MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
NOVEMBER 18, 2025, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE

At the November 18, 2025, Regular Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), George Cheatham, and Lynn Hampton. Attending on behalf of KRS was Mary Eaves; attending on behalf of CERS was J. T. Fulkerson. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Erin Surratt, Michael Lamb, Michael Board, Steve Willer, Victoria Hale, Nathan Goodrich, Stephanie Hold, Kristen Coffey, Madeline Evans, William Prince, Zachary Curtis, Dominique McKinley, Chris Johnson, Amy Fields, Shaun Case, Sherry Rankin, and Sandy Hardin.

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

2. Mr. Board read the Opening Video Teleconference Statement.

3. Ms. Rankin called roll.

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

5. Mr. O'Mara introduced the agenda item ***Approval of February 25, 2025, and August 26, 2025, KPPA Audit Committee Minutes.*** *(Video 00:08:00 to 00:09:08).* Ms. Eaves made a motion to approve the August 26, 2025, minutes. Ms. Hampton seconded the motion. The motion passed unanimously.

   Ms. Eaves made a motion to approve the February 25, 2025, minutes. Ms. Hampton seconded the motion. The motion passed unanimously.

6. Mr. O'Mara introduced agenda item ***External Audit Fiscal Year Ended June 30, 2025 (CERS and KRS)*** *(Video 00:09:08 to 00:16:41).* Mr. O'Mara introduced the agenda item

regarding the external audit for the fiscal year ended June 30, 2025. Mr. Lamb reported that Eide Bailly is preparing their letters and audit work. To date, no significant errors have been identified. Draft audit opinions and governance letters have been received and will be reviewed at both the CERS and KRS Board meetings. Draft versions of the CERS ACFR and the KRS ACFR were provided. Mr. Lamb noted minor corrections since the drafts were printed, including adjustments to an investment table, wording changes in a transmittal letter, and updates to the statistical section regarding the Partial Lump Sum Option (PLSO). He confirmed that Eide Bailly is nearly complete with their work and no significant issues have been raised.

Mr. O'Mara requested clarification on the acronym "PLSO." Mr. Lamb explained that beginning in January 2024, legislation allowed retirees to elect a partial lump sum option at retirement, which provides an initial lump sum payment in exchange for a reduced monthly benefit. This option has proven popular and has been added to the statistical section of the ACFR. Ms. Hampton confirmed that the option applies to all three tiers. Ms. Eaves and Ms. Surratt discussed the mechanics of the benefit, noting that retirees may elect a lump sum equal to 12, 24, 36, 48, or 60 months of their basic or survivorship benefit. Ms. Surratt clarified that the lump sum is calculated as a dollar amount rather than a percentage, and that monthly benefits are reduced accordingly over the retiree's lifetime.

Mr. Lamb responded that no action was needed at this meeting regarding GASB 67 and 74. Each board will review its respective ACFR and approve it for publication, with governance of the financial statements resting with the individual boards.

7. Mr. O'Mara introduced agenda item ***Draft Management Response to Fiscal Year 2024 GFOA ACFR Letters (CERS and KRS)*** *(Video 00:16:41 to 00:19:55).* Mr. Lamb reviewed the Government Finance Officers Association (GFOA) comments on last year's ACFRs for both CERS and KRS, noting that the letters contained identical feedback. The comments included formatting adjustments to the Table of Contents of the basic financial statements, specifically recommending the use of regular font rather than bold for captions. This change has been incorporated into the 2025 ACFR. Another comment addressed the identification of pension systems, clarifying that both the CERS and KRS plans are multi-employer systems, while the SPRS plan is s single employer; this has been corrected in

Note B of each ACFR. Additionally, the distinction between Required Supplementary Information (RSI) and other supplemental information was not clearly presented last year, and modifications have now been made to the Table of Contents and related sections. Mr. Lamb stated that these responses will be sent back to the GFOA with the updated ACFRs once approved in December, for consideration in next year's GFOA award process. He requested a motion to bring the ACFRs to the KPPA Board for review and approval prior to submission.

Ms. Hampton made a motion to approve the Management Response to the FY 2024 GFOA ACFR Letters as presented. Ms. Eaves seconded the motion. The motion passed unanimously.

8. Mr. O'Mara introduced agenda item ***Infrastructure and Application Security Assessment*** *(Video 00:19:55 to 00:26:04).* Ms. McKinley provided an overview of the recent third-party security assessment conducted by Crowe, a vendor under the Commonwealth's master agreement. The assessment included the following activities: external and internal penetration testing, a Microsoft 365 Security Assessment, and Static and Dynamic Web Application Assessments. A total of 19 findings were reported: 0 high risk, 4 moderate risk, 14 low risk, and 1 best practice. Approximately 25% of the findings have already been remediated, with several recurring low-risk items still under review. Ms. McKinley noted that overall results were positive, reflecting a strong security posture at KPPA.

   After answering questions posed by the Trustees, Ms. McKinley requested a motion to approve conducting the infrastructure assessment for the following year, noting that code assessments are alternated annually. The estimated cost is approximately $60,000, and procurement will follow the standard process, with work beginning in the first quarter to ensure completion by this Committee's annual meeting.

   Mr. Fulkerson made a motion to approve the 2026 third-party infrastructure assessment. Ms. Hampton seconded the motion. The motion passed unanimously.

9. Mr. O'Mara introduced agenda item ***Legal Updates*** *(Video 00:26:04 to 00:33:53).*

Information Disclosure Incidents: Mr. Nathan Goodrich presented the Information Disclosure Incidents report for the first quarter of 2026. A total of eight possible disclosures were reported; six were determined not to be disclosures. One breach implicated KPPA's Data Disclosure Notification Policy when a member received an envelope containing another member's checks due to a human mailing error. The misdelivered mail was returned, and the other member received the intended check without loss or unlawful receipt of benefits. In addition, one HIPAA disclosure occurred due to a cybersecurity event involving an external vendor that impacted 267 KPPA members. The subcontractor implemented emergency response protocols, notified law enforcement, and issued notices to affected members and required agencies. The vendor is reviewing its protocols to reduce the likelihood of similar events. Mr. Goodrich noted this report was for informational purposes only.

Mr. Cheatham asked whether similar incidents had occurred previously. Mr. Goodrich acknowledged that misdirected mail has occurred before. Ms. Hampton raised the issue of transitioning to direct deposit to reduce risks associated with mailed checks. Ms. Surratt explained that retirees are generally required to use direct deposit unless exceptions apply, but in cases where direct deposit information is not received in time for payroll, paper checks may be issued. She confirmed that the Strategic Planning Team is reviewing ways to further reduce paper check issuance.

Anonymous Tips: Ms. Hold presented an update on anonymous fraud tips. Since the last Audit Committee meeting in August, KPPA received five new tips. Four were closed following review, and one remains under review by the Office of Legal Services, as requested information is still being evaluated. At present, four cases remain open: two involving employer reporting, one involving an allegation of disability retirement fraud, and one involving a prearranged agreement allegation. Five cases have been closed since the last meeting. Of those, two involved potential fraud in other agencies, and the tipsters were provided with the appropriate contact information to report directly. Two tips involved employer reporting, with one closed after confirming members were reported appropriately and another closed after information was provided to ERCE for review. The final closed case involved a

prearranged agreement to return to work with a participating agency; after reviewing requested documentation, the allegation was not substantiated.

Mr. Cheatham asked whether the June 16, 2024, tip regarding a prearranged agreement had been substantiated and noted that payroll reporting issues were also identified. Ms. Hold confirmed that the member issue was resolved administratively, and additional matters discovered during the investigation are being addressed with Mr. Goodrich. Mr. Cheatham asked if the payroll issue would have been discovered otherwise, and Ms. Hold responded that it likely would not. Mr. Cheatham further requested a five-year summary of tips, including the total number received, a breakdown of those related to KRS and CERS employers, and a general description of issues and outcomes. Ms. Hold agreed to compile the information, noting that some tips involve matters outside KPPA, such as Social Security or other agencies, and that she has been with KPPA since 2023 but will review records to provide the requested report.

10. Mr. O'Mara introduced the agenda item ***KPPA Audit Committee Administrative Updates*** *(Video 00:33:53 to 01:11:45).*

    a. ***Internal Audit Budget as of September 30, 2025:*** Ms. Coffey presented the Internal Audit Budget for the first quarter ending September 30, 2025. She reported that the budget is on target, with approximately 76% remaining. No unexpected items arose during the quarter. She noted one timing adjustment related to the annual software payment, which is typically made in May but was delayed; therefore, it was paid in the first quarter of this fiscal year.

    b. ***Status of Current Internal Audit Projects***: Ms. Coffey provided an overview of the Internal Audit team's current and completed audits and projects for Fiscal Year 2025. During the first quarter, four audits were completed, with additional details to be presented later in the meeting. The remaining audits are either in the planning or fieldwork phase, while several others are scheduled to begin later in the year in coordination with the divisions, based on the risk assessment conducted earlier. Ongoing projects continue throughout the year as planned. Ms. Coffey noted that one audit exceeded its estimated

budget by more than 10%, which was attributed to the involvement of a newer auditor who required additional guidance and review, resulting in a modest increase in hours.

c. ***Issued Reports and/or Memoranda:***

2026-1 Review of Tier 3 GANIR Calculation: Ms. Evans presented the 2026-1 Review of the Tier 3 GANIR Calculation, which focused on recalculating the Tier 3 upside sharing interest in GANIR. The audit, conducted in collaboration with the Office of Investments and BNY Mellon staff, found no issues with the recalculation process itself. However, there was one finding and one observation. The finding, detailed in Appendix A of the Audit Results presentation, highlighted a discrepancy between the current calculation method and the method defined by statute. As a result, the audit recommended that the KPPA Office of Legal Services review the relevant statutes and provide guidance on whether the upside sharing for Tier 3 members should be based on the plan's GANIR or the system's GANIR.

Ms. Eaves inquired whether differing interpretations of the Tier 3 GANIR calculation had led to inconsistencies in practice. Ms. Evans explained that calculations are applied by plan, not individual members, and the audit found only small percentage variances when recalculated by "system" as defined in statute. The key issue is whether "system" or "plan" returns should be used, as the statute uses both terms in different contexts. Mr. Board confirmed that the Office of Legal Services will review the statutes and historical documentation to provide guidance. While legal will offer an opinion, broader implications will also need to be considered before any action is taken.

Mr. Cheatham raised concerns about whether the Boards should seek their own legal review, given the potential impact on member benefits. Mr. Board responded that the issue appears to be an administrative function under KPPA's responsibility. Mr. Cheatham emphasized the risk of compounding errors if the calculation is incorrect. Ms. Surratt noted that the current method was based on legal guidance from Tier 3's implementation in 2013 but agreed it could be revisited. Ms. Coffey clarified that although the audit report may be accepted, the issue remains open and will be tracked through the Open Audit Recommendations Report. This ensures the Audit Committee will receive

future updates on the status and implementation of the item, so it will not be forgotten or overlooked. The committee agreed to approve the audit report while awaiting further legal analysis.

Ms. Hampton made a motion to accept the Issued Report on the 2026-1 Review of the Tier 3 GANIR Calculation as presented. Mr. Cheatham seconded the motion. During the discussion that followed, Ms. Evans noted that the only remaining item in the audit concerned a potential disagreement over what is included in the calculation of net administrative fees and investment expenses. Ms. Eaves added that if Mr. Board identifies any differences in how the statute applies across systems or plans, those should be communicated to the systems. She agreed with Mr. Board that this is an administrative matter but emphasized that any statutory differences or interpretations affecting specific systems should be clearly identified. Mr. Board confirmed that he would do so. Following the discussion, the motion passed unanimously.

2026-2 Review of the KPPA Website: Mr. Prince presented the results of the review of the KPPA website, beginning with a commendation for the Division of Communications for their cooperation and support throughout the process. The review involved a comprehensive check of the website, including verifying all links and functions and ensuring that all statutorily required information was present and up to date. No findings or observations were noted as a result of the audit. However, three opportunities for improvement were identified and communicated to the Division of Communications.

Ms. Eaves made a motion to accept the Issued Report on the 2026-2 Review of the KPPA Website as presented. Ms. Hampton seconded the motion. The motion passed unanimously.

Review of Trustee Payments: Ms. Coffey presented the audit findings related to trustee payments, including per diem and travel reimbursements, on behalf of James Westbay, who was unavailable. The audit reviewed all payments made to trustees. The audit identified a few key issues: one trustee received payment despite not completing the required training, while another trustee who had completed training did not receive payment due to the training status not being known at the time. There is currently no

provision in the statute or policy allowing for retroactive payments once training completion is confirmed. The recommendation was made for executive leadership to consistently verify training compliance before issuing payments and to consider whether retroactive payments should be permitted. Ms. Surratt confirmed that current policy does not address this. As a result, a request has been made to bring the trustee education policy to the Board for review and clarification at the next meeting.

The discussion then shifted to payment practices for trustee members of the Audit Committee. It was noted that while current payments align with statutory guidelines for certain Board members, discrepancies exist regarding compensation for additional members who were added later. The group clarified that addressing these inconsistencies may require a statutory amendment, and participants agreed that additional clarification is necessary.

Mr. Fulkerson made a motion to accept the Issued Report on the 2026-3 Review of the Trustee Payments as presented. Ms. Hampton seconded the motion. The motion passed unanimously.

Review of the Hearing Officer Payments: Mr. Curtis reported that the audit revealed no findings or opportunities for improvement. The audit sampled 55 invoices, covering billable hours and travel expenses, representing 53% of the population by size and 46% by value. Additionally, Appendix B provides a breakdown of KPPA's full-time and contracted hearing officers, categorized for clarity.

Mr. Cheatham made a motion to accept the Issued Report on the 2026-8 Review of the Hearing Officer Payments as presented. Ms. Hampton seconded the motion. The motion passed unanimously.

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

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 November 18, 2025, were approved by the Audit Committee on February 24, 2026.

Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on November 18, 2025, for form, content, and legality.

Executive Director
Office of Legal Services