

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
AND KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES JOINT AUDIT COMMITTEE
NOVEMBER 28, 2022, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the November 28, 2022 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, Betty Pendergrass, Lynn Hampton, and William Summers, V. Staff members present were David Eager, Erin Surratt, Michael Board, Victoria Hale, Connie Davis, Madeline Perry, Matthew Daugherty, Kristen Coffey, Carrie Bass, Steve Willer, Dominique McKinley, Chris Johnson, William Prince, Ann Case, Elizabeth Smith, Melinda Wofford, Ashley Gabbard, Phillip Cook, Katie Park, and Sherry Rankin. Others present included CERS CEO Ed Owens, III, KRS CEO John Chilton, KRS Trustee Ramsey Bova, and Allen Norvell, Ryan Graham, and Jordan Miller with Blue & Co.

Mr. O'Mara called the meeting to order.

Ms. Hale read the Opening Video Teleconference Statement.

Ms. Rankin called roll.

Ms. Rankin stated that one *Public Comment (Video 00:06:15 to 00:07:05)* was submitted and read the comment from Steven Howard aloud to the Committee: Why has it been so long since retirees have received a COLA? Mr. O'Mara requested that the KPPA Office of Legal Services provide Mr. Howard with a written explanation of the retirement systems as it relates to Cost-of-Living Increases. Ms. Pendergrass added that the KPPA Division of Communications has a statement prepared which has been distributed to those with the same public comment in the past. Mr. O'Mara asked for that explanation to be sent to Mr. Howard as well.

Mr. O'Mara introduced the agenda item *Approval of Minutes – August 25, 2022 (Video 00:07:05 to 00:07:35)*. Ms. Hampton made a motion and was seconded by Mr. Summers to approve the minutes as presented. The motion passed unanimously.

Mr. O'Mara introduced the agenda item *External Audit Update (Video 00:07:35 to 01:07:30)*. Mr. O'Mara reported that Ms. Connie Davis, Director of Accounting, would present an error that was discovered at the closing of the books and prior to the audit. Ms. Connie Davis advised that there was an error found in the CERS Hazardous and Nonhazardous pension and insurance actuarially recommended contribution rates for the fiscal year ending 2022. She stated that the total rates for each CERS fund was correct, however, the pension and insurance split for the CERS funds was incorrect. The correct percentages and the amounts to move from insurance to pension were determined with the help of the KPPA Division of Enterprise and Technology Services. Additionally, the KPPA Office of Investments is working to recalculate the investment return plus interest for each fund. Ms. Davis advised that the results of the correction were reflected in the fiscal year end 2022 financial statements as audited. Mr. Ryan Graham with Blue & Co. presented the draft results of the external audit for the fiscal year ended June 30, 2022. He reviewed the financial section of the annual report, financial reports for the pension plans (GASB 67) and postemployment benefit plans (GASB 74), management letter comments, and auditor communications with those charged with governance with the Joint Audit Committee. Ms. Pendergrass suggested that the totals of the financial statements be edited to report totals for each retirement system (CERS, KERS, and SPRS), not a KPPA total as KPPA is an administrative body and not a Public Employees Retirement System. Additional changes in formatting were discussed to reflect separate CERS and KRS opinions in 2023. It was decided that further research will be conducted regarding the suggested changes to the formatting of the reports and will be presented to the Joint Audit Committee and then the CERS and KRS Boards of Trustees for ratification of the recommendations. Ms. Hampton stated that these discussed changes would only affect reporting and not the results of the audit. These separated audit reports would provide helpful comparisons to past data, said Mr. O'Mara and Ms. Pendergrass. Ms. Pendergrass made a motion to accept the Draft Results of the External Audit for the fiscal year ended June 30, 2022. Ms. Hampton seconded the motion and the motion passed unanimously.

Mr. O'Mara introduced the agenda item *Financial Reporting Updates (Video 01:07:31 to 01:24:37)*. Ms. Connie Davis presented the Quarterly Financial Statements for Quarter Ended September 30, 2022; the Combining Statement of Fiduciary Net Position for the Pension Funds, Combining Statement of Changes in Fiduciary Net Position of the Pension Funds, Combining

Statement of Fiduciary Net Position of the Insurance Funds, Combining Statement of Changes in Fiduciary Net Position of the Insurance Funds, and the Pension Funds and Insurance Funds Contribution Reports for CERS, KERS, and SPRS. Next, Ms. Davis briefly reviewed the KPPA Administrative Budget for FY 2022-2023 for the three-month period ending September 30, 2022. Ms. Davis also presented the DRAFT Management Response to Fiscal Year 2021 GFOA ACFR Letter.

Mr. O'Mara introduced the agenda item *Update on Security Requirements for KPPA Subcontractors with Access to Confidential Information (Video 01:24:38 to 1:26:01)*. Ms. Carrie Bass stated that the Joint Audit Committee had requested a summary of the standard terms that are used in KPPA agreements with contractors which address security and confidentiality requirements for subcontractors. Ms. Bass reviewed the standard terms that are used in the contracts of business associate agreements.

Mr. O'Mara introduced the agenda item *Update on Invalid Addresses (Video 01:26:02 to 01:34:30)*. Ms. Surratt presented the total number of invalid addresses, the process for marking an address invalid, and the agency's process of updating invalid addresses. She reported that 169 Active accounts, 14,588 Inactive accounts, and 31 Retired accounts have addresses marked as invalid. Ms. Surratt advised that Staff has been proactively researching ways to reduce the number of invalid addresses and will be implementing new features to do so.

Mr. O'Mara introduced the agenda item *Infrastructure and Application Security Assessment (Video 01:34:31 to 01:43:36)*. Division Director of Enterprise and Technology Services, Dominique McKinley presented a summary of the 2022 Infrastructure Security Assessment. Ms. McKinley stated that a multi-penetration assessment was completed and directed the Committee to the presented memo for further detail of the assessment. Ms. McKinley requested approval for an expenditure towards a 2023 Infrastructure and Application Security Assessment which would include an Assessment Remediation and Personnel Security-Focused training. Ms. Pendergrass made a motion to approve the expenditure towards an Infrastructure and Application Security Assessment as presented up to \$100,000. The motion was seconded by Mr. Summers and passed unanimously.

Mr. O'Mara introduced the agenda item *Joint Audit Committee Administrative Updates (Video 01:43:37 to 02:01:11)*. Ms. Carrie Bass presented Information Disclosure Incidents and Anonymous Tips. She reported that there were 5 disclosures investigated during the 3rd quarter of calendar year 2022. Since the last meeting of the Joint Audit Committee on August 25, 2022, three cases were opened and five cases had been opened and closed, said Ms. Bass. Mr. Eager added that an Office of Legal Services Investigator would be resigning in early December; therefore, recruitment for an Investigator would begin soon as the position is required by statute. Ms. Coffey provided an introduction of new Internal Audit Staff; Melinda Wofford – Internal Auditor and William Prince – Auditor I. Next, Ms. Coffey presented the Internal Audit Budget as of 9/30/2022 and reported on the status of current Internal Audit projects. Lastly, Mr. Willer gave an update on Chase Bank fiduciary status. Mr. Willer advised that JP Morgan Chase concluded that they cannot serve as a fiduciary for the trust as they current contract with the Commonwealth states that they are not a fiduciary.

Mr. O'Mara introduced the agenda item *Professional Articles (Video 2:01:12 to 2:03:12)*. Mr. Matthew Daugherty with the KPPA Division of Internal Audit presented two professional articles; (1) Association of Government Accountants – AGA Research – The State of Cybersecurity in Government – *March 2022*; and (2) Bloomberg Tax – Holding Auditors Accountable for Complicity in Corporate Fraud – *August 11, 2022*.

There being no further business, a motion to *adjourn* was made by Ms. Hampton and seconded by Ms. Pendergrass, 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 November 28, 2022, were approved by the Joint Audit Committee on February 28, 2023.


Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on November 28, 2022, for form, content, and legality.


Executive Director
Office of Legal Services