MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
NOVEMBER 19, 2024, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE

At the November 19, 2024, Regular 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, Rebecca Adkins, Victoria Hale, Stephanie Hold, Steve Willer, Michael Lamb, Stephanie Aldridge, Kristen Coffey, Madeline Evans, William Prince, Elizabeth Smith, Jillian Hall, Chris Johnson, Dominique McKinley, Connie Davis, Zachary Curtis, Ashley Gabbard, Shaun Case, Sandy Hardin, and Sherry Rankin. Also present was Ryan Graham with Blue and Co.

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

2. Ms. Hale read the Opening Video Teleconference Statement.

   Mr. O'Mara welcomed two new members, Mary Eaves and J. T. Fulkerson, to the KPPA Audit Committee.

3. Ms. Rankin called roll.

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

5. Mr. O'Mara introduced the agenda item ***Approval of August 27, 2024, KPPA Audit Committee Minutes*** *(Video 00:06:25 to 00:07:00).* Ms. Hampton made a motion to approve the minutes as presented. The motion was seconded by Mr. Fulkerson and passed unanimously.

6. Mr. O'Mara introduced agenda item ***External Audit Updates*** *(Video 00:07:00 to 00:17:08).* Mr. Ryan Graham with Blue and Co. presented the CERS and KRS External

Audits for Fiscal Year Ended June 30, 2024. It was concluded that the financial statements fairly represented, in all material respects, the fiduciary net position of CERS and KRS as of June 30, 2024, and the changes in fiduciary net position for the year ended. Mr. Graham and Mr. Lamb reviewed the summation of the CERS and KRS Stand-Alone ACFRs for FYE 2024 compared to the KPPA Combined ACFRs for FYE 2023.

Next, Mr. Graham presented the CERS and KRS management letters. He noted that both the internal and public letters state they did not identify any significant deficiencies in internal control that they consider to be material weaknesses during the audit. Mr. Graham reviewed the corrected and the uncorrected misstatements and noted they did not identify any needed adjustments to the financial statements. Upon completion of Mr. Graham's presentation, he addressed questions posed by the committee members.

7. Mr. O'Mara introduced agenda item ***DRAFT Management Response to Fiscal Year 2023 GFOA ACFR Letter*** *(Video 00:17:08 to 00:22:14).* Ms. Davis presented the management response to the Fiscal Year 2023 Government Finance Officers Association (GFOA) Annual Comprehensive Financial Report (ACFR) letter. She noted that upon receiving the Certificate of Achievement for Excellence in Financial Reporting Report, the GOFA included comments on the submitted 2023 ACFR. Ms. Davis reviewed these comments alongside management's responses. Mr. O'Mara highlighted that this marks the 25th consecutive year of receiving this recognition and extended congratulations to Ms. Davis and her staff for their continued excellence.

8. Mr. O'Mara introduced the agenda item ***Legal Updates*** *(Video 00:22:14 to 00:29:30).*

    a. Regarding ***Information Disclosure Incidents***, Ms. Jillian Hall presented Potential Information Disclosures/Breaches affecting the KPPA for the Fiscal Year 2025, Quarter 1. Ms. Hall reported there were a total of ten (10) total disclosures/breaches that were investigated. A total of eight (8) members were affected by the potential disclosures/breaches. None were found to have implicated HIPAA/HITECH. There was one (1) implicated state law which was a "security breach" of "personal information" as defined by state law by the KPPA. Ms. Hall explained that during IT Security monitoring, a member's account was flagged due

to unusual account logins, contact changes, and banking changes. KPPA staff reached out to the member, who was unaware of these changes, and confirmed that they were unauthorized. Ms. Hall noted KPPA successfully stopped the member's August payment from being deposited into the unauthorized account, and a paper check was issued to the member for the August payment. Ms. Hall noted that in situations like this, we provide the members with the necessary information so they can decide whether to contact the state police.

Regarding the KPPA Internal Data Disclosure Notification Policy, a member received banking change correspondence and contacted KPPA to state the changes were unauthorized. Staff reverted the banking information before any payments were scheduled for deposit in the unauthorized account.

In two separate incidents, staff flagged member accounts due to suspicious banking change requests. After contacting each member, staff confirmed the requests were unauthorized. No changes were made to either member account.

Additionally, replacement checks were issued for two unrelated members. In error, the checks were placed into the wrong envelopes. Both members contacted KPPA to report the error.

Generic health insurance enrollment guidance, which included the member's name, mailing address, and KPPA ID, was mailed to another member. Correspondence was sent to both the member and recipient regarding the incident. The recipient successfully returned the disclosed documentation to KPPA. KPPA is seeking an affidavit from the recipient to verify the information was not shared with anyone else.

Lastly, a pension verification letter containing the member's name, mailing address, and KPPA ID was faxed to the incorrect number. KPPA verified the recipient properly destroyed the information.

In all the above cases, Ms. Hall reviewed the KPPA follow-up procedures.

b. Next, Ms. Stephanie Hold presented the ***Anonymous Tips*** received regarding fraud, waste, and abuse. Since the KPPA Audit Committee met on August 27, 2024, KPPA received one (1) new fraud tip, which was closed after review. Ms. Hold reported there were six (6) cases in open status and provided current information for all the open cases as of November 19, 2024. Next, Ms. Hold explained three (3) cases have been closed since the last meeting of the KPPA Audit Committee.

9. Mr. O'Mara introduced agenda item, ***Infrastructure and Application Security Assessment.*** *(Video 00:29:30 to 00:34:16).*

   a. Ms. Dominique McKinley presented a summary of the results of the Infrastructure and Application Security Assessment that was completed by a third party. Ms. McKinley noted there were a total of 19 findings: eight (8) low risk, nine (9) moderate risk, and one (1) high risk. Ms. McKinley reviewed the current status of the risk findings and mentioned an additional "Best Practice" finding.

   b. Ms. McKinley highlighted that this year focused on infrastructure, while next year will include both infrastructure and a code review. In 2023, when both reviews were conducted, the cost was just under $100,000. This year, the request is for $125,000, due to inflation and to allow flexibility. Ms. McKinley sought approval for the KPPA Audit Committee to complete a third-party information security audit in 2025. This audit aims to ensure remediation efforts were successful and to identify any new risks and vulnerabilities.

   Ms. Hampton made a motion to approve the 2025 third-party infrastructure assessment. The motion was seconded by Mr. Fulkerson and passed unanimously.

10. Mr. O'Mara introduced the agenda item ***KPPA Audit Committee Administrative Updates*** *(Video 00:34:16 to 00:40:16).*

    a. Ms. Coffey began by introducing the two new internal audit staff members: Zachary Curtis and James Westbay.

b. Ms. Evans presented the ***Internal Audit Budget as of September 30, 2024***. Ms. Evans reviewed the Fiscal Year 2025 Internal Audit Budget as of September 30, 2024, and noted that we are currently on target.

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

d. Ms. Coffey presented the ***Issued Reports and/or Memorandums.***

   i. Ms. Coffey reported on the ***2025- I Review of the 1099-R Process***. She noted that this was a follow up, and there were no reportable findings. Next, Ms. Coffey reviewed the new Control Matrix format.

Mr. Summers V made a motion to accept the Issued Report as presented for the 1099-R Process. Ms. Eaves seconded the motion, and the motion passed unanimously.

11. Mr. O'Mara introduced the agenda item ***Professional Article*** *(Video 00:40:16 to 00:45:00).* Mr. Prince presented a summary of the article, "Overview of the New Global Internal Audit Standards 2024," by Liz Sandwith, CFIIA. Ms. Eaves noted that there were some missing pages of the article, and Mr. Prince mentioned he would follow up by sending everyone the link to ensure all content is included. Ms. Coffey added that in addition to this article, they will also send out the new standards to the Audit Committee.

12. 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 November 19, 2024, were approved by the Audit Committee on February 25, 2025.

Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on November 19, 2024, for form, content, and legality.

Executive Director
Office of Legal Services