

MINUTES OF MEETING
KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES AUDIT COMMITTEE
May 5, 2016, 9:00 A.M., E.T.
1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601

At the May 5, 2016 meeting of the Audit Committee of the Board of Trustees, the following Committee members were present: Mike Cherry; Chair, Mary Helen Peter, Keith Peercy, David Rich, and Randy Stevens. Staff members present were William Thielen, David Peden, Rebecca Stephens, Shawn Sparks, Connie Davis, Todd Coleman, Ann Case, Erica Bradley, Samantha Payne, Liz Smith, Blake Atkinson, Natalie Young, Terry Metcalf, and Leigh Taylor. Joseph Overholtz and Jim Tencza (Dean Dorton) and Larry Totten were also present.

Mr. Cherry called the meeting to order and introduced the agenda item *Approval of Committee Minutes*. Ms. Peter moved and was seconded by Mr. Peercy to approve the minutes of the February 4, 2016 meeting. The motion passed unanimously.

Mr. Cherry introduced the agenda item *Dean Dorton PLLC and Fiscal Year End 2016 Financial Statement Audit Plan and Contract*. Mr. Overholtz and Mr. Tencza reviewed the draft *Fiscal Year End 2015 GASB 68 Audit Report* and returned a clean opinion. Mr. Stevens moved and was seconded by Ms. Peter to accept the draft audit. The motion carried. Mr. Overholtz and Mr. Tencza reviewed the timeline and process for the proposed *Fiscal Year End 2016 Financial Statement Audit Plan and Contract*. This report was presented for informational purposes only.

Mr. Tencza and Mr. Overholtz exited the meeting.

Mr. Cherry introduced the agenda item *Review of Quarterly Financial Statements*. Mr. Coleman and Ms. Case reviewed the reports and investment fees for the Committee. This report was provided for informational purposes only.

Mr. Cherry introduced the agenda item *Statewide Single Audit of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2015*. Mr. Coleman reviewed the report for the Committee. This report was provided for informational purposes only.

Mr. Cherry introduced the agenda item *Review of Outstanding Invoices*. Ms. Smith reported the outstanding invoice balances and penalties to the Committee. This report was presented for informational purposes only.

Mr. Cherry introduced the agenda item *Management Follow up on Audit Findings and Recommendation Summary Dashboard*. Ms. Davis presented the status of the APA findings and recommendations as well as open audit items. This report was presented for informational purposes only.

Mr. Cherry introduced the agenda item *Review of Information Disclosure Incidents, 1st Quarter Calendar Year 2016*. Mr. Sparks reviewed the comparison of disclosures between the 4th quarter of 2015 and the 1st quarter of 2016. This report was presented for informational purposes only.

Mr. Cherry introduced the agenda item *Review of Internal Audit Budget – 3/31/2016 and Approval of FYE 2017 Internal Audit Budget*. Ms. Davis provided a brief recap of the status of the Internal Audit budget and presented the proposed 2017 fiscal year department budget. Ms. Peter moved and was seconded by Mr. Cherry to approve the proposed budget for 2017. The motion carried.

Mr. Cherry introduced the agenda item *Review of Anonymous Reporting Spreadsheet*. Ms. Davis recapped the items currently under investigation. This report was presented for informational purposes only.

Mr. Cherry introduced the agenda item *IBM FileNet Contract Audit*. Ms. Davis recapped the audit and findings for the Committee. Mr. Rich moved and was seconded by Ms. Peter to accept the audit. The motion carried.

Mr. Cherry introduced the agenda item *Review of Maintenance Contracts*. Ms. Davis reviewed the audit and findings for the Committee. Mr. Stevens moved and was seconded by Mr. Rich to accept the audit. The motion carried.

Mr. Cherry introduced the agenda item *Review of Death Audit utilizing Lexis Nexis*. Ms. Davis reviewed the findings of the audit. Ms. Peter moved and was seconded by Mr. Stevens to approve the current Death Audit Review and to move upcoming death audits to a two-year cycle. The motion carried.

Mr. Cherry introduced the agenda item *Review of Payroll and Processing*. Ms. Davis recapped the findings and recommendations of the audit. Mr. Stevens moved and was seconded by Ms. Peter to accept the findings of the audit. The motion carried.

Mr. Cherry introduced the agenda items *Investment Compliance Report*. Ms. Bradley reviewed the reports and reported the security investment compliance, asset allocation restrictions, and short and long term fund goals for the pension and insurance funds. These reports were provided for informational purposes only.

Mr. Cherry introduced the agenda item *Review of Alternative Investment Due Diligence Process*. Ms. Bradley recapped the findings and resulting recommendations of the audit. Ms. Peter moved and was seconded by Mr. Stevens to accept the audit. The motion carried, with Mr. Stevens's complement of Ms. Bradley for her diligence on the audit.

Mr. Cherry introduced the agenda item *Annual Audit Plan for Fiscal Years 2017, 2018, and 2019*. Ms. Davis reviewed the planned audits for fiscal years 2017, 2018, and 2019. Mr. Stevens moved and was seconded by Ms. Peter to approve the Annual Audit Plan with the removal of the Death Audit-Lexis Nexis Report (annual), and the Refunds Payments for Inactive Members (Annual), to a three to five year rotation at the discretion of the Internal Audit staff, and replace these reports with the following: Financial Statement Accuracy Review and 1099R Process Audits in 2017; Manage SSA/WC Audit, Offset and Overpayment and Employer Invoices Audits in 2018; Imaging Process and Backlog Post Retirement Audits for 2019. The motion carried.

Mr. Cherry introduced the agenda item *Status of Current Audits*. Ms. Davis recapped the process of the ongoing audits. This report was presented for informational purposes only.

Mr. Cherry introduced the agenda item *CERS Board Election Memoranda*. Ms. Davis reviewed timelines for the upcoming CERS elections. This report was provided for informational purpose only.


Mr. Cherry noted the inclusion of professional articles for informational purposes only.

There being no further business, the meeting adjourned at 10:36 a.m. The next meeting of the Audit Committee is scheduled for August 25, 2016. Copies of all documents presented are incorporated as part of the minutes of the Audit Committee meeting as of May 5, 2016.

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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 Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on May 5, 2016 were approved by the Audit Committee on November 3, 2016.



Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on May 5, 2016, for form, content, and legality.



Legal Counsel