MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
EMPLOYER AUDIT COMMITTEE
JULY 13, 2026, AT 2:00 P.M. ET (1:00 P.M. CT)
VIA LIVE VIDEO TELECONFERENCE

At the July 13, 2026, County Employees Retirement System (CERS) Employer Audit Committee Meeting, the following Committee members were present: Steven Webb (Chair), Dr. Patricia Carver, Jim Tony Fulkerson, Tommy McGraw, and George Cheatham. Staff members present were CERS CEO, Ed Owens III, Ryan Barrow, Michael Lamb, Odette Gwandi, Victoria Hale, D'Juan Surratt, Kristen Coffey, James Westbay, Crystal Sorrell, Anita Smith, Dan Peters, Shaun Case, Sherry Rankin, and Mary Hill. Others present included Eric Branco of Johnson Bowman Branco & Collins, LLP and Green County Judge Executive, John Frank.

1. Mr. Webb called the meeting to ***order.***

2. Mr. Branco read the ***Opening Statement***.

3. Ms. Rankin called the ***roll***.

4. Ms. Rankin noted that no ***Public Comments*** were submitted.

5. Mr. Webb introduced agenda item ***Approval of Minutes*** *(Video 00:07:06 to 00:7:44).* Mr. Cheatham made a motion to approve the minutes, as presented, and Mr. McGraw seconded the motion. A vote was held and the motion carried unanimously.

6. Mr. Webb introduced agenda item ***Frequency of Committee Meetings*** *(Video 00:07:49 to 00:09:22).* Mr. Webb initially recommended a bi-monthly schedule for the cadence of meetings for this Committee and Mr. Cheatham and Dr. Carver agreed. Dr. Carver made a motion to hold bi-monthly meetings going forward and Mr. Cheatham seconded. A vote was held and the motion carried unanimously.

7. Mr. Webb introduced agenda item ***Auditor of Public Accounts (APA) Referral Recap*** *(Video*

00:09:26 to 00:17:38). Mr. Owens gave a brief recap of the origin of the Committee and explained that CERS became involved in employer audits after receiving two (2) letters from the State Auditor, Allison Ball, in mid-2025 which identified discrepancies between payroll and reported receipts for two (2) employers. He stated that CERS sent Ms. Ball a response letter and outlined actionable steps, including the formation of an ad hoc committee and a plan to review approximately 1,200 employers. Mr. Owens noted that during his investigation he discovered there had been several letters sent from the APA to KPPA of which he had been previously unaware. He went on to note that employer audits were identified as the highest risk in the KPPA agency in 2018 (then KRS), but no program was established at that time due to various reasons. Action was not taken until mid-2025. Mr. Owens stated that he requested a review of audits conducted by the State Auditor and it was found that approximately one third of CERS employers are audited by Ms. Ball's office.

The chief auditor was subsequently asked to conduct a second review of the audits, with new data to be presented later in the meeting. Mr. Owens clarified that the audit program was not intended to punish employers, but to establish a reliable system that benefits both employers and employees by reducing unexpected contribution issues and lump sum bills. He noted that the ad hoc committee was converted into a standing committee to continue addressing employer audit issues and improve outcomes for both employers and employees.

8. Mr. Webb introduced agenda item ***Chief Auditor Investigation*** *(Video 00:17:40 to 00:37:19).* Ms. Coffey presented an updated review of 360 employers that resulted in changes to the numbers and categories since the previous presentation in October, including more reports from fiscal years 2024 and 2025, refined criteria for impact assessment, and expanding audit categories. The Committee discussed the scale of the issue, noting that the number of employers needing review far exceeds the number of audits completed in recent years. Ms. Coffey also touched on expanded methodology and categories used to assess audit findings.

   Mr. Webb and Mr. Cheatham had inquiries about the "yes" categories in the findings and how many of those were repeat entities as opposed to new entities. A quick count revealed that approximately 25% of those flagged were repeat entities appearing in multiple years. Mr. Cheatham highlighted that roughly ninety (90) employers identified in the current grouping

need to be reviewed, which is three (3) to four (4) times the number of audits completed in the past four (4) to five (5) years, underscoring the scale of the issue.

Mr. Owens noted the lack of retirement payment matching payroll audits for CERS employers from 2021 to 2025. He explained that House Bill 8 (2022) required five (5) audits per year for KERS employers, but CERS employers were not audited to verify receipt of all funds due to the system. He noted that while the system has reported negative cash flow, it remains healthy as the negative cash flow is less than 1% of assets, which is below the industry standard threshold of 3%. He clarified for Dr. Carver that while there had been no action taken prior to the notification from Auditor Ball, since receiving her letter, there had been significant activity initiated, including the Committee's preference for the Chief Auditor to develop an audit plan, while KPPA's preference is for the ERCE team to perform the audits.

Mr. Cheatham highlighted the importance of addressing both sides of the equation; assessment and verification, and education to prevent continually having these issues. Mr. Surratt noted that the ERCE team has, in fact, performed audits on CERS employers, and has recently formed a team to focus on producing more in the future. Following this discussion, Mr. Webb asked Ms. Coffey if she would develop a protocol for employer audit procedures and she agreed.

Ms. Coffey also shared a benchmarking exercise that was conducted by reaching out to fifty-three (53) pension systems. Of the twenty-four (24) responses received, 73% (16 agencies) have internal audit conduct employer audits, four (4) use outside auditors, and two (2) (including KPPA) use another internal division.

9. Mr. Webb introduced agenda item ***Draft Audit of ERCE Employer Audits*** *(Video 00:37:20 to 00:43:43).* Mr. Owens discussed the preliminary phase of the draft KRS employer audit and expressed concerns about the quality and reliability of findings. Ms. Coffey clarified that the report is scheduled for final issuance and will be presented to the KPPA Audit Committee at their next meeting. Mr. Cheatham explained that House Bill 8 mandates KPPA to conduct five (5) audits of KRS members annually. There are approximately 300 employers involved, and over the past three (3) years, sixteen (16) audits have been initiated. Of those, fifteen (15) could not be completed due to lack of information, and the one (1) audit that was completed was

found to be incorrect. He emphasized the complexity of employer audits, including the need for expertise in reviewing employer reporting and payroll records, and the importance of developing a transparent and verifiable mechanism to ensure trust in the process.

10. Mr. Webb introduced agenda item ***Green County Judge Executive*** *(Video 00:43:45 to 01:05:03).* Mr. Webb introduced Green County Judge Executive, John Frank, to discuss Green County's experience with an omitted billing invoice from KPPA, which resulted from a part-time employee working for both the county fiscal court and the school system. He stated that the county was unaware of the need to remit contributions for this employee until receiving a bill for approximately $6,000 plus an interest penalty of about $1,500, covering six (6) years of omitted contributions. Mr. Lamb noted that monthly reports were sent to Green County's reporting official indicating the employee's part-time status and the need to adjust reporting. He acknowledged the communication gap and apologized for the delay in awareness.

    Mr. Cheatham clarified that the biggest concern seemed to be the education and training available to reporting officials. He suggested implementing mechanisms to track training completion and certification and considering in-person or regional training sessions. Mr. Surratt stated that KPPA has been considering the need for some more training for official reporters. He also stated that all reporting information may be found in the employer manual, which should be utilized by employers. Mr. Surratt further noted that employers receive a packet each month which includes information about non-participating employees. Additionally, he stated that ERCE has been preparing an employer newsletter to be distributed, which will explain the reporting process and omitted billing procedures for educational purposes.

    There was a brief discussion about the differences between education and auditing and the importance of both. Mr. Webb highlighted the challenges faced by smaller counties and cities, where clerks often handle multiple roles and may lack specialized fiscal training. He suggested instituting required annual training and certification, similar to practices in other states, to ensure all officials receive necessary education.

11. Mr. Webb introduced agenda item ***ERCE Preliminary Steps*** *(Video 01:05:20 to 01:38:09)*. Mr. Lamb began his presentation by acknowledging the backlog of issues that had been uncovered and assured the Committee that the concerns were not being ignored. He then went on to give some background on the formation and staffing of the Employer Reporting Group. He stated that the branch was created in 2025, with staffing completed in January 2026. Three (3) employees with over twenty (20) years' of experience were moved into the branch. The team conducts comprehensive reviews of employer payroll records and has completed several audits, invoiced significant amounts, and updated risk assessment protocols to include both large and small employers. Mr. Lamb noted that the Employer Reporting Group is dedicated to comprehensive reviews of employer payroll records and reporting, not traditional audits. Every employee at each employer is reviewed, rather than just a sampling.

    He noted there are nearly 1,200 CERS employers, who reported nearly 117,000 members and submitted almost $1 billion in employer contributions in fiscal year 2026. Of these, 250 employers reported 12,500 hazardous duty employees, with $300 million in contributions. Since January 2026, four (4) audits have been completed: Anderson County Fiscal Court, City of Carlisle, City of Henderson, and Clay County Fiscal Court. Ten (10) additional audits are in progress, with half nearing completion. In six (6) months, $2.5 million had been invoiced or will be invoiced as a result of these reviews, with approximately $1 million collected. Additional billing may occur as more issues are identified during ongoing reviews.

    Mr. Lamb explained that the risk assessment for selecting employers to review has been updated to include both large and small employers, with small employers (10 or fewer employees) now considered higher risk due to limited financial expertise and resources. The risk assessment incorporates factors such as position type (hazardous vs. non-hazardous), past due invoices, reporting errors, tip line and APA referrals, external audit results, and annual assessment survey responses. The list of employers to be reviewed is updated quarterly based on new metrics. He explained that at the start of each audit, a letter is sent to the employer outlining statutory authority, required documents, and deadlines. After completion, a summary letter is provided internally and externally, detailing issues found, dollar amounts billed, and next steps.

Regarding the timeline for the completion of the reviews, Mr. Lamb stated that with current staffing, and the level of detail required, it would not be likely to complete 1,200 employer reviews in a span of five (5) years. He noted that alternative approaches, such as targeted sampling or focusing on specific issues (e.g., hazardous employees, retired/re-employed positions), are being considered to increase coverage. Mr. Cheatham highlighted the importance of timely reviews to prevent employees from facing substantial lump sum payments to correct pension credits, sometimes for periods as long as 10-12 years. There was concern that delayed reviews may result in significant financial burdens for both employees and employers. Mr. Lamb explained that KPPA is working with IT to develop an averaging batch tool to annually review service credits for all employees, aiming to identify discrepancies earlier and bill employers automatically.

Mr. Owens questioned the effectiveness of the risk assessment approach and stated that confidence in risk scores is limited until all 1,200 employers have been reviewed as many issues were identified when employees retired, rather than through risk-based reviews. Mr. Webb suggested considering a tiered audit structure, providing reasonable assurance for all employers and escalating reviews where issues are found, rather than aiming for complete assurance for every employer. Mr. Lamb clarified that KPPA has initiated an annual attestation survey for all employers, requiring them to certify correct reporting and answer targeted questions. Survey results will be incorporated into the risk assessment process to help ensure all 1,200 employers are reviewed. Additional risk factors, such as past due employer invoices were also being considered in prioritizing reviews.

12. There being no further business, Mr. Webb ***adjourned*** the meeting.

The remainder of this page intentionally left blank.

CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Trustees 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 conjunction with this meeting.

Recording Secretary

I, Steven Webb, the Chair of the CERS Employer Audit Committee, do certify that the Minutes of Meeting held on July 13, 2026, were approved on September 23, 2026.

Steve Webb

Chair of the CERS Employer
Audit Committee

I have reviewed the Minutes of the July 13, 2026, CERS Employer Audit Committee Meeting for content, form, and legality.

Executive Director
Office of Legal Services