MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
AUGUST 27, 2024, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE

At the August 27, 2024, Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), George Cheatham, 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, Erin Surratt, Michael Board, Victoria Hale, Carrie Bass, Shauna Miller, D'Juan Surratt, Liza Welch, Stephanie Hold, Michael Lamb, Odette Gwandi, Stephanie Aldridge, Kristen Coffey, William Prince, Elizabeth Smith, Jillian Hall, Ashley Gabbard, Phillip Cook, and Sherry Rankin. Also present were Ryan Graham with Blue and Co., Sonja Heath and Laketa Short with the Internal Audit Quality Assurance Peer Review team.

1. Mr. O'Mara called the meeting to order.

2. Mr. Board read the Opening Statement.

3. Ms. Rankin called roll.

4. Ms. Rankin noted no ***Public Comments*** were received.

   Mr. O'Mara welcomed new members Mary Eaves, KRS Board of Trustee, and J. T. Fulkerson, CERS Board of Trustee.

5. Mr. O'Mara introduced the agenda item ***Approval of May 30, 2024, KPPA Audit Committee Minutes*** *(Video 00:06:55 to 00:07:30).* Mr. Cheatham 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 ***External Audit Updates*** *(Video 00:07:30 to 00:16:14).*

a. Ms. Kristen Coffey introduced Ms. Sonja Heath, Internal Auditor, who presented regarding the ***Internal Audit Self-Assessment with External Validation.*** Ms. Sonja Heath and Ms. Laketa Short conducted an independent validation of KPPA Internal Audit self-assessment. The validation considered primarily of a review and a test of the procedures and results of Internal Audit's self-assessment. In addition, interviews were conducted with the president and CEO, CFO, audit committee chair, and other members of senior management. Ms. Heath reported that Ms. Coffey and her staff generally conformed with the standards of the Institute for Internal Auditors. Ms. Heath added that the results of their independent validation improved their rating. Ms. Hampton referred to the areas that were rated as "Partially Complies" or "Does Not Comply" and inquired about the subsequent steps. Ms. Coffey answered that her staff are already working on the areas that were opportunities for improvement and will provide an update at the next meeting. Mr. O'Mara inquired about the Best Practices, and Ms. Coffey answered that it is currently written in the KPPA Audit Charter to have an external audit every five years.

Mary Eaves entered the meeting.

b. Mr. O'Mara introduced the agenda item ***Overview of Fiscal Year 2024 External Audit.*** Ryan Graham with Blue and Co. reviewed the timeline of what is going to be covered for the external audit for Fiscal Year 2024.

7. Mr. O'Mara introduced agenda item ***Financial Statements for Fiscal Year Ended June 30, 2024 (unaudited)*** *(Video 00:16:14 to 00:23:08).* Mr. Lamb, Chief Financial Officer, reviewed the new presentation of the ACFRs and stated they are still working with Blue and Co. about some of the line items on the financial statements. Noting that these statements have not yet been reviewed by Blue and Co. for audit, Mr. Lamb reviewed the Combining Statement of Fiduciary Net Position of the CERS Pension and Insurance Funds as of June 30, 2024. Mr. Lamb then briefly reviewed the Combining Statement of Changes in Fiduciary Net Position of the CERS Pension and Insurance Funds for the

twelve-month period ending June 30, 2024, Combining Statement of Fiduciary Net Position of KRS Pension and Insurance Funds as of June 30, 2024, and the Combining Statement of Changes in Fiduciary Net Position of KRS Pension and Insurance Funds for the twelve-month period ending June 30, 2024, with the KPPA Audit Committee.

8. Mr. O'Mara introduced the agenda item ***Legal Updates*** *(Video 00:23:08 to 00:31:03).*

    a. Regarding ***Information Disclosure Incidents***, Ms. Carrie Bass presented Potential Information Disclosures/Breaches affecting the KPPA for the fourth quarter of Fiscal Year 2024. Ms. Bass reported that there was one potential "security breach" of "personal information" as defined by Kentucky state law by the KPPA. The root cause was a bad actor used information obtained outside of KPPA to access the member's online self-service account and make some banking changes. Also, there were three disclosures that occurred under the KPPA's Data Disclosure Notification Policy. They essentially involved a mail issue. Finally, regarding external disclosures or breaches, KPPA received one notification from a vendor this quarter that a security breach or disclosure occurred. This event occurred in December 2023 and impacted 19 members. Unauthorized third parties were able to use information obtained from sources other than the vendor or KPPA to log on to webpages associated with the vendor and were able to view and access limited information of the 19 members.

    b. Next, Ms. Stephanie Hold presented the ***Anonymous Tips*** received regarding fraud, waste, and abuse. Since the KPPA Audit Committee met on May 30, 2024, five (5) fraud tips were received. Two (2) of the tips were closed following review, and three (3) of these tips are currently open. Ms. Hold reported there were eight (8) cases in open status and provided current information for all the open cases as of August 27, 2024. Next, Ms. Hold explained that five (5) fraud tip cases have been closed since the last meeting of the KPPA Audit Committee.

9. Mr. O'Mara introduced the agenda item ***KPPA Audit Committee Administrative Updates*** *(Video 00:31:03 to 01:27:18).*

a. Ms. Kristen Coffey presented the ***Audit Plan for FY 2025 and proposed for FY 2026 with Risk Assessment***. Ms. Coffey discussed the Annual Risk Assessment and Audit Plan. First, Ms. Coffey reviewed the presented Risk by COSO Element and Principle Chart. Then, Ms. Coffey reviewed the FY 2025 Audit Plan and FY 2026 Audits/Projects.

   Ms. Hampton made a motion to approve the Audit Plan for FY 2025 and the proposed Audit Plan for FY 2026 with Risk Assessment as presented. Mr. Summers V seconded the motion, and the motion passed unanimously.

b. Ms. Coffey noted in her ***Staffing Update*** that there are two vacant positions in their department which leaves them short staffed with only three team members. Interviews are scheduled this week for one of the positions with a potential start date of October 1. Once that position is filled, they will start interviews for the second position with an estimated start date in December. Ms. Coffey addressed the usage of overtime while understaffed to be able to complete projects.

c. Ms. Coffey presented the ***Internal Audit Budget as of June 30, 2024***. For the last fiscal year, Internal Audit came in about 8% under budget. Ms. Coffey made note of 847T, Computer Equipment. Ms. Coffey explained the $20,000 was an estimate for the fiscal year, and the reported $23,725.25 is a payment for 2024 and 2025 fiscal years.

d. Next, Ms. Coffey presented the ***Status of Current Internal Audit Projects.*** Ms. Coffey reviewed the status of their projects and explained the phases.

e. Ms. Coffey presented the ***Issued Reports and/or Memorandums.***
   i. Ms. Coffey reported on the ***Review of Legislative Process (Reissue)***. She stated this is a reissue and was presented at the last meeting. Upon recommendation from the committee, some of the wording was updated, and Ms. Coffey presented the completed revised report for review.

Mr. Barrow indicated a survey will be sent out on the legislative process which will solicit some beneficial material.

ii. Ms. Coffey then reviewed the audit that was a ***Review of Interest Added to Member Accounts.*** Ms. Coffey explained the one reportable finding of an inconsistency when rounding interest rates and reviewed the recommendations. Mr. Barrow assured that no member was harmed from the use of this method. Ms. Coffey then reviewed other recommendations that were communicated to the CEOs of CERS and KRS and also to the Division of Accounting and Enterprise and Technology Services in separate management letters dated July 22, 2024.

iii. Ms. Coffey presented the completed audit on the ***Review of Outstanding Employer Invoices***. The two reportable findings noted were interest and penalty not charged on delinquent invoices and additional research needed by staff. Ms. Coffey reviewed the details and recommendations of the reportable findings. Ms. Coffey agreed to have the data sent from the Internal Audit Report to the committee members. Mr. Surratt reassured that his staff is dedicated to resolving the outstanding employer invoices issue. After much discussion, it was decided that the additional data provided by Ms. Coffey's staff will be helpful, and this issue will continue to be monitored. Other nonreportable matters were communicated to the Divisions of Accounting; Employer Reporting, Compliance, and Education; and Enterprise and Technology Services in a separate management letter dated August 7, 2024.

iv. Next, Ms. Coffey presented the completed audit for ***Review of ERCE Contributions.*** No reportable findings were noted as part of this audit. Ms. Coffey reviewed certain other matters that were noted and communicated to Employer Reporting, Compliance, and Education in a separate management letter dated August 19, 2024.

v. Mr. Will Prince presented the completed audit for the ***Review of Refunds*** process. Mr. Price reported there were no reportable findings noted as part of this audit.

Ms. Hampton made a motion to accept the following audits as presented: Review of Interest Added to Member Accounts, Review of Outstanding Employer Invoices, Review of ERCE Contributions, and Review of Refunds. Mr. Summers V seconded the motion, and the motion passed unanimously.

10. Mr. O'Mara introduced the agenda item ***Professional Article*** *(Video 01:27:18 to 01:32:55).* Mr. Prince presented an overview of two professional articles, "Fundamentals of the COSO Framework: Building Blocks for Integrated Internal Controls" by Arden Leland and "Audit Committee Performance Evaluation" by Deloitte.

11. 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 27, 2024, were approved by the Audit Committee on November 19, 2024.

Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on August 27, 2024, for form, content, and legality.

Executive Director
Office of Legal Services