses. Affected members were notified promptly, and affidavits were secured from recipients. Following the incidents, KPPA issued a reminder to staff to carefully review email recipients.

 - b. **Anonymous Tips:** Ms. Stephanie Hold presented an update on anonymous fraud tips. Since the last Audit Committee meeting in February, seven (7) new tips were received – five (5) of which have been closed and two (2) remain under review. Currently, seven (7) cases remain open involving employer reporting issues,

disability retirement fraud, prearranged agreements, and potential violations of service break requirements. Of the seven (7) cases closed since the last meeting, one (1) involved alleged prearranged agreement and was closed due to lack of evidence. Two (2) tips involved employer reporting, and both were closed and referred to ERCE for possible audits. Two (2) tips related to disability fraud were closed once it was determined the people being reported were not receiving any type of KPPA benefit. Another tip was closed once it was confirmed it related solely to FERPA, and another tip involving alleged insurance fraud was closed because it did not involve KPPA benefits.

9. Mr. O'Mara introduced the agenda item ***KPPA Audit Committee Administrative Updates*** (Video 00:22:41 to 01:38:06).

- a. ***Update on Internal Audit Staffing:*** Ms. Coffey provided an update on internal audit staffing, announcing that Ms. Madeline Evans has been appointed as Internal Audit Supervisor through April of the following year under a special detail arrangement. Additionally, effective June 1, Mr. James Westbay transitioned from an interim to a full-time position. With these updates, the Internal Audit team is now fully staffed, consisting of the Chief Auditor and four staff members.
- b. ***Internal Audit Budget as of March 31, 2025:*** Ms. Evans presented the Internal Audit Budget as of March 31, 2025. She reported that the FY 2025 budget remains generally on track. The only overage noted was in the dues and subscriptions category, which was underestimated. Conference expenses were higher than in previous years due to a return to in-person participation, which provides greater value and networking opportunities. Ms. Coffey clarified that employee training costs are reflected under conference expenses rather than in a separate training line item. Regarding computer software expenses, Ms. Coffey noted that the invoice remains pending but is expected soon. The committee acknowledged the update, and no further questions were raised.
- c. ***Approval of Internal Audit Budget for Upcoming Fiscal Year:*** Ms. Evans presented the proposed Internal Audit Budget for the upcoming fiscal year, noting slight increases in salary-related line items due to anticipated reclassifications and potential state raises.

The dues and subscriptions lines were also increased by 50 percent to better reflect actual needs. Employee training was removed as a separate line item, as those expenses are now captured under conference costs. Ms. Coffey added that full staffing this year contributed to increases in various categories.

Following discussion, Ms. Hampton made a motion to approve the Internal Audit Budget for the upcoming Fiscal Year as presented. Mr. Fulkerson seconded the motion. The motion passed unanimously.

- d. ***Status of Current Internal Audit Reports:*** Ms. Coffey provided an overview of the Internal Audit team's current and completed projects for FY 2025. She noted that six audits exceeded their time budgets by more than 10 percent, largely due to extended process understanding, staffing transitions, or other unexpected delays. The audit status report included estimated versus actual hours and showed the involvement of non-audit staff, with completed projects highlighted for clarity.

Of the FY 2025 audits, three remain open:

- Accounts Payable Audit: Testing is complete, and final questions are being addressed with expected issuance before fiscal year-end.
- Accrual Process Audit: Originally approved for FY 2026 but initiated early; the draft report is currently under review.
- Inventory Audit: Delayed due to shifting non-audit staff priorities, with expected completion in the next fiscal year.

Ms. Hampton commended the inclusion of non-audit staff hours and emphasized the importance of tracking workload capacity, noting the equivalent of an additional half-time staff member's involvement in current projects. Ms. Coffey agreed and highlighted that sharing hour estimates helps both internal staff and management plan and collaborate more effectively.

- e. ***Risk Assessment and Audit Plan for Fiscal Year 2026 and 2027:*** Ms. Coffey presented the Risk Assessment and Audit Plan for Fiscal Years 2026 and 2027,

designed to ensure balanced coverage across divisions by selecting one high-risk item per area. Accounting was excluded from the FY 2026 plan due to recent audits and current workload demands.

Two audits—investment fees and office space utilization—were reconsidered following committee input, with streamlined alternatives proposed:

- Office Space Utilization review will be conducted by KPPA Executive staff, and Internal Audit will perform an independent review of that work to ensure it is reasonable.
- The Office of Investments will complete the review regarding performance as it relates to the benchmark and other similar agencies. Internal Audit will replace that project on the audit plan with a review of the GANIR calculation.

Ms. Coffey emphasized continued coordination between audit and investment teams to refine oversight efforts.

Following discussion, Mr. Fulkerson made a motion to adopt the Risk Assessment and Audit Plan for Fiscal Years 2026 and 2027 as amended. Ms. Hampton seconded the motion. The motion passed unanimously.

- f. ***2025-2 Review of Office Investment Policies:*** Ms. Bass provided an overview of the internal audit findings from the 2025-2 Review of Office Investment Policies. The audit identified 22 Board-level investment and administrative policies across the CERS and KRS Boards, noting gaps in monitoring practices and documentation of compliance activities. KPPA management concurred with the findings and tasked the newly appointed Compliance Officer with developing procedures to address the deficiencies.

Particular attention was given to the Securities Trading Policy, which had not been properly followed. Mr. Owens III clarified that the policy applies specifically to KPPA staff and not to the CERS or KRS Boards individually. He emphasized the importance of clearly defined responsibilities and mechanisms for future compliance.

Ms. Bass reviewed all relevant investment policies and recommended a series of updates, including:

- Clarification of policy responsibilities
- Defined compliance reporting structures
- Addition of policy revision histories

She outlined a proposed plan to update these policies in collaboration with KPPA management and the CEOs, followed by development of a formal compliance program.

In closing, Ms. Bass noted that work has already begun to review proxy policies for alignment with Senate Bill 183, and revisions to the Securities Trading Policy are expected to begin later this summer. An official progress report will be presented at the August KPPA Committee meeting.

g. Issued Reports and/or Memoranda: The next item under the KPPA Audit Committee updates focused on issued internal audit reports and memoranda.

- i. Ms. Coffey opened her remarks with an update on item 2025-7, addressing the status of open internal audit findings and related recommendations. As part of the annual review, Audit ran a report in January identifying 23 outstanding recommendations with target implementation dates of December 31, 2024, or earlier. Of these, 17 have been verified as implemented and marked “closed” (highlighted in green). The remaining six (highlighted in red) remain open; staff has requested additional time to complete them.
- ii. Ms. Evans reported on the 2025-5 Disability Appeal Process audit, noting the review focused on the Disability Commission hearing process - including timely document submission, procedural clarity, accommodation support, and secure sharing of hearing materials. No reportable findings were identified, though two management-level recommendations were issued:

- 1) Updating procedural documentation (completed)

- 2) Enhancing public guidance on request accommodations, including possible social media or printed outreach (in progress)

The audit also examined a two-year case backlog. To address delays, the Office of Legal Services is implementing an informal settlement process for members nearing normal retirement age, reducing unnecessary hearings. Staff also noted that improved quality control during initial disability reviews has led to fewer discontinuance recommendations and hearing appeals.

- iii. Mr. Prince shared results of the 2025-6 Hiring Process audit, which reviewed KPPA's hiring procedures and Human Resources support. No findings or observations were reported. The average time to hire was 47 days, significantly faster than the standard range of 60–90 days observed among other employers. Staff were commended for their efficiency and coordination.
- iv. Ms. Coffey presented the results of Audit 2025-10 concerning the travel process. One repeat finding was identified regarding meal reimbursements for non-overnight travel, which, per IRS guidelines, must be treated as a taxable fringe benefit. This issue has since been corrected. Additionally, two opportunities for improvement were noted:
 - Updating procedural documentation
 - Ensuring proper supervisor signatures on travel reimbursement forms.

No errors were found in the calculation of travel expenses.

Following the presentation, Ms. Eaves made a motion to accept the three Issued Reports as presented. Ms. Hampton seconded the motion. The motion passed unanimously.

10. Mr. O'Mara introduced the agenda item *Professional Article (Video 01:38:06 to 01:37:10)*. Mr. Curtis presented a summary of the article, *Artificial Intelligence in Government Auditing – Benefits and Challenges* authored by Symone Thompson, Senior Auditor. The summary emphasized AI's potential to streamline audit functions, enhance

data analysis, and mitigate fraud risk, while noting implementation hurdles such as training, oversight, and ethics.

11. Mr. O'Mara introduced the agenda item *Closed Session* (Video 01:37:10 to 01:38:06). Ms. Hampton made a motion to enter closed session pursuant to 61.8101(1)(f) for the purpose of conducting discussions that might lead to the appointment of an employee. Ms. Eaves seconded the motion. The motion passed unanimously.

Mr. Board read the following closed session statement: A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Committee shall now enter closed session for discussions that may lead to an appointment of an employee pursuant to KRS 61.810(1)(f).

All other attendees exited the meeting.

Closed Session. (Video: 00:00:10 to 00:02:40) Mr. O'Mara called the meeting back to open session.

Mr. O'Mara stated that no reportable actions were taken during the closed session discussion.

Subsequently, Ms. Hampton made a motion to approve the contract for Ms. Kristen Coffey, Chief Auditor, for a term of two years at an annual salary of \$103,000, including any salary increases legislated over the next two years. Additionally, Ms. Hampton proposed incorporating a provision for a notice of non-renewal, consistent with the language currently found in the Executive Director's contract. Ms. Eaves seconded the motion. A vote was taken on the motion, which passed with all members in favor except Mr. Fulkerson, who voted in opposition.

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 May 29, 2025, were approved by the Audit Committee on August 26, 2025.


Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on May 29, 2025, for form, content, and legality.


Executive Director
Office of Legal Services