

**MINUTES OF MEETING  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
AND KENTUCKY RETIREMENT SYSTEMS  
BOARD OF TRUSTEES JOINT AUDIT COMMITTEE  
NOVEMBER 30, 2021, 10:00 A.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the November 30, 2021 meeting of the Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, the following Committee members were present: Betty Pendergrass, William O'Mara, Larry Totten, and Lynn Hampton. Staff members present were David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Vicki Hale, Connie Davis, Madeline Perry, Matthew Daugherty, Kristen Coffey, Steve Willer, Ashley Gabbard, Sherry Rankin, Shaun Case, Phillip Cook, and Glenna Frasher. Others present included Ed Owens, CERS CEO, John Chilton, KRS CEO, Ryan Graham and Alan Norvell with Blue & Company, and Danny White and Janie Shaw with GRS.

Ms. Pendergrass called the meeting to order and read that Opening Video Teleconference Statement.

Ms. Rankin called roll.

Being no Public Comment, Ms. Pendergrass introduced the agenda item *Approval of November 4, 2021 Joint Audit Committee Meeting Minutes*. A motion was made by Ms. Hampton and seconded by Mr. Totten to approve the minutes as presented. The motion carried unanimously.

Ms. Pendergrass introduced the agenda item *External Audit*. Ms. Pendergrass introduced Alan Norvell and Ryan Graham of Blue and Company who conducted the audit. Mr. Graham reviewed the draft of the audit focusing on items that have changed from the previous years' audits. He indicated that they intend to issue a clean, unmodified opinion, which is the desired result. Mr. Graham reviewed and explained the contents of the Management Letter Comments and proceeded with the review of the contents of the remainder of the Audit documents.

Ms. Pendergrass suggested an introductory paragraph may be appropriate at the beginning of the Management's Discussion and Analysis section explaining the new governance structure since those are significant changes. Ms. Pendergrass asked about whether there was a missing page at the end of this section as there does not appear to be information on how to contact management nor a signature. Ms. Adkins answered that further review of this section will be conducted. Ms. Pendergrass also suggested that after paragraph number two in the Historical Trends section of the Management's Discussion and Analysis, it may be helpful to have a table inserted that outlines the unfunded liability by system, since the responsibility lies within each of the systems and not KPPA in general. Ms. Pendergrass commented that in the first paragraph of the Historical Trends, as well as any other notations throughout the report, the reference to "KPPA members" is incorrect due to the new governance structure. KPPA provides the administrative duties for the systems, but does not have members. Therefore, any reference to members should be tied to the systems, CERS, KERS and SPRS to avoid confusion.

Mr. Graham continued with reviewing the changes that had been made to portions of the report. One being the Financial Statements are now being listed by CERS, KERS, SPRS, Insurance, and KPPA Totals, and is further broken down to CERS and KERS, both hazardous and non-hazardous portions. Ms. Pendergrass suggested a revision to the Notes section of the reports, to correct Note A which erroneously states that KRS' name was changed, yet KRS still exists, as it is the combined KERS and SPRS. KPPA is a new entity, created to provide administrative services for the CERS and KRS Boards. Another comment was made regarding the Component Unit section that details the creation of the various Boards, suggesting that the dates of the formation of the Boards also be included. A suggestion was made to clarify the GASB Statement Number 96 paragraph. A comment was made regarding separating the systems in the Contributions paragraph, as each are funded differently and would be less confusing. The Committee discussed the first paragraph in the Investments section and agreed that additional wording to include that KPPA staff are responsible for implementing the policies established by the Investment Committees of the CERS and KRS Boards. A comment was made about Note G. Contingencies, in that clarification is needed as KPPA provides the legal counsel in litigation cases, but any losses would be realized by the individual Systems. Ms. Pendergrass asked about the Target Asset Allocation section

regarding the time frame used for the Long-Term Expected Real Rate of Return reference. Ms. Adkins indicated that once the time frame is determined, that this section will be updated to include that information. Ms. Pendergrass also suggested revisions to the Pension Legislation section to reword the title for Number 2, and in Number 4 indicate that the General Assembly froze the employer contribution rates for one year.

Mr. Graham indicated that the same breakdown of the systems is also referenced in the Required Supplementary Information Section, and that the same schedules are included here that have been included in the past reports. A comment was made regarding a chart that was included that needed a header. Ms. Hampton moved and Mr. Totten seconded to adopt the External Audit pending technical edits. Ms. Adkins indicated that once all of the edits are completed, a final version will be distributed to the Trustees for further review. The motion passed unanimously.

Mr. Graham reviewed in detail the sections included in the Auditor Communications with those Charged with Governance letter. A question was asked regarding whether the waived adjustment is a continuous issue in these audits. Mr. Graham indicated that due to the timing issues, it is often common to have this type of lag in reporting.

Ms. Pendergrass introduced the agenda item *Joint Audit Committee Administrative Updates*. Ms. Pendergrass introduced Kristen Coffey to present the Internal Audit report. Ms. Coffey indicated that one audit report has been since the last meeting and reviewed the findings of the audit of the Employer Penalty Invoice Waiver Process. The results of the audit included recommendations that the support for the waivers be kept in a location that is accessible by all staff involved in the waiver process and that the related procedures for processing the waivers be updated. Ms. Pendergrass suggested this item be brought before the CERS Board and wanted to get Mr. D’Juan Surratt to highlight the various efforts that have been taken to reduce the number of invoices issued over the past 10 years. Ms. Coffey indicated that this report was given for informational purposes only and does not require action from the Board.

Ms. Pendergrass introduced the agenda item *Joint Audit Committee Governance*. Ms. Pendergrass indicated that an issue arose with regard to having a joint committee report

presented at a KPPA meeting and it warrants discussion about reporting lines. During the formation of the various committees of the Boards, it was determined that the Boards could jointly form committees for Audit and Retiree Health Plan. With this issue arising, it is not clear how a joint committee is to recommend KPPA to adopt this External Audit Report if the joint committee is not reporting to KPPA. A suggestion was made that possibly the committee members would take their recommendations back to their respective boards and take that route. It was stated that this would not get the recommendations to KPPA, but just to the CERS and KRS Boards. There was another suggestion that it would be a better route for the joint audit committee to report directly to KPPA. A suggestion was made for Mr. Board, Executive Director of Legal Services, to provide his thoughts on this subject. Mr. Board indicated that with it being a joint committee of CERS and KRS, it creates a reporting structure that reports back to the CERS and KRS boards respectively, and not to KPPA directly. This complicates further in that the CERS and KRS boards will be the governing boards that will need to adopt and ratify recommendations given by the joint committee, instead of KPPA. Mr. Board indicated that there are no easy solutions, but suggested ways that this can be rectified. One is to form a KPPA Audit Committee, made up of those Trustees who serve on KPPA, and you can add additional committee members, in a non-voting status role, who are non-KPPA members to incorporate those with CPA expertise who may not already serve on KPPA. This would involve abolishing the current joint audit committee and forming a KPPA audit committee, setting it out in the KPPA Bylaws. A comment was made as to whether it would be appropriate for the CERS and KRS Boards to adopt Bylaws that direct the members of the Joint Audit Committee to report their findings to KPPA. Mr. Board indicated that there are no current issues with the Joint Audit Committee reporting findings to the KPPA Board, just that it would be for informational purposes only, as the direct reporting for the Joint Audit Committee lies with the main CERS and KRS Boards. After discussion, the Committee agreed that Ms. Pendergrass and Ms. Hampton would go back to their respective Boards with the Joint Audit Committee recommendations and approvals and the Board will approve or ratify those in their normal fashion. Then as it comes to KPPA, Ms. Pendergrass and a sitting member from KRS, since Ms. Hampton does not serve on KPPA, would report that their respective boards have approved the recommendations of the joint committee. Then the Audit Report can be a direct submission to KPPA.

There being no further business, Mr. Totten moved and Ms. Hampton seconded to adjourn the meeting. The motion was approved unanimously. Copies of all documents presented are incorporated as part of the minutes of the Audit Committee meeting as of November 30, 2021.

*The remainder of the page intentionally left blank.*

## 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 Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on November 30, 2021 were approved by the Joint Audit Committee on February 22, 2022.

  
Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on November 30, 2021 for form, content, and legality.

  
Executive Director  
Office of Legal Services