

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
AND KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES JOINT AUDIT COMMITTEE
FEBRUARY 28, 2023, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the February 28, 2023 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: William O'Mara (Chair), Betty Pendergrass, Lynn Hampton, and William Summers, V. Staff members present were Rebecca Adkins, Erin Surratt, Michael Board, Victoria Hale, Michael Lamb, Connie Davis, Kristen Coffey, Madeline Perry, Matthew Daugherty, Carrie Bass, Melinda Wofford, William Prince, Steve Willer, Ann Case, Elizabeth Smith, Ashley Gabbard, Phillip Cook, Katie Park, and Sherry Rankin. Others present included CERS CEO Ed Owens, III, KRS CEO John Chilton, and Allen Norvell and Ryan Graham with Blue & Co.

Mr. O'Mara called the meeting to order.

Ms. Hale read the Opening Video Teleconference Statement.

Ms. Rankin called roll.

There being no *Public Comment*, Mr. O'Mara introduced the agenda item *Approval of Minutes – November 28, 2022 (Video 00:07:28 to 00:08:04)*. Ms. Hampton made a motion and was seconded by Ms. Pendergrass to approve the minutes as presented. The motion passed unanimously.

Mr. O'Mara introduced the agenda item *External Audit Update (Video 00:08:05 to 00:23:00)*. Mr. Ryan Graham with Blue and Co. provided an overview of the draft GASB 68 and GASB 75 Proportionate Share Audits. Ms. Pendergrass made a motion to accept the draft GASB 68 and GASB 75 Proportionate Share Audits. The motion was seconded by Ms. Hampton and passed unanimously.

Mr. Mike Lamb, Chief Financial Officer, presented the item Updating the Audit Report Presentation for FY2023. On November 28, 2022, the Joint Audit Committee discussed the June 30, 2022, ACFR and the presentation of the financial statements. It was requested that the totals of the financial statements be edited to report totals for each retirement system. Changes in formatting were also discussed to reflect separate CERS and KRS opinions in 2023. The Committee requested that further research be conducted regarding these suggested formatting changes. Mr. Lamb provided the Joint Audit Committee with a memorandum and proposed timeline for the implementation of these requested formatting changes.

Mr. O'Mara introduced the agenda item *Financial Reporting Updates (Video 00:23:01 to 00:46:37)*. Mr. Lamb reviewed the Combining Statement of Fiduciary Net Position of the Pension Funds as of December 31, 2022. Next, Mr. Lamb briefly reviewed the Combining Statement of Changes in Fiduciary Net Position of the Pension Funds for the six-month period ending December 31, 2022, Combining Statement of Fiduciary Net Position of Insurance Funds as of December 31, 2022, and the Combining Statement of Changes in Fiduciary Net Position of Insurance Funds for the six-month period ending December 31, 2022, with the Joint Audit Committee. Mr. Lamb went on to present the CERS, KERS, and SPRS Pension and Insurance Funds Contribution Reports for six-month period ending December 31, 2022. Lastly, he presented the KPPA Administrative Budget FY 2022-2023 for the six-month period ending December 31, 2022. Mr. O'Mara asked if the administrative expenses would be within budget by year-end before the reserve amount. Mr. Lamb stated that he would be able to have a better idea within the next quarter.

Ms. Connie Davis, Division Director of Accounting, presented item Fiscal Year End June 30, 2022, End of Year Audit Requirements. Ms. Davis stated that KPPA is required to submit its audited financial statements to the Legislative Research Commission (LRC), and the Auditor of Public Accounts (APA). Therefore, in accordance with Kentucky Revised Statute 45.149(2)(a), the Annual Comprehensive Financial Statements (ACFR), including the audited financial statements were electronically sent to LRC and the APA on December 8, 2022. Also, the ACFR was posted on KPPA's website. She also advised that the APA would conduct the Fiscal Year End Financial Statement Audit as required every five years.

Mr. O'Mara introduced the agenda item *Joint Audit Committee Administrative Updates (Video 00:46:38 to 01:25:32)*. Ms. Carrie Bass stated that the Information Disclosure Incidents and Anonymous Tips reports would be provided and presented to the Joint Audit Committee at a future meeting. She advised that two additional employees have recently joined the KPPA Office of Legal Services and will assist in the preparation of these reports for Committee meetings.

Ms. Kristen Coffey presented the Internal Audit Budget as of December 31, 2022, Status of Current Internal Audit Projects, Open Audit Findings and Recommendations, and Review of Chase Accounts Audit. Mr. O'Mara stated that the Summary of Audit Results, item #1 Use of non-custodial accounts, has been discussed at length for about a year; therefore, he encouraged Staff to shorten the presented timetable of 12 to 24 months.

Ms. Pendergrass added that she was concerned with the timeline on a variety of items. She made the below motion in response to item, Review of Chase Accounts Audit.

Correction of key deficiencies should be a high priority for KPPA accounting, finance, and investment staff and should be accelerated to ensure accuracy of the FY 2023 external financial reports as well as efficient management and reporting for FY 2024. I move for the following timelines to facilitate upgrades and corrections:

1. Policies that need Board attention should be requested at the March and/or April 2023 Board meetings.
2. Internal controls should be designed by June 30, 2023.
3. Implementation process should be designed by September 30, 2023.
4. Final changes should be complete by December 31, 2023.
5. The CFO should provide written, monthly updates to the Joint Audit Chair with requests for special meetings as necessary to address policy questions for Trustees to resolve.

There was no second to the motion; therefore, the motion failed.

Mr. O'Mara introduced the agenda item *Professional Articles (Video 1:25:33 to 1:27:07)*. Mr. Matthew Daugherty with the KPPA Division of Internal Audit presented an article entitled

American Institute of Certified Public Accountants – Evolution of Auditing: From the Traditional Approach to the Future Audit – White Paper November 2012.

There being no further business, a motion to *adjourn* was made by Ms. Pendergrass and seconded by Mr. Summers, the meeting adjourned.

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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 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 February 28, 2023, were approved by the Joint Audit Committee on May 25, 2023.


Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on February 28, 2023, for form, content, and legality.


Executive Director
Office of Legal Services