

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
MAY 30, 2024 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the May 30, 2024 Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), George Cheatham, Lynn Hampton, and William Summers, V. Staff members present were CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Erin Surratt, Michael Board, Victoria Hale, Stephanie Hold, Michael Lamb, Connie Davis, Kristen Coffey, Matthew Daugherty, William Prince, Madeline Evans, Elizabeth Smith, Jillian Hall, Dominique McKinley, Ashley Gabbard, Phillip Cook, Sherry Rankin and Katie Park.

Mr. O'Mara called the meeting to order.

Mr. Board read the Opening Statement.

Ms. Rankin called roll.

Ms. Rankin reported that one *Public Comment* was received and read it aloud.

Submitted by Thomas M Wathen

“Why when a person is forced to take Medicare for non Hazardous duty at age 65 is required for their 15 year old son who is also drawing Social Security to pay \$940.00 a month for Insurance for his child. If I was Hazardous Duty I would pay nothing for the Childs Insurance but since I am non Hazardous duty I have to pay \$940.00 a month for insurance beginning December 1, 2024. This is not fair since I paid into the system over \$350,000.00 into the system. The LFUCG put in the same amount. This health insurance system is good only for the Hazardous duty Retirement people. Can you explain the high expense for Non Hazardous duty people forced to go on Medicare.”

Next, Mr. O'Mara introduced the agenda item *Election of Vice Chair (Video 00:08:34 to*

00:09:44). Mr. O'Mara opened the floor for nominations for the office of Vice Chair. Mr. Cheatham nominated Ms. Hampton and was seconded by Mr. Summers. No other nominations were presented, and a motion was made by Mr. Cheatham and seconded by Mr. Summers to elect Ms. Hampton as Vice Chair. The motion passed unanimously.

Next, Mr. O'Mara introduced the agenda item *Approval of February 27, 2024 KPPA Audit Committee Minutes* (Video 00:09:45 to 00:10:44). Ms. Hampton made a motion to approve the minutes as presented. The motion was seconded by Mr. Cheatham and passed unanimously.

Mr. O'Mara introduced the agenda item *Legal Updates* (Video 00:10:45 to 00:14:35). Ms. Jillian Hall presented Potential Information Disclosures/Breaches affecting the KPPA for the third quarter of Fiscal Year 2024. She reported that a total of 14 potential incidences were identified and investigated, of which eight (8) were determined to be disclosures or breaches. She pointed out the steps taken by KPPA staff and outside vendors to remedy the issues.

Next, Ms. Stephanie Hold presented the Anonymous Tips received regarding fraud, waste, and abuse. Since the KPPA Audit Committee met on February 27, 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. As of the date of this memo, there were eight (8) cases in open status, reported Ms. Hold.

Mr. O'Mara introduced the agenda item *Update on Emergency Plan* (Video 00:14:36 to 00:39:07). Ms. Rebecca Adkins and Ms. Dominique McKinley provided answers that were previously raised by Committee members regarding the KPPA Emergency Plan. Ms. McKinley reviewed in detail the Disaster Recovery Exercise that is performed on a yearly basis. Ms. Adkins and Ms. McKinley answered questions from the Committee members and provided information related to account security.

Mr. O'Mara introduced the agenda item *KPPA Audit Committee Administrative Updates* (Video 00:39:08 to 01:39:11). Ms. Coffey reviewed the proposed changes made to the Charter for the KPPA Audit Committee, which included updating the name of the Committee from Joint Audit to KPPA Audit and updating Section VI. Scope of Responsibilities, number three (3) under Other to reflect the evaluation is recommended rather than required. She did mention that

there have been some discussion surrounding the composition of the committee to possibly allowing non-KPPA Trustees to be appointed to the KPPA standing committees. If this occurs, Section IV. Composition would need to be updated to reflect the decision of the Board. Ms. Hampton made a motion to approve the proposed changes from requirement of a members' performance evaluation to recommended. Mr. Cheatham seconded the motion and it passed unanimously.

Then, Ms. Coffey presented the Charter for the Division of Internal Audit Administration for the Committee's review. Ms. Coffey indicated that there are no proposed changes at this time and asked the Committee for any recommended changes. There being none provided, Ms. Hampton made a motion to approve the Charter for the KPPA Audit and the Charter for the Division of Internal Audit as presented with noted changes. Mr. Cheatham seconded the motion and it passed unanimously.

Next, Ms. Coffey introduced William Prince who reviewed the Fiscal Year 2025 Auditor Independence Statements. Mr. Prince indicated that the material includes the Annual Independence Statements for all employees of the Division of Internal Audit Administration, except for the Audit Intern who was recently hired. He stated that one can be provided to the Committee should they wish to receive it. These were presented for informational purposes only.

Next, Ms. Coffey introduced Matthew Daugherty who presented the Internal Audit Budget as of March 31, 2024. He reviewed the current budget and the proposed Fiscal Year 2025 Internal Audit Budget. Ms. Coffey answered questions by the committee regarding the personnel and salary line. The Committee asked to be notified of any potential change in salary, including reclassifications, prior to any action is taken. Ms. Coffey agreed and asked the Committee if she can move forward with a search for a supervisory position. She stated that she is currently working with the Human Resource office and the position will go through Personnel. The Committee agreed for her to move forward with the process. Ms. Hampton made a motion to approve the Fiscal Year 2025 Internal Audit Budget as presented. Mr. Cheatham seconded the motion and the motion passed unanimously.

Then, Mr. Daugherty reviewed the Current Status of Audit Projects as of April 30, 2024 report.

With no questions from the Committee, Ms. Coffey reviewed the Update on Open Internal Audit Findings and Recommendations. She reported that as of January 31, 2024, there were 22 open internal audit recommendations that had passed their estimated implementation date. Of those, nine (9) items were closed and remediation was verified by Internal Audit staff; eight (8) items remain open and a new remediation date has been established; four (4) items were closed with no action taken and management accepted the risk of not implementing the suggested recommendation; and one (1) item needs additional input from the KPPA Audit Committee and KPPA Board before the status can be determined.

Ms. Coffey then focused on the one (1) item that needs additional review. She stated that Kentucky Revised Statutes 61.706 references the Kentucky Retirement Systems. However, it is unclear if this is a reference to the former Kentucky Retirement Systems or the Kentucky Retirement Systems as defined by Regular Session 2020 House Bill 484. She indicated that Internal Audit recommended that the KPPA Executive Director of Legal Services review Kentucky Revised Statutes 61.706 and determine if this statute should be updated to reference the Kentucky Public Pensions Authority rather than Kentucky Retirement Systems. Ms. Coffey stated that during this review it was communicated to Internal Audit staff that the Trustees did not desire for KPPA staff to look into this matter. Ms. Coffey requested a motion to close this item if that is the wishes of this Committee. Mr. Board provided some background information as to the stance of KPPA Office of Legal Services regarding this matter. Mr. Lamb also provided information he received from the Office of Financial Management regarding the account which is the subject of this statute. Ms. Hampton made a motion to close this item, Item #9 on the Open Audit Findings. Mr. Cheatham seconded the motion and the motion passed unanimously.

Then, Ms. Coffey provided an update on the Internal Audit Quality Assessment with Validation project.

Ms. Evans then reviewed the Issued Reports and/or Memorandums. The first report, 2024-2 Verifying Final Retirement Calculations (Normal and Early Retirement), resulted in no reportable findings being noted as a part of this audit. She indicated that certain other matters were communicated to the Division of Employer Reporting in a separate letter dated April 30, 2024.

Then, Ms. Evans reviewed the next report, 2024-5 Implementation of New Legislation, which had four (4) findings. Ms. Evans reviewed the findings in detail and discussions were held around these findings.

Mr. Prince reviewed the final report, 2024-8 Disclosures During Correspondence, which had two (2) reportable findings. Mr. Prince reviewed the findings in detail and discussions were held around these findings.

*** Mr. Summers left the meeting ***

Ms. Hampton made a motion to accept the Issued Reports of 2024-2 Verifying Final Retirement Calculations (Normal and Early Retirement) and 2024-8 Disclosures During Correspondence and resubmitting 2024-5 Implementation of New Legislation. Mr. Cheatham seconded the motion and the motion passed unanimously.

Mr. O'Mara introduced the agenda item *Professional Article* (Video 01:39:12 to 01:42:14). Mr. Prince presented an overview of the professional article "Root Cause Analysis Explained: Definition, Examples, and Methods".

There being no further business, Mr. O'Mara *adjourned* the meeting.

The remainder of this page left blank intentionally.

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 May 30, 2024, were approved by the Audit Committee on August 27, 2024.


Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on May 30, 2024, for form, content, and legality.


Executive Director
Office of Legal Services