

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
AUGUST 24, 2023, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the August 24, 2023 Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), Betty Pendergrass, Lynn Hampton, and William Summers, V. Staff members present were CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Victoria Hale, Carrie Bass, Stephanie Hold, Steve Willer, Michael Lamb, Connie Davis, Matthew Daugherty, William Prince, Madeline Evans, Melinda Wofford, Ashley Gabbard, Glenna Frasher and Katie Park. Others present included Adam Gordon and Linda Hinton with the Auditor of Public Accounts.

Mr. O'Mara called the meeting to order.

Mr. Board read the Opening Statement.

Ms. Park called roll.

There being no *Public Comment* received, Mr. O'Mara introduced the agenda item *Approval of Minutes – July 26, 2023 (Video 00:05:54 to 00:06:42)*. Ms. Hampton made a motion to approve the minutes as presented. The motion was seconded by Ms. Pendergrass and passed unanimously.

Mr. O'Mara introduced the agenda item *Overview of Fiscal Year 2023 External Audit (Video 00:06:43 to 00:14:40)*. Mr. Adam Gordon with the Auditor of Public Accounts Office gave an Audit Update presentation. He reviewed the purpose, progress, outstanding items, and tentative timeline of the Audit with the KPPA Audit Committee. KRS 61.645(12)(b) requires the Auditor of Public Accounts to audit KPPA at least once every five years. The last audit was for fiscal year ending June 30, 2018, said Mr. Gordon.

Mr. O'Mara introduced the agenda item *Financial Statements for Fiscal Year Ended June 30, 2023 (unaudited) including Contribution Report and Administrative Expenses (Video 00:14:41 to 00:39:08)*. Mr. Lamb, Chief Financial Officer, reviewed the Combining Statement of Fiduciary Net Position of the Pension Funds as of June 30, 2023. Next, Mr. Lamb briefly reviewed the Combining Statement of Changes in Fiduciary Net Position of the Pension Funds for the twelve-month period ending June 30, 2023, Combining Statement of Fiduciary Net Position of Insurance Funds as of June 30, 2023, and the Combining Statement of Changes in Fiduciary Net Position of Insurance Funds for the twelve-month period ending June 30, 2023, with the KPPA Audit Committee. Mr. Lamb went on to present the CERS and KRS Pension and Insurance Funds Contribution Reports for the twelve-month period ending June 30, 2023. He briefly presented the FY 2022-2023 KPPA Administrative Budget and Budget-to-Actual Analysis for the fiscal year ending June 30, 2023. Plan-Specific Expenses and Separation Expenses were also highlighted by Mr. Lamb. Next, he reviewed the JP Morgan Chase Earnings and Fees and Hard Interest Earned for the fiscal year ending June 30, 2023.

Mr. O'Mara introduced the agenda item *KPPA Audit Committee Administrative Updates (Video 00:39:09 to 01:19:50)*. Mr. Matthew Daugherty presented the Audit items on behalf of Ms. Coffey. Mr. Daugherty presented the Internal Audit Budget as of June 30, 2023. Ms. Pendergrass stated that the retirement cost was increasing more than the salary cost. She asked if the contribution rate in the retirement line was still too high or if it had been adjusted. Mr. Daugherty stated that he would consult with Ms. Coffey and provide an answer at a future meeting. Ms. Pendergrass made a motion to approve the Internal Audit Budget for the Upcoming Fiscal Year pending a modification to the employee retirement line item. Ms. Hampton seconded the motion and the motion passed unanimously.

Next, Mr. Daugherty presented Audit Committee Agenda Items. To reduce the amount of duplicate information being presented at Board and Committee meetings, the KPPA Division of Internal Audit proposed a schedule for various items to be presented. Ms. Pendergrass suggested that Management Letter Comments be included as an informational agenda item at the CERS and KRS Boards of Trustees meetings. However, Ms. Hampton, Mr. Summers, and Mr. O'Mara opposed the suggestion. Ms. Hampton made a motion to approve the Audit Committee Agenda Items as presented. The motion was seconded by Mr. Summers and passed unanimously.

Mr. O'Mara requested that agenda item Charter for the Division of Internal Audit Administration be discussed next. Mr. Daugherty reviewed a redlined version of the Charter for the Division of Internal Audit Administration. The KPPA Audit Committee recommended that the following amendments be made to the Charter: (1) Delete Components of COSO in Section VII. Internal Control System; and (2) amend the language in item three of VIII. Scope of Responsibilities, Internal Controls and Compliance to read, "Test and evaluate..." Mr. O'Mara added that a decision regarding the evaluation and reporting of the Chief Auditor would be deferred to the KPPA. Ms. Pendergrass made a motion to approve the Charter for the Division of Internal Audit Administration as modified. Ms. Hampton seconded the motion and the motion passed unanimously.

****Mr. Summers V exited the meeting****

Ms. Carrie Bass presented Potential Information Disclosures/Breaches affecting the KPPA for the fourth quarter of FY23. She reported that there were four (4) potential disclosures/beaches investigated. None of which implicated HIPAA or federal law concerns or state law privacy concerns, said Ms. Bass. The affected members were notified and the KPPA took steps to ensure that the disclosed information was not disseminated further and was retrieved. Ms. Bass directed the Committee Members to the meeting material for additional information on each case.

Next, Ms. Bass introduced Ms. Stephanie Hold who recently joined the KPPA Office of Legal Services as an Investigator II. Ms. Hold will be presenting to the KPPA Audit Committee in the future, said Ms. Bass. Next, Ms. Bass presented Anonymous Tips. She reported that only one tip had been received since the last meeting of the KPPA Audit Committee. However, seven cases remained open as of the meeting date.

Mr. Daugherty briefly presented the FY 2024 Auditor Independence Statements signed by KPPA Division of Internal Audit staff. Then, he reviewed the Status of Current Internal Audit Projects with the KPPA Audit Committee. The Committee requested that Mr. Daugherty further review the high number of 'Total Administrative Hours' and follow-up with a detailed explanation at the next meeting of the KPPA Audit Committee.

Lastly, the Update on Self-Assessment Project was presented by Mr. Daugherty. There was discussion regarding who received/were asked to complete a Self-Assessment Survey and how the survey should be completed. Due to lack of exposure, many advised that they were unable to complete the survey. It was agreed that the 'don't know' option would be selected for areas in which additional information would be required. Mr. O'Mara requested that all Committee Members be given the opportunity to complete the survey. Mr. Eager suggested that the KPPA Division of Internal Audit discuss with staff regarding who would have the best insight to complete the Self-Assessment Survey.

Mr. O'Mara introduced the agenda item *Professional Articles (Video 01:19:51 to 01:25:07)*. Ms. Evans presented professional article entitled "Tone at the Top" and other information on the topic of non-financial risk.

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 August 24, 2023, were approved by the Audit Committee on November 27, 2023.


Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on August 24, 2023, for form, content, and legality.


Executive Director
Office of Legal Services