

County Employees Retirement System  
and Kentucky Retirement Systems  
Joint Audit Committee  
Special Called Meeting  
August 26, 2021 at 10:00 a.m. EST  
Live Video Conference/Facebook Live

AGENDA

- |   |                          |
|---|--------------------------|
| 1. Reading of Statement on Special Meetings                           | Office of Legal Services |
| 2. Call to Order  | David Eager              |
| 3. Roll Call  | Sherry Rankin            |
| 4. Public Comment   | Sherry Rankin            |
| 5. Election of Chair*   | David Eager              |
| 6. Election of Vice-Chair*  | Committee Chair          |
| 7. Approval of February 4, 2021 Audit Committee Minutes*              | Committee Chair          |
| 8. Joint Audit Committee Approval Requests*                           | Kristen Coffey           |
| a. Charter for the Joint Audit Committee                              |                          |
| b. Charter for the Division of Internal Audit Administration          |                          |
| 9. Office of Legal Services Reports                                   | Carrie Bass              |
| a. Information Disclosure Incidents                                   |                          |
| b. Anonymous Tips   |                          |
| 10. External Audit Updates  | Connie Davis             |
| a. Update on Fiscal Year 2021 External Audit                          |                          |
| b. Financial Statements for FYE June 30, 2021                         |                          |
| 11. Division of Internal Audit Updates                                | Kristen Coffey           |
| a. Introduction of Internal Audit staff                               |                          |
| b. Internal Audit Budget as of 6/30/2021                              |                          |
| c. FY 2022 Auditor Independence Statements                            |                          |
| d. Status of Current Internal Audit Projects                          |                          |
| e. Review of Issued Reports   |                          |
| i. Reconciliation of Great Plains to eMARS and Coding of Expenditures |                          |
| ii. Custodial Fee Payment Process                                     |                          |
| f. Discussion of Audit Plan   |                          |
| 12. Professional Articles   | Kristen Coffey           |
| a. Institute of Internal Auditors – Be a Problem Solver               |                          |
| b. AICPA – COVID-19 Audit Committee Checklist                         |                          |
| 13. Closed Session  | Committee Chair          |
| 14. Adjourn   | Committee Chair          |

**\*Joint Audit Committee Action Required**

**MINUTES OF MEETING  
KENTUCKY RETIREMENT SYSTEMS  
BOARD OF TRUSTEES AUDIT COMMITTEE  
FEBRUARY 4, 2021, 10:00 A.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE DUE TO SB 150,  
SIGNED INTO LAW BY THE GOVERNOR ON MARCH 30, 2020,  
AND EXECUTIVE ORDER 2020-215 DECLARING A STATE OF  
EMERGENCY EFFECTIVE MARCH 6, 2020 DUE TO COVID-19**

At the February 4, 2021 meeting of the Audit Committee of the Board of Trustees, the following Committee members were present: John Chilton (Chair), Joe Brothers, Campbell Connell, JT Fulkerson, Betty Pendergrass, and David Rich. Staff members present were D’Juan Surratt, Jared Crawford, Kristen Coffey, Ann Case, Connie Davis, Elizabeth Smith, Alane Foley, Rebecca Adkins, Kathy Rupinen, Jerry Yang, Vicki Hale and Carrie Bass. John Cheshire III, Jerry Powell and Gerina Whethers were also present.

Mr. Chilton called the meeting to order.

Ms. Alane Foley called roll.

Being no Public Comment, Mr. Chilton introduced the agenda item *Approval of Committee Minutes – December 2, 2020*. Mr. Rich made a motion and was seconded by Mr. Brothers to approve the minutes of the December 2, 2020 meeting. The motion passed unanimously.

Mr. Chilton introduced agenda item Audit Committee Approval Requests and introduced a representative from Dean Dorton Allen Ford, who presented the *Draft GASB 68 and GASB 75 Proportionate Share Audits*. Ms. Pendergrass expressed appreciation to Dean Dorton Allen Ford for getting the report out early. Connie Davis indicated that she will update the tables accordingly. Ms. Pendergrass made a motion and was seconded by Mr. Fulkerson to approve the draft with the updated tables. The motion passed unanimously.

D’Juan Surratt presented the *Hazardous Duty Position Requests*. Mr. Surratt provided details and answered questions regarding agencies requesting hazardous duty coverage. Mr. Rich made a motion and was seconded by Mr. Fulkerson to approve the hazardous duty coverage requests for the following:

<u>Agency</u>	<u>Position</u>	<u>Effective Date</u>
Shelby County Fiscal Court	Captain/EMT/Training Coordinator	03/01/2021
City of Bowling Green	Senior Fire Investigator	08/01/2020
Woodford Co. Fire Protection Dist.	Captain (Fire)	03/01/2021

The motion passed unanimously.

Kristen Coffey introduced agenda item *Application for Trustee Elections*. Ms. Pendergrass questioned the Conflict of Interest Section and discussions ensued with input from Ms. Pendergrass, Campbell Connell, Kristen Coffey and Jerry Powell. Agreement that modifications would be needed. Mr. Rich made a motion and Mr. Fulkerson seconded to accept the application with the modifications.

Mr. Chilton introduced the agenda item *KRS Division Reports*. Ms. Carrie Bass provided an overview of *Disclosure Incidents, 4<sup>th</sup> Quarter Calendar Year 2020*. Ms. Rebecca Adkins provided an overview of the following reports: *Quarterly Financial Statements as of December 31, 2020, including Contribution Report, Administrative Expenses, Outstanding Invoices, and Employer Penalty Waivers*. Ms. Connie Davis provided details on the *End of Year Audit Requirements for Fiscal Year End June 30, 2020* and *APA Approval Request for External Audit*. These reports were provided for informational purposes.

Mr. Chilton introduced agenda item *Internal Audit Division Reports*. Ms. Kristen Coffey provided details on the following reports: *Internal Audit Budget, 3<sup>rd</sup> Quarter Fiscal Year 2021, Status of Anonymous Tips, Update on CERS Retirement System Board Election 2021 and KERS Retirement Systems Board Election 2022, Status of Current Internal Audit Projects, and Review of Issued Reports*. These reports were presented for informational purposes only.

Ms. Kristen Coffey reviewed the *Professional Articles of Interest* with the Committee.

There being no further business a motion was made by Mr Connell and seconded by Mr. Brothers to adjourn the meeting. The next meeting of the Audit Committee is scheduled for 10:00 a.m. on August 26, 2021. Copies of all documents presented are incorporated as part of the minutes of the Audit Committee meeting as of February 4, 2021.

### **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.

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Recording Secretary

I, as Chair of the Audit Committee of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on February 4, 2021 were approved by the Joint Audit Committee on August 26, 2021.

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Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on February 4 2021 for form, content, and legality.

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Executive Director  
Office of Legal Services

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## County Employees Retirement System and Kentucky Retirement Systems

### Charter for the Joint Audit Committee

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#### I. Charter

This Charter establishes the authority and responsibility of the Joint Audit Committee of the County Employees Retirement System (CERS) and the Kentucky Retirements Systems (KRS).

#### II. Purpose

The purpose of the Joint Audit Committee is to assist the Board of Trustees (Board) and Executive Management teams of the CERS and the KRS as well as the Kentucky Public Pensions Authority (KPPA) in fulfilling their oversight responsibilities for the:

1. System of internal controls,
2. Internal and external audit processes, and
3. Process for monitoring compliance with laws and regulations and the code of conduct as described in the appropriate entity bylaws.

As defined by the Institute of Internal Auditors, internal auditing is *an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The goal of internal auditing is to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.*

Consistent with this definition, internal auditing within KPPA can be defined as *the independent appraisal of the various operations and systems of control within KPPA, CERS, and, KRS to determine whether acceptable policies and procedures are followed, legislative requirements and established standards are met, resources are used efficiently and economically, planned missions are accomplished effectively, and the objectives of KPPA, CERS, and KRS are being achieved.*

#### III. Authority

The Joint Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. The Joint Audit Committee is empowered to:

1. ~~Appoint, compensate, and o~~Oversee the work of any registered Certified Public Accounting (CPA) firm employed by KPPA;
2. Resolve any disagreements between KPPA, CERS, and/or KRS management and the internal auditor regarding internal audit reports;
3. Resolve any disagreements between KPPA, CERS, and/or KRS management and the external auditor regarding financial reporting;
4. Pre-approve the scope of all financial audit and non-financial audit services;
5. ~~Oversee Retain~~independent counsel, accountants, or others ~~retained~~to advise the Joint Audit Committee or assist in conducting an investigation;
6. Seek and obtain any necessary information from person(s) employed by KPPA, CERS, or KRS (all of whom are directed to cooperate with the Joint Audit Committee's requests) or external parties; and
7. Meet with officers, internal and/or external auditor, or outside counsel as necessary.

**Commented [CK(1)]:** KPPA will hire the external audit firm. In addition, this must follow 45A, so the Joint Audit Committee cannot appoint/hire or compensate the external auditor.

**Commented [CK(2)]:** Same comment as above.

#### IV. Composition

The Joint Audit Committee will consist of four (4) members – two CERS members appointed by the Chair of the CERS Board and two KRS members appointed by the Chair of the KRS Board. The members of the Joint Audit Committee will elect a Joint Audit Committee Chair and Vice-Chair.

A quorum to conduct business is satisfied if a majority of the Joint Audit Committee members are present. Each Joint Audit Committee member will be independent.<sup>1</sup> For the purposes of the Joint Audit Committee, independent shall mean those individuals who do not report directly to KPPA, CERS, or KRS management and also those persons who are not directly responsible for the day-to-day operations of KPPA, CERS or KRS. At least one member of the Joint Audit Committee will be designated as the “financial expert.”<sup>2</sup> A financial expert is an individual who possesses, among other attributes:

1. An understanding of generally accepted accounting principles (GAAP) – in this case, the accounting standards issued by the Governmental Accounting Standards Board (GASB) or the Federal Accounting Standards Advisory Board (FASAB) and financial statements.
2. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves.
3. Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth, depth, and level of complexity of accounting issues that can reasonably be expected to be raised by the government entity's financial statements or experience actively supervising one or more persons engaged in such activities.
4. An understanding of internal control and the procedures for financial reporting.
5. An understanding of audit committee functions.

#### V. Meetings

Joint Audit Committee meetings must comply with Kentucky's Open Meetings Act contained in Kentucky Revised Statutes Chapter 61.800, et seq. The Joint Audit Committee will meet at least four (4) times a year, with authority to convene additional meetings, as circumstances require. The regular quarterly meetings shall be held on the first Thursday of February, May, and November and the fourth Thursday of August. All Joint Audit Committee members and the Director of the Division of Internal Audit Administration (Internal Audit) are expected to attend each meeting. The Joint Audit Committee will invite KPPA, CERS, and/or KRS staff; auditors; or others to attend meetings and provide pertinent information, as deemed necessary. The Joint Audit Committee may conduct closed session when legally authorized under Kentucky's Open Meetings Act. Meeting agendas will be provided to members of the Joint Audit Committee, along with appropriate briefing materials. Minutes will also be prepared and approved by the Joint Audit Committee. Agendas and minutes will also be posted in compliance with Kentucky's Open Meetings Act.

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<sup>1</sup> Merriam-Webster Dictionary defines “independent” as “not subject to control by others; not requiring or relying on something else; not looking to others for one’s opinions or for guidance in conduct; and not bound by or committed to a political party.”

<sup>2</sup> See Sarbanes-Oxley Act of 2002 § 407.

## **VI. Responsibilities**

The Joint Audit Committee is responsible for the following activities.

### Internal Controls and Compliance

1. Evaluate the effectiveness of the internal controls system, including information technology security and control.
2. Understand the scope of internal and external auditors' review of internal controls over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.
3. Evaluate the effectiveness of the system used to monitor compliance with laws and regulation.
4. Evaluate the results of management's investigations and follow-up (including disciplinary action) of any instances of noncompliance.
5. Review the findings of any examinations by regulatory agencies and any auditor observations.
6. Evaluate the effectiveness of the system used to monitor noncompliance with entity code of conduct and/or bylaws as well as evaluate the process in which the code of conduct and bylaws are communicated to personnel.
7. Obtain regular updates from management and legal counsel regarding compliance matters.

### Internal Audit

1. Review and make recommendations regarding the appointment, dismissal, and replacement of the Internal Audit Director.
2. Review and make recommendations on the salary for the Internal Audit Director with the understanding that final salary approval is at the discretion of the Governor.
3. Review the Internal Audit staffing and organizational structure with the KPPA Executive Management team and the Internal Audit Director.
4. Annually, review and approve the Charter for Internal Audit Administration, Audit Plan, and Internal Audit Budget.
5. Ensure there are no unjustified restrictions or limitations placed on Internal Audit in relation to the completion of audit projects.
6. Evaluate the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
7. On a regular basis meet with the Internal Audit Director, including closed session discussions, pursuant to Kentucky's Open Meeting Act in Kentucky Revised Statutes Chapter 61.800, et seq.

### External Audit

1. Evaluate the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
2. Evaluate the performance of the external auditors and exercise final approval on the appointment or discharge of the auditors.
3. Evaluate and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and KPPA, CERS, and KRS, including non-audit services. Discuss the relationships with the auditors.
4. Annually, meet separately with the external auditors to discuss any matters that the Joint Audit Committee or auditors believe should be discussed privately.

**Reporting**

1. Regularly report Joint Audit Committee activities, issues, and related recommendations to the Boards of Trustees for CERS and KRS for ratification.
2. As needed, report Joint Audit Committee recommendations to the KPPA for implementation.
3. Review any other reports issued by the KPPA staff that relate to the responsibilities of the Joint Audit Committee.

**Other**

1. Facilitate open channels of communication between internal auditor, external auditors, and the KPPA.
2. Perform other activities related to this Charter as requested by the Boards of Trustees of CERS or KRS; KPPA; or the Executive Management teams of the KPPA, CERS, or KRS.
3. Institute and oversee special investigations, as needed.
4. Annually, review and assess the adequacy of the Charter for the Joint Audit Committee.
5. Confirm annually that all responsibilities outlined in this Charter have been completed.
6. Evaluate the Joint Audit Committee's and individual members' performance on a regular basis.

**VII. Responsibilities of Other Parties**

1. The auditors (internal and external) are responsible for planning and conducting audits.
2. The Boards of Trustees for CERS and KRS are responsible for ratifying actions taken by the Joint Audit Committee.
3. KPPA management personnel are responsible for implementing recommendations approved by the Joint Audit Committee and ratified by Boards of Trustees for CERS and/or KRS.
4. KPPA is responsible for entering a contract with the external auditor.
5. KPPA management personnel are responsible for preparing and fairly presenting the financial statements in accordance with GAAP, maintaining effective internal control over financial reporting, and ensuring KPPA complies with applicable laws, regulations, and other requirements.
6. The Boards of Trustees for CERS and KRS are responsible for approval of the Annual Report.
7. KPPA is responsible for final approval and publishing of the Annual Report.



**VIII. Approvals**

We, the undersigned of the Joint Audit Committee, CERS Board of Trustees, and KRS Board of Trustees do certify that this Charter was approved on the 15<sup>th</sup> day of September, 2021.

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Joint Audit Committee Chair Date

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Board Chair Date  
County Employees Retirement System

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Board Chair Date  
Kentucky Retirement Systems

History: Approval Date: September 15, 2021  
Amended:

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## Kentucky Public Pensions Authority

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### Charter for the Division of Internal Audit Administration

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#### I. Charter

This Charter establishes the authority and responsibility of the Division of Internal Audit Administration (Internal Audit).

#### II. Mission of Internal Audit

Internal Audit serves the Kentucky Public Pensions Authority (KPPA) as well as the Board of Trustees (Board) of the County Employees Retirement System (CERS) and the Kentucky Retirement Systems (KRS) by enhancing and protecting organizational value with risk-based and objective assurance, advice, and insight.

#### III. Core Principles of Internal Audit

1. Remain independent, which is objective and free from undue influence.
2. Demonstrate competence and due professional care.
3. Demonstrate integrity.
4. Support the strategies, objectives, and risks of the organization.
5. Remain adequately resourced.
6. Promote quality and continuous organizational improvement by communicating effectively; providing risk-based assurance; and remaining insightful, proactive, and future-focused.

#### IV. Audit Standards

Internal Audit shall adhere to the *International Standards for the Professional Practice of Internal Auditing* (Standards). Where applicable, Internal Audit will observe standards and statements issued by other accounting and auditing organizations located within the United States of America. Internal Audit is expected to abide by the Institute of Internal Auditors (IIA) Code of Ethics (Exhibit A).

Internal Audit will adhere to the IIA's Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing (see section III), the Code of Ethics (see Exhibit A), the *Standards*<sup>1</sup>, and the definition of internal auditing (see section VI). The Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Internal Audit's performance.

#### V. Joint Audit Committee

The purpose, authority, composition, and responsibilities of the Joint Audit Committee are outlined in the Charter for the Joint Audit Committee.

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<sup>1</sup> <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

## VI. The Internal Audit Function

### Definition

As defined by the Institute of Internal Auditors, internal auditing is *an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The goal of internal auditing is to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.*

### Purpose and Objective

Internal Audit was established to assist the KPPA; the Boards of Trustees of CERS and KRS; and the Executive Management teams of KPPA, CERS, and KRS in their governance role. Internal Audit also assists in achieving sound managerial control over all financial and operational aspects including, but not limited to, accounting, investments, benefits, legal compliance, asset management, and information management and control systems. The primary objective of Internal Audit is to assist all levels of management in achieving the effective discharge of their assigned responsibilities by providing independent analysis, appraisals, advice, and recommendations concerning the activities reviewed. Internal Audit helps the KPPA and the systems it is tasked with administrating and operating, CERS and KRS, accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Accomplishment of the Internal Audit objective may involve:

1. Evaluating the adequacy and effectiveness of the system of internal controls.
2. Evaluating the relevance, reliability, and integrity of management, financial and operating data, and reports.
3. Evaluating the systems established to ensure compliance with those policies, plans, procedures, statutory requirements, and regulations which could have a significant impact on operations.
4. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
5. Evaluating the economy, efficiency, and effectiveness with which resources are employed.
6. Evaluating operations or programs to ascertain whether results are consistent with objectives and goals established by KPPA, CERS, and KRS as well as evaluating whether the operations or programs are being carried out as planned.
7. Assessing the adequacy of established systems and procedures.
8. Conducting special assignments and investigations on behalf of the Joint Audit Committee, KPPA, CERS, or KRS into any matter or activity affecting the probity, interests, and operating efficiency of KPPA, CERS and KRS.

### Independence

Internal Audit is an advisory function having independent status within KPPA. The Internal Audit Director:

1. Shall be independent of any other office, division, branch, or section and shall have direct access to the Joint Audit Committee and/or KPPA, CERS, and KRS Executive Management teams, if required.
2. Shall have no managerial powers, functions, or duties except those relating to the management of the Division of Internal Audit Administration.
3. Shall not be involved in the day-to-day operation of the KPPA, CERS, or KRS.

4. Shall not be responsible for the detailed development and/or implementation of new systems, but should be consulted during the system development process on the control measures to be incorporated in new or amended systems, and be advised of approved variations or new developments.

#### Authority

The Internal Audit Director will report functionally to the Joint Audit Committee. Functionally meaning the Joint Audit Committee approves items including, but not limited to the Audit Plan, various Charters, the audit budget, and organizational structure of the internal audit function.

The Internal Audit Director will report administratively to the KPPA Office of Operations Executive Director. Administratively meaning the Internal Audit Director and KPPA Office of Operations Executive Director work together on day-to-day activities including, but not limited to leave reporting, training, travel, development of the Audit Plan, and staffing requirements. It is incumbent that all KPPA, CERS, and KRS employees render assistance to the Internal Audit Director in carrying out his/her audit duties. The KPPA Internal Audit Director shall:

1. Have access, at all reasonable times, to all books, documents, accounts, property, vouchers, records, correspondence, and other data of KPPA, CERS, and KRS necessary for the proper performance of the internal audit function.
2. Have the right, at all reasonable times, to enter any premises of KPPA and to request and promptly receive from any KPPA, CERS, or KRS employee all information and such explanations deemed necessary for the Internal Audit Director to formulate an opinion on the probity of action, adequacy of systems, and/or of controls.

#### Activities

The Internal Audit Director shall be responsible to the Joint Audit Committee for the functional control of audit activities in relation to:

1. Development, implementation, and oversight of internal audit methods and procedures.
2. Development and control of an efficient Audit Plan.
3. Scope and boundaries of internal audits.
4. Documentation of audit findings.
5. Assistance in the investigation of significant suspected fraudulent activities and promptly notifying the Joint Audit Committee; KPPA; and the KPPA, CERS, and KRS Executive Management teams of the results of any findings and conclusions.
6. Maintenance of certain records such as, but not limited to, records related to internal audits and CERS and KRS Board elections.
7. Considering the scope of work of the external auditors and regulators, as appropriate, for providing optimal audit coverage at a reasonable overall cost.
8. Fulfilling the objectives of the Division of Internal Audit Administration.
9. Utilizing Internal Audit resources to maximize the efficiency and effectiveness of the internal audit function.
10. Adherence to appropriate auditing standards.
11. Review of the Independent Auditor's Report, Management's Discussion and Analysis, Financial Statements (including footnotes), and the other various sections of the Annual Report for both CERS and KRS prior to presentation to the Joint Audit Committee. Internal Audit staff will identify any perceived errors and discrepancies within the Annual Report. However, the KPPA Executive Management team, not Internal Audit, is responsible for the

substantive content, accuracy, consistency, and completeness of Management's Discussion and Analysis, Financial Statements (including footnotes), and other sections of the Annual Report.

#### Relationship with External Auditors

Upon request, the Internal Audit Director shall make available to the external auditors all internal audit working papers, programs, flowcharts, and reports. The Internal Audit Director shall work with the external auditors to foster a cooperative working relationship, reduce the incidence of duplication of effort, ensure appropriate sharing of information, and ensure coordination of the overall audit effort.

### **VII. Internal Audit Staff and Responsibilities**

Internal Audit was established in July 2003 and is currently comprised of four positions:

#### Division Director

1. Oversees the day-to-day operations of Internal Audit.
2. Ensures policies, programs, and procedures are in place to achieve strategic, risk management, and operational objectives.
3. Performs risk assessment.
4. Develops the Audit Plan to address items noted in the risk assessment and in accordance with specifications from the Joint Audit Committee and the KPPA, CERS, and KRS Executive Management teams.
5. Performs audit, consulting, and assurance services as well as special projects in support of the Audit Plan and in compliance with Internal Audit procedures.
6. Submits results of audit, consulting, and assurance services as well as results of special projects to the Joint Audit Committee and applicable members of the KPPA, CERS, and KRS Executive Management teams. Results of audit, consulting, and assurance services or special projects related to investments will also be submitted to the Investment Committee.

#### Internal Auditor

1. Supports the Division Director in completion of daily activities.
2. Performs non-investment related audit, consulting, and assurance services in compliance with Internal Audit procedures.
3. Completes non-investment related special projects, upon request, in compliance with Internal Audit procedures.
4. Communicates the results of non-investment related audit, consulting, and assurance services as well as results of special projects to the Internal Audit Director.
5. As needed, assists in the completion of investment related activities.
6. Serves as first level reviewer on non-investment related projects performed by Auditor.

#### Retirement Investment Specialist

1. Supports the Division Director in completion of daily activities.
2. Performs investment related audit, consulting, and assurance services in accordance with Internal Audit procedures.
3. Completes investment related special projects, upon request, in accordance with Internal Audit procedures.
4. Communicates the results of investment related audit, consulting, and assurance services as well as results of special projects to the Internal Audit Director.

5. As needed, assists in the completion of non-investment related activities.
6. Serves as first level reviewer on investment related projects performed by Auditor.

#### Auditor

1. Supports the Internal Auditor and Retirement Investment Specialist in completion of daily activities.
2. Performs both non-investment and investment related audit, consulting, and assurance services in compliance with Internal Audit procedures.
3. Completes both non-investment and investment related special projects, upon request, in compliance with Internal Audit procedures.
4. Communicates the results of audit, consulting, and assurance services as well as results of special projects to the Internal Audit Director.

#### Specific Areas of Expertise

Since Internal Audit has limited resources and specialized requirements are needed to administer a complex public pension system, Internal Audit may request third-party expertise to assist in fulfilling audit goals (e.g. information technology and data security). Outsourced third party audits will be approved by the Joint Audit Committee. The findings, recommendations, and management comments will be presented to the Joint Audit Committee for approval and for subsequent ratification by the CERS Board and KRS Board.

### **VIII. Internal Audit Practices**

#### Conflicts of Interest

Internal auditors shall be objective and free from undue influence in performing their job. Objectivity requires internal auditors to have an impartial and unbiased attitude, to avoid conflicts of interest, and to perform audits in such a manner that no significant quality compromises occur. To help ensure that internal auditors are not placed in an environment impeding their ability to make objective, professional judgments, Internal Audit will take the following precautionary measures:

1. All Internal Audit staff will be required to complete an annual Independence Statement certifying that auditors have no actual or perceived conflict that would impair their objectivity or independence. This statement will be signed by the auditor's direct supervisor.
2. Staff assignments will be made so that potential and actual conflicts of interest and bias are avoided. If a conflict of interest or bias is present, the auditor(s) will be reassigned.
3. Staff assignments will be rotated periodically, if practicable to do so.
4. Internal Audit staff will not assume operational responsibilities.
5. For a period of no less than one year, Internal Audit staff will refrain from assessing specific operations for which they were previously responsible.

#### Due Professional Care

Internal auditors shall apply the care and skill expected of a reasonably prudent and competent auditor. Due professional care does not imply infallibility and internal auditors must exercise due professional care, with consideration of the following:

1. Extent of work needed to achieve the engagement's objectives.
2. Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
3. Adequacy and effectiveness of risk management, control, and governance processes.
4. Probability of significant errors, irregularities, or noncompliance.

5. Cost of assurance in relation to potential benefits.
6. Use of various software tools including, but not limited to Excel, Access, Word, Interactive Data Evaluation and Analysis (IDEA), Tableau, and Gravity Software

#### Proficiency and Continuous Professional Education (CPE)

Internal Audit staff shall collectively possess the knowledge, skills, attributes, and other competencies essential to the practice of internal auditing within the organization. Educational and work experience criteria have been established for the various positions within Internal Audit. In order to maintain their proficiency, all auditors are encouraged to continue their education and will be provided adequate opportunities to do so. Such continuing education ensures that internal auditors remain current on professional techniques and standards. If an auditor holds a certification, continuing education hours necessary to meet certification requirements should be obtained. If no certification requirements are necessary, a minimum of 16 hours of continuing auditor education shall be obtained annually. Continuing education may be obtained through membership and participation in professional societies, attendance at conferences, college courses, and in-house training. KPPA may reimburse an auditor for the cost of obtaining continuing education; however, the employee should obtain approval prior to registering for any course or seminar.

Internal Audit staff are encouraged to obtain professional certification(s). Accreditation is an important indicator of an auditor's technical proficiency. The following certifications are some of those available to auditors (this list is not all inclusive):

1. Certified Internal Auditor,
2. Certified Fraud Examiner,
3. Certified Government Financial Manager,
4. Certified Information Systems Auditor, and
5. Certified Public Accountant.

#### Performance Evaluations

Performance evaluations for merit employees shall be conducted as outlined in the Commonwealth of Kentucky Personnel Policies and Kentucky Revised Statutes Chapter 18A. The Joint Audit Committee Chair and KPPA Office of Operations Executive Director shall review the performance for non-merit employees.

#### Quality Assessment and Improvement Program

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit function. The program will include an evaluation of Internal Audit's conformance with the *International Standards for the Professional Practice of Internal Auditing* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

#### Internal Assessments

1. Ongoing Internal Assessments – Ongoing internal assessments for routine internal audit activities are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. The measurement tools for assessment are engagement supervision, feedback from audit customers, audit plan completion, and analysis of other performance metrics such as recommendations accepted. Conclusions and planned corrective action will be developed and presented to the Joint Audit Committee and KPPA Executive Management team.

2. Periodic Assessments – Periodically, Internal Audit will conduct a Self-Assessment as outlined by the IIA. The Director of Internal Audit will disclose the results of the Self-Assessment and any needed corrective action to the Joint Audit Committee and KPPA Executive Management team.

#### External Assessments

Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five years. This can be completed as either a Self-Assessment with Independent External Validation or a full external assessment.

#### Records Retention and Disposition

Internal Audit shall retain a complete file of each audit report and each report of other audit and consulting services made under its authority in accordance with the KPPA records retention policy or policies of the Kentucky Department for Libraries and Archives for a period of seven (7) years. The file shall include audit work papers and other supportive material directly pertaining to the report. After seven (7) years, the work papers and other supportive material directly pertaining to the audit report can be destroyed. An electronic copy of all final reports should be maintained indefinitely. To guard against identity theft and fraud, destruction of business records and materials shall be done in a secured manner such as through use of the on-site Division of Waste Management recycle containers. All CD/DVD materials shall be submitted to the KPPA Information Security Officer.

## **IX. Internal Audit Services**

The scope of Internal Audit shall be sufficiently comprehensive to enable the effective and regular review of all operational, financial, and related activities. Coverage may extend to all areas of KPPA, CERS, and KRS and include financial, accounting, investments, benefits, administrative, computing, and other operational activities. The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control, and resources available to Internal Audit.

Internal Audit provides independent audit, consulting, and assurance services to assist management in balancing operational efficiency with risk identification, assessment, and control. Internal Audit reports to the Joint Audit Committee and collaborates with the KPPA, CERS, and KRS Executive Management teams to enhance assurance and accountability at all levels of KPPA, CERS, and KRS. In order to meet the responsibilities and objectives as set forth in the Internal Audit Charter, it is necessary for Internal Audit to perform varying types of services depending on the circumstances and requests. Services can be requested by the Joint Audit Committee; KPPA; or any member of the KPPA, CERS, or KRS Executive Management team. Other KPPA employees can also request services. In these instances, the Internal Audit Director will seek approval from the KPPA Office of Operations Executive Director and the Joint Audit Committee before engaging in the service. Internal Audit provides the following types of audit, consulting, and assurance services.

#### Audits

1. Performance Audits – Most audits conducted by Internal Audit are performance audits. These audits provide an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. During a Performance Audit, the auditor completes both a



Compliance Audit and a Process Review (both explained below). A Policy Review (explained below) may also be included as part of a Performance Audit.

2. Compliance Audits – Compliance audits determine whether a division has complied with KPPA, CERS, and/or KRS agency policies and procedures, divisional policies and procedures, [Kentucky Administrative Regulations](#), [Kentucky Revised Statutes](#), and federal law.
3. Operational Audits – Operational audits analyze how effectively and efficiently business units achieve organization and/or division goals. Effectiveness is measured by how successful a business unit is at achieving organization and/or division goals. Efficiency is measured by how well the business unit uses resources in order to achieve organization and/or division goals.
4. Investment Audits – Investment audits may be performed to review movement of funds (e.g. purchases, sales, and income), cash management, manager fees, and other investment related activities. Investment audits may also be performed to ensure compliance with procurement regulations, contracts, internal policies and procedures as well as to ensure proper internal controls exist over the investment function.
5. Investigative Audits – Investigative audits may result from findings during a routine audit or from information received from personnel. These audits are normally requested by a member of the KPPA, CERS, or KRS Executive Management team, the Joint Audit Committee, or the KPPA as a result of information received from an anonymous tips. These audits focus on alleged, irregular conduct. Reasons for investigative audits may include internal theft, misuse of State property, and/or conflicts of interest. These audits should be conducted immediately in order to collect and preserve as much relevant evidence as possible. It is essential that the records in question be removed from the division/employee under investigation or otherwise safeguarded. Investigative audits will be conducted in accordance with Internal Audit procedures and may include expertise from internal and external experts in fields, such as but not limited to, legal, information technology, human resources, and accounting. A draft investigative audit report will be provided to the Joint Audit Committee. The Joint Audit Committee will determine if further actions are needed. The Joint Audit Committee will control any internal or external report distribution.
6. Information Technology Audits – Audits of information systems and technology may be performed to determine whether existing or new computer applications and hardware function in an accurate and efficient manner and include adequate internal controls. Internal Audit involvement in a new system may include the review of system development methodology and the effectiveness and efficiency of the system being implemented. These audits could include reviews of general controls which affect all computer applications. Examples may include computer security, disaster recovery, program change controls, and quality control procedures.
7. Financial Audits – A financial audit is a review intended to serve as a basis for expressing an opinion regarding the fairness, consistency, and conformity of financial information with generally accepted accounting principles (GAAP). Financial audits can be comprehensive or limited in scope depending on the objectives.
  - a. A comprehensive financial audit consists of a review of the financial statements of an entity over a specific duration of time to accurately express an opinion on those statements. Such an audit is conducted in accordance with generally accepted

auditing standards (GAAS) as adopted by the American Institute of Certified Public Accountants (AICPA). For CERS and KRS, an external auditor performs this type of audit annually.

- b. A limited financial audit concentrates on a review of specific financial transactions. The primary concerns include determining accuracy of data and evaluation of controls by reviewing the following items:
  - i. Physical control over assets,
  - ii. System of authorization and approval,
  - iii. Separation of duties between operations and custody of assets.

#### Process Reviews

A process review is specific to a single business process. These reviews assess the effectiveness of internal controls over the process as well as test the efficiency of the process. These reviews also help ensure the business process is operating the way management intended. These reviews are typically performed in conjunction with a new business process being developed or immediately after a new business process is implemented. These reviews may be performed as needed in response to particular findings identified during the course of performing other types of services within a particular division.

#### Policy Reviews

During a policy review, Internal Audit analyzes either a new or established policy. Internal audit will ensure the policy complies with applicable [Kentucky Administrative Regulations](#), [Kentucky Revised Statutes](#), and federal laws. Internal Audit will also determine if the policy establishes sufficient internal controls in relation to the related business process. For example, during a review of a policy related to invoice payment, Internal Audit would ensure internal controls have been designed to ensure timely payment, prevent duplicate payment, establish segregation of duties, etc.

#### Agreed Upon Procedures

An Agreed upon Procedures engagement is performed only upon request. During these engagements, the requestor specifies exactly what the auditor is to do. The auditor then performs only the requested procedures. An opinion is not expressed in these reviews. For example, a request could be made to review all expenditures posted to a particular account(s) during a specific time-frame to determine if any expenditures were improperly coded to the account(s). Internal Audit would review the requested account(s) over the specified time-frame and issue a report indicating how many expenditures were posted incorrectly. These engagements are beneficial if there is an area a division wants to review, but does not have the resources or time to perform the review themselves.

#### Annual Report Review

Each year, KPPA personnel prepares an Annual Report for the County Employees Retirement System and Kentucky Retirement Systems. Prior to presentation to the CERS Board and KRS Board, Internal Audit will review the Independent Auditor's Report, Management's Discussion and Analysis, and the various sections of the Annual Report – Financial Statements (including footnotes), Actuarial, and Statistical. Internal Audit staff will identify any perceived errors or discrepancies within the Annual Report. However, the KPPA Executive Management team, not Internal Audit, is responsible for the substantive content, accuracy, consistency, and completeness of Management's Discussion and Analysis, Financial Statements (including footnotes), and other sections of the Annual Report.

#### External Audit Assistance

Assistance may be provided to the External Auditor during the annual audit of the KPPA financial statements or other audit engagements. The Internal Audit Director will work with the external auditors to foster a cooperative working relationship, reduce the incidence of duplication of effort, ensure appropriate sharing of information, and ensure coordination of the overall audit effort. Upon request, the Internal Audit Director will make available to the external auditors all internal audit working papers, programs, flowcharts, and reports. The Internal Audit Director will review the resulting audit findings and management letter comments to determine any impact upon the Audit Plan.

#### Referencing

During the course of various types of audit, consulting, and assurance services, the Internal Audit Director may identify continuing patterns of conduct or reoccurring “themes” (e.g. the same type of problem is noted in multiple divisions). For example, findings for two divisions within an office, which identify a broader office finding (e.g. lack of controls, need for increased communication, absence of performance criteria, insufficient data processing policy, etc.). When developing the Audit Plan, Internal Audit always considers these themes when scheduling audits for the next period, particularly when these items impact the KPPA mission.

#### Board of Trustee Elections

Internal Audit assists in both CERS and KRS Board elections. Detailed Internal Audit procedures related to the Board elections can be found on the [KPPA Process Documentation SharePoint](#) site.

#### Other Services

Internal Audit staff may conduct other services as deemed necessary to meet the responsibilities and objectives as set forth in the Charter for Internal Audit Administration. Internal Audit staff may participate on the KPPA Information Technology Governance team, the Continuity of Operations team, and other similar KPPA, CERS, or KRS teams.

## **X. Risk Assessment and Audit Plan**

Consistent with the long-term strategic plan, the Internal Audit Director shall prepare an Audit Plan providing for the review of significant operations of KPPA, CERS, and KRS based on an assessment of risks pertaining to the achievement of objectives. The Audit Plan shall be presented to the Joint Audit Committee for deliberation and finalization. Upon approval by the Joint Audit Committee, the Audit Plan will be presented to both the CERS Board and the KRS Board for ratification.

#### Risk Assessment

The Audit Plan is based on a risk assessment methodology, as well as requests from management. Internal Audit assesses KPPA, CERS, and KRS by seeking input from the Joint Audit Committee; key members of KPPA, CERS, and KRS management; and other personnel. Internal Audit also reviews the results of past internal and external audits. Internal Audit then considers organizational risks, such as established internal controls, current management, control environment, staffing, system changes, regulatory and legal changes, and impact to the financial statements. Based on the information gathered, an Audit Plan is developed weighting each risk according to the significance to the overall mission and objective of KPPA, CERS, and KRS.

The Risk Assessment methodology is based upon the following five-part process:

1. Identifying KPPA, CERS, and KRS activities/processes (these become the “audit universe”).
2. Scoring the organizational risks for each process identified in the audit universe.
3. Ranking the processes by overall risk.
4. Developing the Audit Plan.
5. Submitting the Audit Plan to the Joint Audit Committee for review and approval.

Organizational risks are scored using a point value with one (1) representing the lowest level of risk and five (5) the highest. The individual factor scores are then multiplied by the risk weight factor. The weighted risk factor elements are collectively totaled to obtain the respective aggregate risk rating for each auditable area. The overall risk scores for all KPPA activities are then ranked highest to lowest. After ranking, an Audit Plan is developed.

#### Audit Plan

Based upon the results of the Risk Assessment, Internal Audit develops the Audit Plan through a prioritization process that includes scheduling audits for the highest risk areas as well as areas that have not been reviewed in recent years. The Audit Plan represents potential audits to be completed during the upcoming fiscal year. Internal Audit also identifies other potential audit segments such as business processes, expense contracts, and functional areas that may cross over operational units.

The Risk Assessment and Audit Plan are presented to the KPPA, CERS, and KRS Executive Management teams in order to obtain suggestions, concerns, and priorities. After approval of the Audit Plan is obtained from the KPPA Executive Director, the Audit Plan is submitted to the Joint Audit Committee for approval. The Audit Plan is periodically reviewed, evaluated, and modified (e.g. objectives, goals, and strategies) according to the specific risk factors related to KPPA, CERS, and KRS operations, internal controls, and estimated liability exposure to the Commonwealth of Kentucky. Staff is assigned to audits based upon that auditor’s background and experience.

If Internal Audit receives a request to complete an audit not previously identified on the Audit Plan, the request shall be forwarded to the Chair of the Joint Audit Committee for approval. The Chair of the Joint Audit Committee will determine if a special called meeting of the Joint Audit Committee is necessary to discuss the requested audit. If the Chair of the Joint Audit Committee determines that a special called meeting is not warranted, then the requested audit will be added to the Audit Plan and reported to the Joint Audit Committee on the “Status of Current Projects” at the next regularly scheduled Joint Audit Committee meeting.

#### Tracking Projects

Internal Audit staff continually track audits and other projects using the Audit Status Tracker spreadsheet, which includes dates for significant milestones. If Internal Audit is requested to complete projects not foreseen during risk-assessment/planning, these are also tracked on the Audit Status Tracker spreadsheet. The status of current projects is presented to the Joint Audit Committee at each quarterly meeting. All findings and recommendations, including status and implementation date, are tracked through Gravity Software.

## **XI. Audit Process**

### Methodology

For all audit projects, the person responsible for the activity under review shall be advised and given the opportunity to discuss the following:

1. Objectives and scope of the audit to be conducted, prior to the commencement of such audit.
2. Findings and proposed recommendations upon the completion of an audit, including providing an official response to the findings.

### Audit Reports

A comprehensive written report will be prepared and issued by Internal Audit at the conclusion of each audit and will be distributed as considered appropriate. A copy of each report is to be made available on a timely basis to the Joint Audit Committee and applicable members of the KPPA, CERS and KRS Executive Management teams. Audit reports will normally explain the scope and objectives of the audit, present findings and or conclusions in an objective manner relevant to the specific user's needs, and make recommendations where appropriate.

## **XII. Quality Assurance and Improvement Plan**

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of Internal Audit's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics (see Exhibit A). The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

Internal Audit will conduct both ongoing and periodic internal assessments. Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five (5) years. The Internal Audit Director will provide the results of the quality assurance and improvement program, including results of internal and external assessments, to the Joint Audit Committee and KPPA Executive Management team.

## **XIII. Internal Audit Procedures**

Detailed Internal Audit procedures can be found on the [KPPA Process Documentation SharePoint](#) site.

#### XIV. Approvals

We, the undersigned of the Joint Audit Committee, CERS Board of Trustees, KRS Board of Trustees, and KPPA do certify that this Charter was approved on 15<sup>th</sup> day of September, 2021.

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Joint Audit Committee Chair Date

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Board Chair Date  
County Employees Retirement System

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Board Chair Date  
Kentucky Retirement Systems

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Executive Director Date  
Kentucky Public Pensions Authority

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Division Director Date  
KPPA Division of Internal Audit Administration

History:      Approval Date: September 15, 2021  
                 Amended:



## EXHIBIT A

### { CODE of ETHICS... }

#### // PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

#### // RULES OF CONDUCT

##### 1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

##### 2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

##### 3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

##### 4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



## KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

1260 Louisville Road • Frankfort, Kentucky 40601  
kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



### MEMORANDUM

**TO:** Kristen Coffey, Director of Internal Audit Administration

**FROM:** Carrie Bass, Staff Attorney Supervisor, Office of Legal Services

**DATE:** August 19, 2021

**SUBJECT:** Addendum to Potential Information Disclosures/Breaches in 4<sup>th</sup> Quarter Calendar Year 2020

The following memo provides additional information concerning potential information disclosure/breach incidents involving Kentucky Retirement Systems (“the Systems”)<sup>1</sup> that were investigated or occurred during the 4<sup>th</sup> Quarter of Calendar Year 2020 (October through December), and compares them to the first three quarters of Calendar Year 2020 (January through September).

#### **SUMMARY OF POTENTIAL DISCLOSURES/BREACHES IN THE 4<sup>th</sup> QUARTER OF CALENDAR YEAR 2020**

The Systems investigated four (4) possible information disclosures/breaches by the Systems during the 4<sup>th</sup> Quarter of Calendar Year 2020, and determined that none of these incidents were disclosures or security breaches under state or federal law. However, the Systems determined that one (1) incident was a data disclosure incident warranting member notification under its internal Data Disclosure Notification Policy.

Additionally, on February 23, 2021, the Systems was notified by an external vendor of one (1) incident in the last quarter of Calendar Year 2020 that the vendor determined required notification to 1,054 members of the Systems pursuant to federal law (HIPAA and HITECH). The chart on the following page reflects updated numbers for the 4<sup>th</sup> Quarter of Calendar Year 2020 based on the incident reported by the external vendor on February 23, 2021.

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<sup>1</sup> At the time the potential disclosures/breaches occurred (prior to April 1, 2021), the Kentucky Retirement Systems was the entity responsible for responding to potential disclosures and breaches under state law, federal law, and its own internal Data Disclosure Notification Policy.



<b>Potential Information Disclosures/Breaches - Calendar Year 2020</b>				
	<b>1st Q</b>	<b>2nd Q</b>	<b>3rd Q</b>	<b>4th Q</b>
<b>Number of Potential Disclosures by Type</b>				
Email	0	2	0	2
Postal Mail	0	3	2	2
Fax	1	1	0	0
Other	1	1	0	1
<b>TOTAL</b>	<b>2</b>	<b>7</b>	<b>2</b>	<b>5</b>
<b>Members Affected --- KRS</b>	<b>2</b>	<b>1,054</b>	<b>3</b>	<b>321</b>
<b>Members Affected --- External</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>1,054</b>
<b>Number of Incidents by Source</b>				
KRS	2	5	2	4
External Agency (Employer/Bus. Assocs)	0	2	0	1
<b>TOTAL</b>	<b>2</b>	<b>7</b>	<b>2</b>	<b>5</b>

**POTENTIAL DISCLOSURES/BREACHES BY THE SYSTEMS IN THE 4<sup>TH</sup> QUARTER OF CALENDAR YEAR 2020**

**HIPAA/federal law:** No breaches of protected health information by the Systems occurred during the 4<sup>th</sup> Quarter of Calendar Year 2020.

**State law (KRS 61.931, et seq.):** No “security breaches” by the Systems as defined by state law occurred during the 4<sup>th</sup> Quarter of Calendar Year 2020.

**Additional information:** In one (1) instance, a spreadsheet containing information for 318 members was securely emailed in error to a representative of the wrong participating employer. The spreadsheet did not contain any protected health information under federal law or any “personal information” that could constitute a “security breach” under state law for these 318 members. The representative of the participating employer that erroneously received the secure email containing the spreadsheet signed an affidavit stating that the email and spreadsheet were completely deleted and that the information contained in the spreadsheet was not saved or duplicated in any manner.

In two (2) instances (each instance affecting only one (1) member), in addition to there being no breach of information under state or federal law, the Systems’ Executive Staff (in consultation with the Office of Legal Services) determined that no disclosure occurred pursuant to the Systems’ Data Disclosure Policy.

In the last instance affecting only one (1) member, even though there was no breach of information under state or federal law, there was a disclosure under the Systems’ internal Data Disclosure

Policy and the affected member was notified by letter of the disclosure. In that case, the Kentucky Retirement Systems' automated batch mailing system inadvertently placed a document intended for one member into an envelope that was mailed to another member. The member that received the document in error signed an affidavit stating that the document was returned to the Systems and the information contained in the document was not saved or duplicated in any manner.

**EXTERNAL DISCLOSURES/BREACHES IN THE 4<sup>TH</sup> QUARTER OF CALENDAR  
YEAR 2020**

As previously noted, on February 23, 2021, the Systems was notified by an external vendor of one (1) incident in the last quarter of Calendar Year 2020 that the vendor determined required notification to 1,054 members of the Systems pursuant to federal law (HIPAA and HITECH). An employee of a subcontractor of the external vendor inappropriately used their access to individual information to disclose information, in the form of medical records, to unauthorized individuals for the purpose of a personal business endeavor. The external vendor notified all 1,054 of the Systems' members affected by this incident in compliance with federal law.

Additionally, upon discovery, the employment of the employee who inappropriately used their access to disclose individual information was terminated and all access of the former employee was disabled. The subcontractor implemented a broad containment strategy to prevent any information that was subject to unauthorized disclosure, due to this incident, from further unauthorized disclosure. The subcontractor launched a comprehensive investigation into the incident and hired cybersecurity firms to assist in the efforts. The external vendor is also assisting in the efforts of its subcontractor to ensure no similar incidents occur again.

**RECOMMENDATION**

This memorandum is provided for informational purposes only.



**KENTUCKY PUBLIC PENSIONS AUTHORITY**

**David L. Eager, Executive Director**

1260 Louisville Road • Frankfort, Kentucky 40601  
 kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



**MEMORANDUM**

**TO:** Kristen Coffey, Director of Internal Audit Administration

**FROM:** Carrie Bass, Staff Attorney Supervisor, Office of Legal Services

**DATE:** August 19, 2021

**SUBJECT:** Potential Information Disclosures/Breaches, 1<sup>st</sup> Quarter Calendar Year 2021

The following memo outlines the potential information disclosure/breach incidents involving Kentucky Retirement Systems (“the Systems”)<sup>1</sup> that were investigated during the 1<sup>st</sup> Quarter of Calendar Year 2021 (January through March).

**SUMMARY OF POTENTIAL DISCLOSURES/BREACHES IN THE 1<sup>ST</sup> QUARTER OF CALENDAR YEAR 2021**

The Systems investigated five (5) possible information disclosures/breaches by the Systems and external sources during the 1<sup>st</sup> Quarter of Calendar Year 2021, and determined that none of these incidents were disclosures or security breaches under state or federal law. However, the Systems determined that all five (5) incidents were a data disclosure incident warranting member notification under its internal Data Disclosure Notification Policy.

<b>Potential Information Disclosures/Breaches - Calendar Year 2021</b>				
	<b>1st Q</b>	<b>2nd Q</b>	<b>3rd Q</b>	<b>4th Q</b>
<b>Number of Potential Disclosures by Type</b>				
Email	1			
Postal Mail	4			
Fax	0			
Other	0			
<b>TOTAL</b>	<b>5</b>			
<b>Members Affected --- KRS</b>	<b>5<sup>2</sup></b>			

<sup>1</sup> At the time the potential disclosures/breaches occurred (prior to April 1, 2021), the Kentucky Retirement Systems was the entity responsible for responding to potential disclosures and breaches under state law, federal law, and its own internal Data Disclosure Notification Policy.

<sup>2</sup> One of the five individuals affected by a potential disclosure was a former member of the Systems who had refunded his account. While this individual was is not technically a “member,” that individual has nevertheless been included in this line.

<b>Members Affected --- External</b>	<b>0</b>			
<b>Number of Incidents by Source</b>				
KRS	3			
External Entity (e.g. Bus. Assocs)	2			
<b>TOTAL</b>	<b>5</b>			

**POTENTIAL DISCLOSURES/BREACHES BY THE SYSTEMS IN THE 1<sup>ST</sup> QUARTER OF CALENDAR YEAR 2021**

**Federal law (HIPAA/HITECH):** No breaches of protected health information by the Systems occurred during the 1<sup>st</sup> Quarter of Calendar Year 2021.

**State law (KRS 61.931, et seq.):** No “security breaches” by the Systems as defined by state law occurred during the 1<sup>st</sup> Quarter of Calendar Year 2021.

**Additional information:** In one (1) instance, an email containing a member’s full name and ID was inadvertently emailed to a representative of a participating employer rather than the intended recipient, an employee of the Systems. The email did not contain any protected health information under federal law or constitute a “security breach” under state law. The representative of the participating employer that erroneously received the email signed an affidavit stating that the email was completely deleted and that the information contained in the email was not saved or duplicated in any manner. Because the email was inadvertently sent to a representative of a participating employer and the affidavit was obtained, the Systems’ staff determined that the affected member did not need to be notified under the Systems’ internal Data Disclosure Notification Policy.

In one (1) instance, a letter containing a member’s full name and ID was inadvertently included in an envelope mailed to another member. The letter did not contain any protected health information under federal law or constitute a “security breach” under state law. The member who received the letter in error returned the erroneously-received letter to the retirement office and signed an affidavit stating that they did not save or duplicate the information contained in the letter received in error. The member whose full name and ID was inadvertently sent via mail to another member was notified of the disclosure pursuant to the Systems’ internal Data Disclosure Notification Policy.

In one (1) instance, a letter containing a full name and member ID for a former member (who had taken a refund of their retirement account) was automatically generated by the Systems in error and inadvertently mailed to another current member. The letter did not contain any protected health information under federal law or constitute a “security breach” under state law. The Systems was unable to obtain reliable contact information for the former member and, accordingly, was unable to notify the affected former member under the Systems’ internal Data Disclosure Notification Policy.

**EXTERNAL DISCLOSURES/BREACHES IN THE 1<sup>st</sup> QUARTER OF CALENDAR  
YEAR 2021**

In January 2021, the Systems was notified that an external vendor had inadvertently placed the 1099-Rs for two (2) members into an envelope mailed to another member. Even though no breach or disclosure of information implicating state or federal law occurred, there was a disclosure under the Systems' internal Data Disclosure Notification Policy and the affected members were notified by letter of the disclosure.

**RECOMMENDATION**

This memorandum is provided for informational purposes only.



**KENTUCKY PUBLIC PENSIONS AUTHORITY**

**David L. Eager, Executive Director**

1260 Louisville Road • Frankfort, Kentucky 40601  
 kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



**MEMORANDUM**

**TO:** Kristen Coffey, Director of Internal Audit Administration

**FROM:** Carrie Bass, Staff Attorney Supervisor, Office of Legal Services

**DATE:** August 19, 2021

**SUBJECT:** Potential Information Disclosures/Breaches, 2<sup>nd</sup> Quarter Calendar Year 2021

The following memo outlines the potential information disclosure/breach incidents involving Kentucky Public Pensions Authority (“KPPA”) that were investigated during the 2<sup>nd</sup> Quarter of Calendar Year 2021 (April through June), and compares them to the 1<sup>st</sup> Quarter of Calendar Year 2021 (January through March)

**SUMMARY OF POTENTIAL DISCLOSURES/BREACHES IN THE 2<sup>nd</sup> QUARTER OF CALENDAR YEAR 2021**

The KPPA investigated five (5) possible information disclosures/breaches involving the KPPA during the 2<sup>nd</sup> Quarter of Calendar Year 2021, and determined that one (1) incident was a breach that implicated HIPAA/HITECH and one (1) incident was a breach that implicated state law. In the remaining three (3) incidents, the KPPA determined that these incidents were a data disclosure incident warranting member notification under its internal Data Disclosure Notification Policy.

<b>Potential Information Disclosures/Breaches - Calendar Year 2021</b>				
	<b>1st Q</b>	<b>2nd Q</b>	<b>3rd Q</b>	<b>4th Q</b>
<b>Number of Potential Disclosures by Type</b>				
Email	1	1		
Postal Mail	4	2		
Fax	0	0		
Other	0	2		
<b>TOTAL</b>	<b>5</b>	<b>5</b>		
<b>Members Affected --- KRS &amp; CERS</b>	<b>5</b>	<b>3</b>		
<b>Members Affected --- External</b>	<b>0</b>	<b>2</b>		
<b>Number of Incidents by Source</b>				
KPPA, KRS, & CERS	3	3		
External Entity (e.g. Bus. Assocs)	2	2		
<b>TOTAL</b>	<b>5</b>	<b>5</b>		

**POTENTIAL DISCLOSURES/BREACHES INVOLVING THE KPPA IN THE 2<sup>nd</sup> QUARTER OF CALENDAR YEAR 2021**

**Federal law (HIPAA/HITECH):** One (1) potential breach of protected health information by the KPPA occurred during the 2<sup>nd</sup> Quarter of Calendar Year 2021. In this instance, a contract hearing officer and an attorney were inadvertently mailed a document containing protected health information of a member (not a member with represented by this attorney or a case pending before the hearing officer). The affected member has been notified, the attorney's office that received the document in error returned the document and signed an affidavit attesting that the information contained in the document was not saved or duplicated in any manner, and the KPPA staff has taken steps to ensure that the contract hearing officer destroyed the document received in error.

**State law (KRS 61.931, et seq.):** One (1) potential "security breach" involving the KPPA occurred during the 2<sup>nd</sup> Quarter of Calendar Year 2021. In this instance, an unauthorized user accessed a member's self-service account in a manner that the KPPA believed could compromise the security, confidentiality, or integrity of the member's personal information and result in the likelihood of harm to the member. The KPPA has notified the appropriate state agencies/state officers as required by law, maintained ongoing contact with the affected member, and taken additional measures to ensure the security, confidentiality, and integrity of this member's account going forward.

**Additional information:** In one (1) instance, an email containing a member's full name, Social Security number, and Humana plan ID was inadvertently emailed to another member rather than the intended recipient, an employee of the KPPA. The email did not contain any protected health information under federal law or constitute a "security breach" under state law. The member that erroneously received the email signed an affidavit stating that the email was completely deleted and that the information contained in the email was not saved or duplicated in any manner. The affected member was notified of the disclosure pursuant to the KPPA's internal Data Disclosure Notification Policy.

In one (1) instance, a document containing a member's full name, ID, benefit payment options, and mailing address was inadvertently mailed to another member. The letter did not contain any protected health information under federal law or constitute a "security breach" under state law. The member who received the document in error returned the erroneously-received document to the retirement office and signed an affidavit stating that they did not save or duplicate the information contained in the document received in error in any manner. The affected member was notified of the disclosure pursuant to the KPPA's internal Data Disclosure Notification Policy.

**EXTERNAL DISCLOSURES/BREACHES IN THE 2<sup>nd</sup> QUARTER OF CALENDAR YEAR 2021**

In April 2021, the KPPA was notified by an external vendor that an employee of a subcontractor of the external vendor had likely used a member's credit card information in a fraudulent manner. The external vendor notified the affected member in compliance with state and federal law.

**RECOMMENDATION**

This memorandum is provided for informational purposes only.





**KENTUCKY PUBLIC PENSIONS AUTHORITY**

**David L. Eager, Executive Director**

1260 Louisville Road • Frankfort, Kentucky 40601  
 kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



**MEMORANDUM**

**TO:** Kristen Coffey, Director of Internal Audit Administration

**FROM:** Carrie Bass, Staff Attorney Supervisor, Office of Legal Services

**DATE:** August 19, 2021

**SUBJECT:** Anonymous Reports Received

The following chart provides updated information on anonymous tips received by the Kentucky Retirement Systems prior to April 1, 2021 and the Kentucky Public Pensions Authority on and after April 1, 2021. To summarize the information contained in the chart below, since the Audit Committee of the Board of Trustees of the Kentucky Retirement Systems on February 4, 2021, two (2) cases have been added and seven (7) cases have been closed. Additionally, the open cases can be summarized as follows:

- One (1) related to possible fraudulent disability payments;
- One (1) related to a participating employer allegedly improperly requiring employees to change pension plans; and
- Two (2) related to members allegedly retiring with prearranged agreements to return to work with a participating employer.

<b>Date Reported</b>	<b>Issue</b>	<b>Current Action</b>	<b>Status</b>
Various	Possible fraudulent disability payments.	Member has been notified that his benefits will be terminated. A hearing is in progress. A second member reported in this complaint is still being investigated.	Hearing in progress.
8/31/2018	Possible retire with prearranged rehire agreement.	Two individuals were alleged to have an impermissible prearranged agreement to return to work for a participating employer after retirement. Investigator interviewed multiple individuals with knowledge concerning these allegations, but was unable to substantiate the allegations.	Closed

12/13/2018	Individual works at two different locations. One location is not paying towards retirement because the individual is classified as part-time; however, the individual may work more hours than allowed for part-time.	Investigator obtained the name of the member in question. Member's account shows member has been reported in two regular full-time positions (one with each participating employer) since March 2017. No reporting issue.	Closed
7/22/2019	Possible fraudulent disability payments.	Member in question is now deceased.	Closed
10/29/2019	Possible fraudulent increase to retirement benefits.	Two of three members are retired, and were notified of creditable compensation adjustment and overpayment resulting from creditable compensation adjustment. Third member was notified of forfeiture of retirement benefits with a refund of contributions and interest. No appeals occurred.	Closed
2/6/2020	Possible fraudulent overtime reporting.	No charges brought against member for fraudulent overtime. No adjustments to member's creditable compensation have been reported by employer. Unable to substantiate allegation.	Closed
2/10/2020	KERS employees allegedly being forced to switch to either KTRS or an Optional Retirement plan.	Follow-up requests for information have been made. Appeal to Attorney General may be necessary to obtain requested information.	Pending Receipt of Info
5/21/2020	Possible retire with prearranged rehire agreement.	Legal requested documents from reemploying employer and investigator interviewed multiple employees with knowledge of the allegation. Unable to substantiate allegation.	Closed
11/6/2020	Possible retire with prearranged rehire agreement (return to work as contractor).	All post-retirement reemployment requirements appear to have been met. Unable to substantiate allegation.	Closed

3/15/2021	Possible retire with prearranged rehire agreement (return to work as contractor).	Multiple requests have been made for information from employer, with only limited response. Repeated attempts to obtain the necessary information are in progress.	Pending
6/7/2021 & 6/11/2021	Possible retire with prearranged rehire.	Investigation ongoing.	Pending

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## 2021 ACFR - SAFR Calendar DRAFT

Planned End Date	Task	Owner
5/2021	Entrance Conference	External Auditor Blue & Co.
7/16/2021	Updating Report Spreadsheets Objects	KPPA Users
7/20/2021	Liability input GASB 67 & 74	GRS
7/23/2021	Preparing InDesign Template Styles	KPPA Users + IGM Service
7/23/2021	Great Plains data in Excel available	KPPA
7/23/2021	Preliminary trial balance	KPPA
7/26/2021	Set Data Source, Data File + Account Hierarchy	KPPA Users + IGM Service
7/26/2021	Import Data Source to Spreadsheets	KPPA Users
7/27/2021	Apply Styles to all objects in Gravity	KPPA Users
8/3/2021	Liability review GASB 67 & 74	GRS
8/3/2021	Create Variables	KPPA Users
8/4/2021	Accounting approval of Annual Interest Post totals	
8/13/2021	Solid set of financial statements available	KPPA
8/13-8/19/2021	Run and Review PROD ACFR Reports	Communications
8/19/2021	Receipt of census data from KPPA	KPPA
8/20/2021	Review Draft	KPPA Users
8/27/2021	Data questions to KPPA, if any	GRS
8/31/2021	Receipt of financial statements from KPPA GASB 67 & 74 & Data	KPPA
8/31/2021	Data checks	GRS
8/31/2021	Solid trial balance	KPPA
9/2/2021	Financial Section - 1st Draft (unaudited) available to Communications	Accounting
9/3/2021	Data answers received from KPPA, if any	KRS
9/6/2021	Asset input GASB 67 & 74	GRS
9/7/2021	Assets entered and Reviewed Data	GRS
9/7/2021	Final Calculation Review GASB 67 & 74	GRS
9/9/2021	Load data answers and finalize data	GRS
9/9/2021	Complete data reconciliation	GRS
9/9/2021	Draft GASB 67 & 74 reports	GRS
9/14/2021	<b>ACFR - Investments Section - 1st Draft</b>	Investments
9/15/2021	Complete Valuation Program	GRS
9/15/2021	Review GASB 67 & 74 reports	GRS
9/15/2021	Run gain/loss programs and analyze Valuation	GRS
9/15/2021	Draft GASB 67 & 74 reports to KPPA	GRS
9/16/2021	<b>ACFR - Statistical Section - 1st Draft</b>	Accounting
9/21/2021	Test life program check Valuation	GRS

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## 2021 ACFR - SAFR Calendar DRAFT

Planned End Date	Task	Owner
9/21/2021	Financing work papers input Valuation	GRS
9/28/2021	GASB 67 & 74 report comments from KPPA	KRS
9/28/2021	Review gain loss by source Valuation	GRS
9/28/2021	Financing work papers review Valuation	GRS
9/28/2021	20 - Year Projections input Valuation	GRS
9/28/2021	Test life program review Valuation	GRS
9/30/2021	<b>ACFR - Statistical Section - 2nd Draft</b>	Accounting
9/30/2021	KPPA provides Actuary Reports to Auditor (Info (from the Actuary) for the Required Supplementary Info section of the Draft Financial Report)	Actuary/KPPA
10/1/2021	Final GASB 67 & 74 reports to KPPA	GRS
10/4/2021	Financial Section - 2nd Draft (unaudited) available to Communications	Accounting
10/4/2021	<b>ACFR - Investments Section - 2nd Draft</b>	Investments
10/4/2021	ACFR Statistical Section Review	RA, CD, KC
10/6/2021	ACFR Investments Section Review	RA, SH, CD, AC, KC
10/6/2021	20 - Year Projections review Valuation	GRS
10/6/2021	Sensitivity input Valuation	GRS
10/7/2021	ACFR Financial Section Review	RA, SH, CD, AC, KC
10/12/2021	Draft valuation report	GRS
10/12/2021	Draft information for ACFR Valuation	GRS
10/12/2021	Sensitivity review Valuation	GRS
10/14/2021	ACFR Cover memo written by Dave Eager	Communications
10/14/2021	<b>SAFR Drafts are developed</b>	Communications
10/15/2021	Draft actuary report available	GRS & KPPA
10/15/2021	Solid set of financial statements (including notes and RSI)	KPPA
10/18-11/10/2021	<b>SAFR Drafts Continue</b>	Communications
10/19/2021	Valuation report and ACFR information review	GRS
10/19/2021	Present preliminary results of KPPA Valuation	KPPA & GRS
10/25/2021	<b>ACFR - Investments Section completed</b>	Investments
10/26/2021	Consultant final review valuation report and ACFR information Valuation	GRS
10/26/2021	Actuary returns to KPPA the info needed for actuary section of ACFR including GASB numbers	Actuary/KPPA
10/26/2021	ACFR Review - Financial & Investments	RA, SH, CD, AC, KC
10/28/2021	Financial Section - 3rd Draft (unaudited) submitted for Audit Committee & Communications	Accounting

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## 2021 ACFR - SAFR Calendar DRAFT

Planned End Date	Task	Owner
10/29/2021	Draft report to KPPA, including 20-year projection and sensitivity information Valuation	GRS
11/1/2021	ACFR Information to KPPA Valuation and available in Gravity	GRS
11/1/2021	Draft audit report sent to KPPA management	External Auditor Blue & Co.
11/4/2021	Draft audit report presented to KPPA Joint Audit Committee (all docs must be loaded 1 week in advance)	External Auditor Blue & Co.
11/10/2021	Draft audit report presented to the CERS Board	External Auditor Blue & Co.
11/14/2021	<b>ACFR CHECKPOINT REVIEW</b>	Review of ACFR Draft
11/14/2021	Actuary Section Completed	Accounting
11/14/2021	<b>ACFR/ SAFR CHECKPOINT REVIEW</b>	Exec & Communications
11/15/2021	Report comments from KPPA Valuation	KPPA
11/15/2021	<b>Final report to PPOB</b>	GRS
11/15/2021	Final actuary report to KPPA	GRS & KRS
11/16/2021	Draft audit report presented to the KPPA Board	External Auditor Blue & Co.
11/17/2021	<b>Draft Valuation Reports presented to KPPA Board of Directors</b>	GRS/KRS
11/17/2021	Auditor provides audit report to KPPA (Auditor prepares and provides Draft Financial Report that contains the financial statement, draft opinion, notes, findings (with deficiency level defined for each), KPPA responses to findings, MDA (provided by KPPA), required supplementary information (info from the actuary), SAS 114, management letter, etc.)	Accounting
11/17/2021	KPPA Board of Directors approves final audit report (External Auditor Blue & Co. Final Audit Report Released)	
11/20/2021	End of Field work (All signed management representation letters must be in hand.)	External Auditor Blue & Co. & KPPA
11/28/2021	<b>ACFR loaded on Board Books</b>	Accounting
11/28/2021	<b>CHECKPOINT FOR CHANGES</b>	RA, SH, CD, AC, KC
12/1/2021	<b>CERS Board approves final audit report</b> (External Auditor Blue & Co. Final Audit Report Released.)	External Auditor Blue & Co.
12/2/2021	<b>KPPA Board of Directors approves final audit report</b> (External Auditor Blue & Co. Final Audit Report Released)	External Auditor Blue & Co.
12/2/2021	<b>KRS Board approves final audit report</b> (External Auditor Blue & Co. Final Audit Report Released)	External Auditor Blue & Co.
12/6/2021	Results of subsequent events between the component unit or fund opinion date and ACFR date reported to <b>ACFR AIC</b> .	External Auditor Blue & Co. & KPPA
12/15/2021	SAFR to Printer	Communications

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## 2021 ACFR - SAFR Calendar **DRAFT**

Planned End Date	Task	Owner
12/19/2021	Updates for any Board Recommendations/ACFR published on KPPA website	Communications
1/6/2021	SAFR & Cover Letter Delivered to Legislators	Executive Director
1/7/2021	SAFR Posted to KPPA Website & Social Media Link	Communications

- RA - Rebecca Adkins
- CD - Connie Davis
- KC - Kristen Coffey
- SH - Steven Herbert
- AC - Ann Case

<b>Combining Statement of Fiduciary Net Position - Pension Funds</b>									
As of June 30, 2021 with Comparative Totals as of June 30, 2020 (\$ in Thousands) (Unaudited)									
ASSETS	CERS		KERS		SPRS	KPPA TOTAL		Percentage of Change	Note
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous		2021	2020		
<b>CASH AND SHORT-TERM INVESTMENTS</b>									
Cash Deposits	\$274	\$70	\$263	\$50	\$55	\$712	\$609	16.91%	1
Short-term Investments	354,401	131,684	362,327	54,153	33,180	935,745	935,267	0.05%	
<b>Total Cash and Short-term Investments</b>	<b>354,675</b>	<b>131,754</b>	<b>362,590</b>	<b>54,203</b>	<b>33,235</b>	<b>936,457</b>	<b>935,876</b>		
<b>RECEIVABLES</b>									
Accounts Receivable	70,560	17,763	46,945	3,748	8,282	147,299	147,337	-0.03%	
Accounts Receivable - Investments	111,066	38,148	42,744	11,325	4,843	208,125	148,651	40.01%	2
<b>Total Receivables</b>	<b>181,626</b>	<b>55,911</b>	<b>89,688</b>	<b>15,073</b>	<b>13,125</b>	<b>355,423</b>	<b>295,988</b>		
<b>INVESTMENTS, AT FAIR VALUE</b>									
Core Fixed Income	1,065,844	365,971	672,360	111,678	77,276	2,293,130	2,387,689	-3.96%	
Public Equities	4,019,814	1,354,270	984,671	396,548	122,675	6,877,977	4,780,089	43.89%	3
Private Equities	710,086	238,414	202,161	65,348	19,384	1,235,393	1,051,883	17.45%	4
Specialty Credit	1,421,018	485,653	505,214	147,034	58,694	2,617,612	1,998,223	31.00%	5
Derivatives	(123)	(33)	84	(4)	(9)	(84)	7,466	-101.13%	6
Absolute Return	-	-	-	-	-	-	175,389	-100.00%	7
Real Return	553,862	186,784	182,999	52,955	21,541	998,142	689,769	44.71%	8
Opportunistic	230,926	76,341	67,526	20,935	8,341	404,069	314,576	28.45%	9
Real Estate	344,816	110,311	109,064	32,413	13,611	610,214	573,313	6.44%	
<b>Total Investments, at Fair Value</b>	<b>8,346,242</b>	<b>2,817,710</b>	<b>2,724,078</b>	<b>826,907</b>	<b>321,513</b>	<b>15,036,451</b>	<b>11,978,397</b>		
Securities Lending Collateral Invested	231,593	78,524	81,365	23,408	9,345	424,235	236,155	79.64%	10
<b>CAPITAL/INTANGIBLE ASSETS</b>									
Capital Assets	1,701	153	929	91	11	2,885	2,885	0.00%	
Intangible Assets	9,961	827	5,920	494	100	17,301	17,301	0.00%	
Accumulated Depreciation	(1,708)	(154)	(932)	(92)	(12)	(2,896)	(2,826)	2.48%	
Accumulated Amortization	(9,607)	(819)	(5,603)	(482)	(114)	(16,624)	(15,741)	5.61%	
<b>Total Capital Assets</b>	<b>347</b>	<b>8</b>	<b>314</b>	<b>12</b>	<b>(15)</b>	<b>666</b>	<b>1,619</b>		
<b>Total Assets</b>	<b>9,114,483</b>	<b>3,083,907</b>	<b>3,258,036</b>	<b>919,603</b>	<b>377,204</b>	<b>16,753,232</b>	<b>13,448,035</b>		
<b>LIABILITIES</b>									
Accounts Payable	8,677	1,119	3,720	385	82	13,983	12,601	10.97%	11
Investment Accounts Payable	203,549	69,842	87,932	20,881	10,131	392,335	338,061	16.05%	12
Securities Lending Collateral	231,593	78,524	81,365	23,408	9,345	424,235	236,155	79.64%	13
<b>Total Liabilities</b>	<b>443,818</b>	<b>149,486</b>	<b>173,016</b>	<b>44,674</b>	<b>19,559</b>	<b>830,553</b>	<b>586,817</b>		
<b>Total Fiduciary Net Position Restricted for Pension Benefits</b>	<b>\$8,670,665</b>	<b>\$2,934,421</b>	<b>\$3,085,020</b>	<b>\$874,928</b>	<b>\$357,645</b>	<b>\$15,922,679</b>	<b>\$12,861,218</b>		
<b>NOTE - Variance Explanation</b>									
1) Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.									
2) The increase in Accounts Receivables is due to pending trades.									
3) The increase in Public Equities is due to additional funding and positive market conditions resulting in increased market values.									
4) The increase in Private Equity is a result of positive market conditions resulting in increased market values.									
5) The increase in Specialty Credit is due to additional funding and positive market conditions increasing market values.									
6) Variance is a result of hedging and arbitration of risk within the portfolios.									
7) The decline in Absolute Return is a result of the merging of the Absolute Return asset class with the Real Return asset class.									
<b>NOTE - Variance Explanation continued on next page.</b>									



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8) *The increase in Real Return is a result of the merging of the Absolute Return asset class with the Real Return asset class and positive market conditions resulting in increased market values.*

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9) *The increase in Opportunistic is due to additional funding and positive market conditions increasing market values.*

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10) *Variance is a result of the demands of the Securities Lending Program.*

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11) *The decrease in Accounts Payable is due to a decrease in outstanding employer reporting credit invoices.*

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12) *The increase in Accounts Payable is due to pending trades.*

---

13) *Variance is a result of the demands of the Securities Lending Program.*

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*Differences due to rounding.*

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## Combining Statement of Changes In Fiduciary Net Position - Pension Funds

For the fiscal year ending June 30, 2021, with Comparative Totals as of June 30, 2020 (\$ in Thousands) (Unaudited)

	CERS	CERS	KERS	KERS	SPRS	KPPA Total		Percentage of Change	Note
	Non-Hazardous	Hazardous	Non-Hazardous			2021	2020		
<b>ADDITIONS</b>									
Member Contributions	\$165,698	\$62,367	\$90,202	\$19,961	\$4,752	\$342,979	\$353,360	-2.94%	
Employer Contributions	472,196	172,089	958,580	62,181	59,263	1,724,309	1,709,543	0.86%	
General Fund Appropriations	-	-	-	-	384	384	1,086	-64.65%	1
Pension Spiking Contributions	32	116	52	18	4	222	370	-39.83%	2
Health Insurance Contributions (HB1)	(1)	2	(8)	3	-	(4)	12	-131.12%	3
Employer Cessation Contributions	-	-	175,600	-	-	175,600	20	N/A	4
<b>Total Contributions</b>	<b>637,925</b>	<b>234,574</b>	<b>1,224,426</b>	<b>82,164</b>	<b>64,402</b>	<b>2,243,491</b>	<b>2,064,391</b>		
<b>INVESTMENT INCOME</b>									
From Investing Activities									
Net Appreciation (Depreciation) in FV of Investments									
Net Appreciation (Depreciation) in FV of Investments	1,648,520	554,881	477,808	160,979	56,080	2,898,269	(98,080)	3055.01%	5
Interest/Dividends	218,068	73,399	69,458	21,481	8,212	390,618	288,523	35.39%	6
Total Investing Activities Income	1,866,588	628,280	547,267	182,460	64,293	3,288,887	190,444		
Less: Investment Expense	36,271	12,081	9,462	3,450	1,245	62,508	50,740	23.19%	7
Less: Performance Fees	46,853	15,731	9,618	4,166	1,113	77,482	2,367	3173.54%	8
Net Income from Investing Activities	1,783,464	600,467	528,187	174,843	61,936	3,148,897	137,337		
From Securities Lending Activities									
Securities Lending Income	512	176	174	53	21	935	5,576		
Less: Securities Lending Borrower Rebates	(391)	(134)	(122)	(40)	(15)	(702)	3,052		
Less: Securities Lending Agent Fees	135	46	44	14	5	245	327		
Net Income from Securities Lending	767	263	252	79	31	1,392	2,197	-36.64%	9
<b>Net Investment Income</b>	<b>1,784,231</b>	<b>600,730</b>	<b>528,439</b>	<b>174,922</b>	<b>61,966</b>	<b>3,150,289</b>	<b>139,534</b>		
<b>Total Additions</b>	<b>2,422,156</b>	<b>835,304</b>	<b>1,752,865</b>	<b>257,086</b>	<b>126,368</b>	<b>5,393,780</b>	<b>2,203,924</b>		
<b>DEDUCTIONS</b>									
Benefit Payments	826,749	289,999	1,009,502	73,888	63,249	2,263,388	2,205,859	2.61%	
Refunds	13,862	4,662	8,953	4,380	273	32,130	33,511	-4.12%	
Administrative Expenses	21,769	1,910	11,621	1,255	245	36,800	37,669	-2.31%	
<b>Total Deductions</b>	<b>862,380</b>	<b>296,572</b>	<b>1,030,075</b>	<b>79,523</b>	<b>63,767</b>	<b>2,332,318</b>	<b>2,277,039</b>		
Net Increase (Decrease) in Fiduciary Net Position Restricted for Pension Benefits	1,559,776	538,733	722,789	177,563	62,601	3,061,462	(73,115)		
<b>Total Fiduciary Net Position Restricted for Pension Benefits</b>									
<b>Beginning of Period</b>	<b>7,110,889</b>	<b>2,395,688</b>	<b>2,362,231</b>	<b>697,366</b>	<b>295,044</b>	<b>12,861,218</b>	<b>12,934,332</b>		
<b>End of Period</b>	<b>\$8,670,665</b>	<b>\$2,934,421</b>	<b>\$3,085,020</b>	<b>\$874,928</b>	<b>\$357,645</b>	<b>\$15,922,679</b>	<b>\$12,861,218</b>		

### NOTE - Variance Explanation

- 1) General Fund Appropriations have significantly decreased in FY 2021.
  - 2) Pension Spiking contributions decreased due to a change in statute. Pension spiking is now the member's responsibility.
  - 3) Health Insurance Contributions will continue to decrease in the Pension Funds, as they are now qualified in the Insurance Fund.
  - 4) Employer Cessation will vary by year.
  - 5) The increase in Net Appreciation in Fair Value of Investments is a result of favorable market conditions, particularly in the public equity portfolio.
  - 6) The increase in Interest/Dividends is due to increased income from Private Equity, Real Estate, and Specialty Credit asset classes
  - 7) The increase in Investment Expense is due to higher market values.
  - 8) The increase in Performance fees is due to favorable market conditions resulting in higher performance fees.
  - 9) Variance is a result of the demand of the Securities Lending Program.
- Differences due to rounding.

<b>Combining Statement of Fiduciary Net Position - Insurance Fund</b>									
As of June 30, 2021, with Comparative Totals as of June 30, 2020 (\$ In Thousands) (Unaudited)									
ASSETS	CERS	CERS	KERS	KERS	SPRS	KPPA Total		Percentage of Change	Note
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous		2021	2020		
<b>CASH AND SHORT-TERM INVESTMENTS</b>									
Cash Deposits	\$117	\$51	\$141	\$59	\$48	\$416	\$206	102.01%	1
Short-term Investments	190,744	76,433	127,774	23,095	11,453	429,500	320,444	34.03%	2
<b>Total Cash and Short-term Investments</b>	<b>190,861</b>	<b>76,483</b>	<b>127,915</b>	<b>23,154</b>	<b>11,502</b>	<b>429,916</b>	<b>320,650</b>		
<b>RECEIVABLES</b>									
Accounts Receivable	15,690	4,690	18,953	371	798	40,502	39,786	1.80%	
Investment Accounts Receivable	38,391	19,528	17,102	7,773	2,983	85,777	47,315	81.29%	3
<b>Total Receivables</b>	<b>54,082</b>	<b>24,218</b>	<b>36,055</b>	<b>8,143</b>	<b>3,780</b>	<b>126,279</b>	<b>87,101</b>		
<b>INVESTMENTS, AT FAIR VALUE</b>									
Core Fixed Income	379,725	199,916	172,044	75,368	29,576	856,629	983,506	-12.90%	4
Public Equities	1,375,705	707,548	616,647	277,709	108,021	3,085,629	2,123,695	45.30%	5
Specialty Credit	529,508	262,287	218,770	112,704	40,690	1,163,959	873,084	33.32%	6
Private Equities	279,970	157,517	68,950	54,085	24,456	584,979	497,235	17.65%	7
Derivatives	21	3	27	(0)	1	53	2,152	-97.56%	8
Absolute Return	-	-	-	-	-	-	71,915	-100.00%	9
Real Return	189,953	99,768	77,866	39,778	15,305	422,669	295,769	42.91%	10
Opportunistic	93,243	50,798	33,337	20,724	7,653	205,754	160,184	28.45%	11
Real Estate	118,422	64,920	37,138	27,302	10,434	258,215	240,536	7.35%	
<b>Total Investments, at Fair Value</b>	<b>2,966,546</b>	<b>1,542,756</b>	<b>1,224,778</b>	<b>607,671</b>	<b>236,136</b>	<b>6,577,887</b>	<b>5,248,075</b>		
Securities Lending Collateral Invested	79,559	40,872	33,994	15,934	6,244	176,602	118,858	48.58%	12
<b>Total Assets</b>	<b>3,291,048</b>	<b>1,684,330</b>	<b>1,422,743</b>	<b>654,902</b>	<b>257,662</b>	<b>7,310,684</b>	<b>5,774,684</b>		
<b>LIABILITIES</b>									
Accounts Payable	292	80	80	8	2	461	378	22.11%	13
Investment Accounts Payable	69,412	35,567	31,400	14,071	5,412	155,862	130,782	19.18%	14
Securities Lending Collateral	79,559	40,872	33,994	15,934	6,244	176,602	118,858	48.58%	15
<b>Total Liabilities</b>	<b>149,262</b>	<b>76,518</b>	<b>65,474</b>	<b>30,013</b>	<b>11,658</b>	<b>332,925</b>	<b>250,018</b>		
<b>Total Fiduciary Net Position Restricted for OPEB</b>	<b>\$3,141,786</b>	<b>\$1,607,811</b>	<b>\$1,357,268</b>	<b>\$624,889</b>	<b>\$246,004</b>	<b>\$6,977,759</b>	<b>\$5,524,666</b>		

**NOTE - Variance Explanation**

- 1) Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
  - 2) Short Term Investments is primarily comprised of the cash on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow.
  - 3) The increase in Investment Accounts Receivables is due to pending trades.
  - 4) The decrease in Core Fixed Income is a result of movement of funds from core fixed income to public equity.
  - 5) The increase in Public Equities is due to additional funding and positive market conditions resulting in increased market values.
  - 6) The increase in Specialty Credit is due to additional funding and positive market conditions increasing market values.
  - 7) The increase in Private Equity is due to positive market conditions resulting in increased market values
  - 8) Variance is a result of hedging and arbitration of risk within the portfolios.
  - 9) The decline in Absolute Return is a result of the merging of the Absolute Return asset class with the Real Return asset class.
  - 10) The increase in Real Return is a result of the merging of the Absolute Return asset class with the Real Return asset class and positive market conditions resulting in increased market values.
  - 11) The increase in Opportunistic is due to additional funding and positive market conditions increasing market values.
  - 12) Variance is a result of the demands of the Securities Lending Program.
  - 13) The increase in Accounts Payable is due to an increase in outstanding employer reporting (insurance) invoices.
  - 14) The increase in Investment Accounts Payable is due to pending trades.
  - 15) Variance is a result of the demands of the Securities Lending Program.
- Differences due to rounding.

Combining Statement of Changes In Fiduciary Net Position - Insurance Fund									
For the fiscal year ending June 30, 2021, with Comparative Totals as of June 30, 2020 (\$ In Thousands) (Unaudited)									
	CERS	CERS	KERS	KERS	SPRS	KPPA Total		Percentage of Change	Note
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous		2021	2020		
<b>ADDITIONS</b>									
Employer Contributions	\$124,697	\$58,451	\$153,570	\$23	\$9,285	\$346,027	\$369,574	-6.37%	
Medicare Drug Reimbursement	3	-	-	0	-	3	7	-58.44%	1
Insurance Premiums	555	(149)	182	(11)	(14)	563	730	-22.89%	2
Humana Gain Share Payment	20,676	2,990	17,167	1,253	811	42,896	-		
Retired Re-employed Healthcare	5,206	1,348	4,705	1,277	-	12,535	11,481	9.18%	
Health Insurance Contributions (HB1)	13,614	3,096	10,471	1,164	209	28,554	23,142	23.39%	3
Employer Cessation Contributions	-	-	28,400	-	-	28,400	25		
<b>Total Contributions</b>	<b>164,751</b>	<b>65,736</b>	<b>214,496</b>	<b>3,705</b>	<b>10,290</b>	<b>458,978</b>	<b>404,960</b>		
<b>INVESTMENT INCOME</b>									
From Investing Activities									
Net Appreciation (Depreciation) in FV of Investments	578,584	302,533	240,117	118,102	46,991	1,286,326	(81,918)	-1670.26%	4
Interest/Dividends	73,374	38,177	29,240	15,152	5,825	161,770	125,567	28.83%	5
Total Investing Activities Income	651,958	340,710	269,357	133,254	52,816	1,448,096	43,649		
Less: Investment Expense	13,895	7,395	4,836	2,815	1,135	30,077	19,790	51.98%	6
Less: Performance Fees	18,739	10,634	6,044	4,018	1,651	41,085	1,484	2668.96%	7
Net Income from Investing Activities	619,324	322,681	258,477	126,421	50,031	1,376,934	22,374		
From Securities Lending Activities									
Securities Lending Income	182	92	79	36	14	402	2,356		
Less: Securities Lending Borrower Rebates	(135)	(68)	(60)	(27)	(11)	(300)	1,326		
Less: Securities Lending Agent Fees	47	24	21	9	4	105	141		
Net Income from Securities Lending	269	136	118	53	21	597	889	-32.85%	8
<b>Net Investment Income</b>	<b>619,593</b>	<b>322,817</b>	<b>258,595</b>	<b>126,475</b>	<b>50,051</b>	<b>1,377,531</b>	<b>23,263</b>		
<b>Total Additions</b>	<b>784,343</b>	<b>388,553</b>	<b>473,091</b>	<b>130,180</b>	<b>60,342</b>	<b>1,836,508</b>	<b>428,223</b>		
<b>DEDUCTIONS</b>									
Healthcare Premiums Subsidies	136,263	85,152	119,897	19,800	14,487	375,599	375,793	-0.05%	
Administrative Expenses	884	466	814	118	71	2,353	2,406	-2.24%	
Self-Funded Healthcare Costs	3,462	257	1,609	112	25	5,465	5,987	-8.72%	
<b>Total Deductions</b>	<b>140,608</b>	<b>85,874</b>	<b>122,320</b>	<b>20,029</b>	<b>14,583</b>	<b>383,416</b>	<b>384,186</b>		
Net Increase (Decrease) in Fiduciary Net Position Restricted for OPEB	643,735	302,679	350,770	110,150	45,758	1,453,093	44,036		
<b>Total Fiduciary Net Position Restricted for OPEB</b>									
<b>Beginning of Period</b>	<b>2,498,051</b>	<b>1,305,132</b>	<b>1,006,498</b>	<b>514,739</b>	<b>200,246</b>	<b>5,524,666</b>	<b>5,480,639</b>		
<b>End of Period</b>	<b>\$3,141,786</b>	<b>\$1,607,811</b>	<b>\$1,357,268</b>	<b>\$624,889</b>	<b>\$246,004</b>	<b>\$6,977,759</b>	<b>\$5,524,675</b>		

**NOTE - Variance Explanation**

- 1) Medicare drug reimbursement payments fluctuate year to year based on claims reviewed.
- 2) The decrease in Insurance Premiums received is due to refunds processed to hazardous retirees for premiums paid for dependents that should have been covered by KRS.
- 3) Health Insurance Contributions will continue to increase in the Insurance Fund, as they are now qualified in the Insurance Fund.
- 4) The increase in Net Appreciation in Fair Value of Investments is a result of favorable market conditions resulting in increased market values
- 5) The increase in Interest/Dividends is primarily a result of increased income from Specialty Credit.
- 6) The management fees are up due to the increase in market values.

**NOTE - Variance Explanation continued on next page.**

*7) The increase in performance fees is due to favorable market conditions resulting in higher than usual returns .*

*8) Variance is a result of the demand of the Securities Lending Program.*

*Differences due to rounding.*



## Kentucky Public Pensions Authority

### Internal Audit Administration



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To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA *KNC*  
Division Director, Internal Audit Administration

Date: August 26, 2021

Subject: Introduction of Internal Audit Staff

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The Division of Internal Audit is fully staffed with four employees. The responsibilities of each role are described in the Charter for the Division of Internal Audit Administration. Below is a short biography for each Internal Audit employee. This is presented for informational purposes only.

#### **Kristen Coffey – Division Director**

I have been with Kentucky Public Pensions Authority (KPPA) (formerly Kentucky Retirement Systems (KRS)) for a little over three years. In total, I have over 17 years of internal audit experience; 14 of those years have been in the government sector. I am originally from White House, Tennessee (a small town about 25 miles north of Nashville). I attended Western Kentucky University. I graduated in December 2003 with a Bachelor of Science in Accounting and a minor in Psychology. I began my career in April 2004 as a Legislative Auditor with the Tennessee Comptroller of the Treasury. With this job, I audited the various county governments throughout Middle and Eastern Tennessee. In October 2006, I moved to Kentucky and took a job with the Office of Inspector General at the Cabinet for Health and Family Services (CHFS) where I audited health departments across the Commonwealth. My office was restructured in February 2008, which allowed me the opportunity to take a position with Toyota Tsusho America Inc. (the company that supplies steel to Toyota Manufacturing). While at Toyota Tsusho, I was responsible for auditing their many business units throughout North America – steel processing, metal recycling, food shipment, car imports, etc. In May 2011, a former CHFS co-worker reached out to me about

a job opening with the Kentucky Transportation Cabinet. I accepted the position and remained there until joining KRS in 2018. My professional affiliations and memberships include the Institute for Internal Auditors, Association of Public Pension Fund Auditors, and Association of Government Accountants. I am currently studying to become a Certified Fraud Examiner.

### **Jerry Yang - Internal Auditor**

I joined Kentucky state government almost six years ago and have been with KPPA (formerly KRS) for two years. I am originally from Taipei, Taiwan and I moved to Kentucky when I was 15 years old. I have a Bachelor's degree in Accounting from the University of Kentucky and a Master's degree in Business Administration from Eastern Kentucky University. I began my career with the Department of Revenue as a Revenue Program Officer and was promoted to Revenue Auditor shortly thereafter. While at the Department of Revenue, I audited state tax returns for corporations and pass-through entities that conduct business in Kentucky. I was responsible for issuing notices for any state tax owed and processing refunds for any state tax overpayment. I also worked with the Internal Revenue Service, Kentucky Secretary of State, and other Kentucky state agencies to ensure businesses complied with Federal and State tax regulations. I joined KRS as an Internal Auditor at the end of 2018.

### **Madeline Perry - Retirement Investment Specialist**

I joined KPPA in September 2018 as a Disability and Survivor Benefits Counselor. I joined the Division of Internal Audit on March 16, 2021. As a retirement counselor, I calculated and adjusted benefits, walked members through the application process, prepared files for our medical review board to review, and prepared affidavits for disability hearings. I graduated from ECU in 2017 with a Bachelor's degree in Statistics and Spanish. While at ECU, I was a lab assistant and tutor for the Mathematics department. I was also a math tutor for the Center of Student Accessibility, which assisted students with learning disabilities and other handicaps.

**Matthew Daugherty - Auditor I**

I joined KPPA on July 16, 2021, filling the vacancy of the Auditor I position. Prior to joining the Division of Internal Audit, I earned my Bachelor's of Business Administration in Accounting from Eastern Kentucky University in May 2018; immediately following graduation I worked through Robert Half's Accountemps agency filling the role of an accountant in industries involved in paint production, automotive part manufactory, and ultimately settling into a position at Gray Ohio Valley, a subsidiary company of Gray Construction, in October 2019, where I worked until the Covid-19 pandemic impacted our company, resulting in an amicable separation in April 2020.





# Kentucky Public Pensions Authority

## Internal Audit Administration



To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA *KNC*  
 Division Director, Internal Audit Administration

Date: August 26, 2021

Subject: Internal Audit Budget

Account Number	Account Name	FYE 2021 Budget	FY 2021 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries*	\$ 210,000.00	\$ 191,539.21	\$ 18,460.79	8.79%
121	Employer Paid FICA	16,065.00	14,094.13	1,970.87	12.27%
122	Employer Paid Retirement	175,203.00	160,944.58	14,258.42	8.14%
123	Employer Paid Health Insurance*	41,000.00	30,910.12	10,089.88	24.61%
124	Employer Paid Life Insurance*	38.00	36.00	2.00	5.26%
125	Employer Paid HRA	-	-	-	-
133T	Tuition Assistance	2,500.00	-	2,500.00	100.00%
259T	Conference Expenses	1,500.00	720.00	780.00	52.00%
361T	Travel - In State	500.00	-	500.00	100.00%
362T	Travel - Out State	450.00	-	450.00	100.00%
381T	Dues & Subscriptions	5,000.00	2,086.97	2,913.03	58.26%
399T	Miscellaneous	200.00	-	200.00	100.00%
	<b>Total</b>	<b>\$ 452,456.00</b>	<b>\$ 400,331.01</b>	<b>\$ 52,124.99</b>	<b>11.52%</b>

\* June 30 payroll is deferred to July 1. As a result, the 1st quarter includes one extra payroll and the 4th quarter includes one less payroll.

**Conference Expenses**

\$600 - Association of Governmental Accountants (AGA) training for Kristen and Jared (1st Quarter)  
 \$120 - AGA training for all Internal Audit Staff (2nd Quarter)

**Dues and Subscriptions**

\$315 - AGA membership renewal for Kristen, Jared, and Jerry (3rd Quarter)  
 \$50 - AGA membership for Madeline (4th Quarter)  
 \$500 - Renewal of KPPA membership to Association of Public Pension Fund Auditors (4th Quarter)  
 \$1,221.97 - Certified Fraud Examiner membership and materials for Kristen (4th Quarter)



## Kentucky Public Pensions Authority

### Internal Audit Administration



Kentucky Public  
Pensions Authority

### Independence Statement– Fiscal Year 2022

The International Professional Practices Framework (excerpted):

- 1100** The internal audit activity must be independent and internal auditors must be objective in performing their work.
- 1110** The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
  - 1110.A1** The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.
- 1111** The chief audit executive must communicate and interact directly with the board.
- 1112** Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.
- 1120** Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
- 1130** If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
  - 1130.A1** Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity which the internal auditor had responsibility within the previous year.
  - 1130.A2** Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.
  - 1130.A3** The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.
  - 1130.C1** Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.
  - 1130.C2** If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Impairments to independence and objectivity must be reported. Please answer all of the following questions. Any “Yes” responses should be explained in detail in third column. Impairments are not limited to the examples below; therefore, any other situation that meets the definition of an impairment should be listed on page three.

KPPA – Kentucky Public Pensions Authority  
 CERS – County Employees Retirement System  
 KRS – Kentucky Retirement Systems

Question	Yes or No	Explanation for Yes Response
1. Have you or any of the following had any financial interest, direct or indirect, in any transaction with KPPA, CERS, and/or KRS?	No	
a. Any member of your immediate family (defined as your spouse, children, siblings, parents, and parents of spouses).	No	
b. Any person, firm, etc. in which you have a substantial economic interest.	No	
c. Any firm or corporation of which you are an officer, director, trustee, partner, or employee.	No	
d. Any person for whom you hope, expect, or are negotiating to work.	No	
e. Any person with whom you have any contact or who owes you money and is, therefore, able to affect your economic interests.	No	
2. Have you accepted or solicited anything of value in return for promises of favorable action on any matter that might be the subject of an audit?	No	
3. Are any members of your immediate family currently employed by KPPA, CERS, and/or KRS or have been in the previous three years?	No	
4. Do you have any official, professional, personal, or financial relationships that might cause you to limit the extent of any inquiry, to limit disclosure, or to weaken or slant audit findings in any way?	No	
5. Do you have any preconceived ideas towards individuals, groups, organizations, or objectives of a particular program that could bias an audit?	No	
6. Are you currently or have you previously maintained the official accounting records of a fund, agency, or program of KRS?	No	
7. Did you have any previous responsibilities for decision-making on a program or process team that would have an effect on the current operations of KPPA, CERS, and/or KRS?	No	
8. Did you have any previous authority at KPPA, CERS, and/or KRS to approve the payment of direct payment requisitions, payrolls, claims, or any other expenditures?	No	

In relation to my responsibilities as an employee of the Kentucky Public Pensions Authority – Division of Internal Audit Administration, there are no impairments (unless indicated on page 2 or listed below) to my professional independence as defined by the International Professional Practices Framework with respect to the responsibilities of the Division of Internal Audit Administration, my public employment, and, specifically, units of state and local government and quasi-public corporations.

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics. I have also reviewed and understood the policies outlined in the Internal Audit Policies Manual.

Please list any personal impairment not discussed on page 2 or answer “None”:

None

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Kristen N. Coffey

*Employee Name (Please Print)*



*Employee Signature*

April 7, 2021

*Date*

/s/ Rebecca H Adkins

*Supervisor Signature*

April 26, 2021

*Date*

**Please note:** This independence statement is only intended to list individual threats to independence during the period of the professional engagement, which begin with the initial engagement letter or other agreement to perform an audit or begin to perform an audit, whichever is earlier. Documentation of non-audit services, if any, will be included in the corresponding audit documentation. In addition, if the individual auditor encounters a threat to independence, the individual auditor is required to report the threat to his or her immediate supervisor for timely implementation of safeguards to eliminate or reduce the threat to an acceptable level.



## Kentucky Public Pensions Authority

### Internal Audit Administration



Kentucky Public  
Pensions Authority

### Independence Statement– Fiscal Year 2022

The International Professional Practices Framework (excerpted):

- 1100** The internal audit activity must be independent and internal auditors must be objective in performing their work.
- 1110** The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
  - 1110.A1** The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.
- 1111** The chief audit executive must communicate and interact directly with the board.
- 1112** Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.
- 1120** Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
- 1130** If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
  - 1130.A1** Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity which the internal auditor had responsibility within the previous year.
  - 1130.A2** Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.
  - 1130.A3** The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.
  - 1130.C1** Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.
  - 1130.C2** If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Impairments to independence and objectivity must be reported. Please answer all of the following questions. Any “Yes” responses should be explained in detail in third column. Impairments are not limited to the examples below; therefore, any other situation that meets the definition of an impairment should be listed on page three.

KPPA – Kentucky Public Pensions Authority  
 CERS – County Employees Retirement System  
 KRS – Kentucky Retirement Systems

Question	Yes or No	Explanation for Yes Response
1. Have you or any of the following had any financial interest, direct or indirect, in any transaction with KPPA, CERS, and/or KRS?	No	
a. Any member of your immediate family (defined as your spouse, children, siblings, parents, and parents of spouses).	No	
b. Any person, firm, etc. in which you have a substantial economic interest.	No	
c. Any firm or corporation of which you are an officer, director, trustee, partner, or employee.	No	
d. Any person for whom you hope, expect, or are negotiating to work.	No	
e. Any person with whom you have any contact or who owes you money and is, therefore, able to affect your economic interests.	No	
2. Have you accepted or solicited anything of value in return for promises of favorable action on any matter that might be the subject of an audit?	No	
3. Are any members of your immediate family currently employed by KPPA, CERS, and/or KRS or have been in the previous three years?	No	
4. Do you have any official, professional, personal, or financial relationships that might cause you to limit the extent of any inquiry, to limit disclosure, or to weaken or slant audit findings in any way?	No	
5. Do you have any preconceived ideas towards individuals, groups, organizations, or objectives of a particular program that could bias an audit?	No	
6. Are you currently or have you previously maintained the official accounting records of a fund, agency, or program of KRS?	No	
7. Did you have any previous responsibilities for decision-making on a program or process team that would have an effect on the current operations of KPPA, CERS, and/or KRS?	No	
8. Did you have any previous authority at KPPA, CERS, and/or KRS to approve the payment of direct payment requisitions, payrolls, claims, or any other expenditures?	No	

In relation to my responsibilities as an employee of the Kentucky Public Pensions Authority – Division of Internal Audit Administration, there are no impairments (unless indicated on page 2 or listed below) to my professional independence as defined by the International Professional Practices Framework with respect to the responsibilities of the Division of Internal Audit Administration, my public employment, and, specifically, units of state and local government and quasi-public corporations.

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics. I have also reviewed and understood the policies outlined in the Internal Audit Policies Manual.

Please list any personal impairment not discussed on page 2 or answer “None”:

None

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Jerry Yang

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*Employee Name (Please Print)*

*/s/ Jerry Yang*

4/7/2021

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*Employee Signature*

*Date*

*Kristen D. Coffey*

4/7/2021

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*Supervisor Signature*

*Date*

**Please note:** This independence statement is only intended to list individual threats to independence during the period of the professional engagement, which begin with the initial engagement letter or other agreement to perform an audit or begin to perform an audit, whichever is earlier. Documentation of non-audit services, if any, will be included in the corresponding audit documentation. In addition, if the individual auditor encounters a threat to independence, the individual auditor is required to report the threat to his or her immediate supervisor for timely implementation of safeguards to eliminate or reduce the threat to an acceptable level.



## Kentucky Public Pensions Authority

### Internal Audit Administration



Kentucky Public  
Pensions Authority

### Independence Statement– Fiscal Year 2021

The International Professional Practices Framework (excerpted):

- 1100** The internal audit activity must be independent and internal auditors must be objective in performing their work.
- 1110** The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
  - 1110.A1** The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.
- 1111** The chief audit executive must communicate and interact directly with the board.
- 1112** Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.
- 1120** Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
- 1130** If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
  - 1130.A1** Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity which the internal auditor had responsibility within the previous year.
  - 1130.A2** Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.
  - 1130.A3** The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.
  - 1130.C1** Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.
  - 1130.C2** If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.



Impairments to independence and objectivity must be reported. Please answer all of the following questions. Any “Yes” responses should be explained in detail in third column. Impairments are not limited to the examples below; therefore, any other situation that meets the definition of an impairment should be listed on page three.

KPPA – Kentucky Public Pensions Authority  
 CERS – County Employees Retirement System  
 KRS – Kentucky Retirement Systems

Question	Yes or No	Explanation for Yes Response
1. Have you or any of the following had any financial interest, direct or indirect, in any transaction with KPPA, CERS, and/or KRS?	No	
a. Any member of your immediate family (defined as your spouse, children, siblings, parents, and parents of spouses).	No	
b. Any person, firm, etc. in which you have a substantial economic interest.	No	
c. Any firm or corporation of which you are an officer, director, trustee, partner, or employee.	No	
d. Any person for whom you hope, expect, or are negotiating to work.	No	
e. Any person with whom you have any contact or who owes you money and is, therefore, able to affect your economic interests.	No	
2. Have you accepted or solicited anything of value in return for promises of favorable action on any matter that might be the subject of an audit?	No	
3. Are any members of your immediate family currently employed by KPPA, CERS, and/or KRS or have been in the previous three years?	No	
4. Do you have any official, professional, personal, or financial relationships that might cause you to limit the extent of any inquiry, to limit disclosure, or to weaken or slant audit findings in any way?	No	
5. Do you have any preconceived ideas towards individuals, groups, organizations, or objectives of a particular program that could bias an audit?	No	
6. Are you currently or have you previously maintained the official accounting records of a fund, agency, or program of KRS?	No	
7. Did you have any previous responsibilities for decision-making on a program or process team that would have an effect on the current operations of KPPA, CERS, and/or KRS?	No	
8. Did you have any previous authority at KPPA, CERS, and/or KRS to approve the payment of direct payment requisitions, payrolls, claims, or any other expenditures?	No	

In relation to my responsibilities as an employee of the Kentucky Public Pensions Authority – Division of Internal Audit Administration, there are no impairments (unless indicated on page 2 or listed below) to my professional independence as defined by the International Professional Practices Framework with respect to the responsibilities of the Division of Internal Audit Administration, my public employment, and, specifically, units of state and local government and quasi-public corporations.

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics. I have also reviewed and understood the policies outlined in the Internal Audit Policies Manual.

Please list any personal impairment not discussed on page 2 or answer “None”:

[I previously work in the Disability and Survivor Benefits branch of KPPA.](#)

[Note from Director – this impairment will be handled by having Ms. Perry refrain from performing an audit of DSB for one year from her starting date with Internal Audit \(3/16/2021\).](#)

Madeline Perry

*Employee Name (Please Print)*

/s/ Madeline Perry

*Employee Signature*

4/7/2021

*Date*



Supervisor Signature

4/7/2021

*Date*

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## Kentucky Public Pensions Authority

### Internal Audit Administration



Kentucky Public  
Pensions Authority

### Independence Statement– Fiscal Year 2022

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a. Any member of your immediate family (defined as your spouse, children, siblings, parents, and parents of spouses).	No	
b. Any person, firm, etc. in which you have a substantial economic interest.	No	
c. Any firm or corporation of which you are an officer, director, trustee, partner, or employee.	No	
d. Any person for whom you hope, expect, or are negotiating to work.	No	
e. Any person with whom you have any contact or who owes you money and is, therefore, able to affect your economic interests.	No	
2. Have you accepted or solicited anything of value in return for promises of favorable action on any matter that might be the subject of an audit?	No	
3. Are any members of your immediate family currently employed by KPPA, CERS, and/or KRS or have been in the previous three years?	No	
4. Do you have any official, professional, personal, or financial relationships that might cause you to limit the extent of any inquiry, to limit disclosure, or to weaken or slant audit findings in any way?	No	
5. Do you have any preconceived ideas towards individuals, groups, organizations, or objectives of a particular program that could bias an audit?	No	
6. Are you currently or have you previously maintained the official accounting records of a fund, agency, or program of KRS?	No	
7. Did you have any previous responsibilities for decision-making on a program or process team that would have an effect on the current operations of KPPA, CERS, and/or KRS?	No	
8. Did you have any previous authority at KPPA, CERS, and/or KRS to approve the payment of direct payment requisitions, payrolls, claims, or any other expenditures?	No	

In relation to my responsibilities as an employee of the Kentucky Public Pensions Authority – Division of Internal Audit Administration, there are no impairments (unless indicated on page 2 or listed below) to my professional independence as defined by the International Professional Practices Framework with respect to the responsibilities of the Division of Internal Audit Administration, my public employment, and, specifically, units of state and local government and quasi-public corporations.

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Note from Director – this impairment will be handled by having Ms. Perry refrain from performing an audit of DSB for one year from her starting date with Internal Audit (3/16/2021).

/s/ Madeline Perry

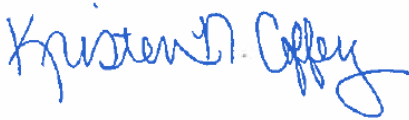
Employee Name (Please Print)

/s/ Madeline Perry

Employee Signature

4/7/2021

Date



Supervisor Signature

4/7/2021

Date

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## Kentucky Public Pensions Authority

### Internal Audit Administration



#### Independence Statement– Fiscal Year 2022

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b. Any person, firm, etc. in which you have a substantial economic interest.	No	
c. Any firm or corporation of which you are an officer, director, trustee, partner, or employee.	No	
d. Any person for whom you hope, expect, or are negotiating to work.	No	
e. Any person with whom you have any contact or who owes you money and is, therefore, able to affect your economic interests.	No	
2. Have you accepted or solicited anything of value in return for promises of favorable action on any matter that might be the subject of an audit?	No	
3. Are any members of your immediate family currently employed by KPPA, CERS, and/or KRS or have been in the previous three years?	No	
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Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics. I have also reviewed and understood the policies outlined in the Internal Audit Policies Manual.

Please list any personal impairment not discussed on page 2 or answer “None”:

None

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Matthew Daugherty

*Employee Name (Please Print)*

/s/Matthew Daugherty

*Employee Signature*

07/28/2021

*Date*



Kristin D. Coffey

*Supervisor Signature*

07/28/2021

*Date*

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**Kentucky Public Pensions Authority**

Internal Audit Administration



To: Members of the Joint Audit Committee  
 From: Kristen N. Coffey, CIGA *KNC*  
 Division Director, Internal Audit Administration  
 Date: August 26, 2021  
 Subject: Status of Current Projects

The Division of Internal Audit Administration is currently working on 18 projects: 6 Audit/Review and 12 Other Projects. Internal Audit has completed 2 projects for the fiscal year: 1 Audit/Review and 1 Other Project. Internal Audit has 7 planned projects that have not yet been assigned to an auditor.

For fiscal year 2021, Internal Audit completed 28 projects: 4 Audits/Reviews, 5 Investment Compliance projects\*, and 19 Other Projects.  
 - It took an average of 161 days or 23 weeks to complete audits and investment compliance items.  
 - It took an average of 94 days or 13 weeks to complete other projects.

**\* All future Investment Compliance activities will be performed by the Investment Research Analyst within the Office of Investments. Internal Audit will continue to perform audits and reviews of investment processes.**

<b>In Process</b>			
<b>Type</b>	<b>Name</b>	<b>Description</b>	<b>Status</b>
Audits/Reviews	2021-3 System Access Review	<b>Internal Auditor</b> will review access employees have to various IT systems and determine if the access is reasonable based on access granted to employees in similar roles. Ensure proper policies are followed when system access is granted, removed, and/or changed.	As of 8/9/2021: Audit is in review.
Audits/Reviews	2022-1 Plan Liquidity and Available Cash Balance	<b>Investment Retirement Specialist</b> will review the process for ensuring there is enough cash on hand to meet daily investment activities.	This project has been put on hold until Risk Assessment is completed.
Audits/Reviews	2022-2 Waived Employer Penalties	<b>Internal Auditor</b> will ensure the process for waiving employer penalties is documented and being followed.	As of 8/9/2021: Planning work has begun.
Audits/Reviews	Not yet started: KPPA Inventory	<b>Director and Auditor</b> will work with Assistant Director of Procurement and Office Services on establishing inventory procedures and completing an inventory assessment for KPPA.	Work will begin in late summer or fall of 2021.
Audits/Reviews	Not yet started: Accounts Payable Invoice Process	<b>Director and Auditor</b> will review the Accounts Payable Process. This is a follow-up to audit 2019-3.	Work will begin once Matt's initial training is completed.
Audits/Reviews	Not yet started: Review of House Bill 8 Calculations (AUP)	<b>Director</b> will review the procedures to comply with House Bill 8 calculations. Will select a sample and recalculate the liability amount.	Work will begin in fall 2021 or spring 2022
Other Projects	Audit Committee Charter and Internal Audit Charter Updates	<b>Director</b> will update the Audit Charter and Internal Audit Charter to reflect changes effective April 1, 2021.	Sent to Legal: April 2021 Sent to Executive Team: 7/13/2021 Sent to Audit Committee: 8/2/2021 Goal to Approve: 8/26/2021
Other Projects	Review of Procurement Standard Operating Procedures	<b>Director</b> will review Procurement SOPs and provide feedback as needed.	Goal to complete: 9/30/2021
Other Projects	New Auditor Test Project	<b>Auditor</b> is performing a past audit to get familiar with our procedures as well as to learn what types of things to look for during an audit.	Goal to complete: 10/29/2021
Other Projects	Annual Comprehensive Financial Report	<b>IA staff</b> will review all non-investment sections of the ACFR.	Goal to Audit Committee: 10/28/2021
Other Projects	CERS Board Election Policy Update	<b>Director</b> will work on updates to the CERS Board Election Policy. This will start off matching the approved KRS Board Election Policy.	Sent to Executive Team: 7/26/2021 Sent to CERS CEO: 8/9/2021 Goal Approval: December 2021 or February 2022
Other Projects	Process Documentation	<b>Director</b> will ensure all Internal Audit procedures are documented and saved to the KPPA Process Documentation SharePoint site. Eighteen processes need to be documented.  The following procedures still need to be added/update on the Process documentation site: Reviewing the Completion Phase, Audit Follow-up, Recommendation Implementation, Risk Assessment and Audit Plan.	Completed as of 7/13/2021: 14 processes - Engagement Set-up, Planning, Fieldwork, Completion, Reviewing the Planning Phase, Reviewing the Process Matrix, Reviewing the Fieldwork Phase, Recording Time on Projects, Audit Committee Meetings, Trustee Elections, Anonymous Reports, Project Status Tracking, Email Etiquette, and Miscellaneous Items.
Other Projects	Annual Audit Plan	<b>Director</b> will work with Audit Committee, all Boards, all Executive Management, and KPPA Directors to develop a new audit plan.	Initial discussions will occur at the August Audit Committee meeting.
Other Projects	Trustee Application - DocuSign	Director will work with KPPA Division of Enterprise and Technology Services to determine if DocuSign can be used on the Trustee Application. If so, we will work on making this transition.	Goal to Complete: 3/31/2022
Other Projects	KERS 2022 Election	<b>All Internal Audit staff</b> will work with KRS Election team and Election Services Vendor to oversee the KERS 2022 election.	Eight applicants. Waiting on AG opinion on the eligibility of two of the candidates.

Joint Audit Committee - Special Called Meeting - August 26, 2021 - Division of Internal Audit Updates

Other Projects	Management Response to Findings	<b>Director</b> will create a project in Gravity to show all findings made to management and the status of the finding.	Goal to Present to Audit Committee: May 2022 Meeting
Other Projects	Training Videos	<b>Director</b> will record training videos that correspond to the Process Documentation. New auditors will be able to review these upon hire and the videos will be available as a reference to current staff. Ensure all Internal Audit procedures are documented and saved to the KPPA Process Documentation SharePoint site. Eighteen processes need to be documented.	Goal to Complete: 6/30/2022  Completed as of 7/26/2021: One video has been recorded.
Other Projects	QAR Self-Assessment	<b>All Internal Audit staff</b> will work to complete Self-Assessment as required by Internal Audit Standards.	There is no estimate for this item. This will be completed as time and staffing allow.

<b>Completed</b>			
<b>Type</b>	<b>Name</b>	<b>Description</b>	<b>Completed Dates</b>
Audits/ Reviews	2020-1 Procurement and Contract Management	Reviewed procurement and contract management processes for compliance with laws and regulations. Reviewed efficiency of the procurement process.	Completed By: Internal Auditor Final report issued: 8/20/2020 Presented to Audit Committee: 8/27/2020
Audits/ Reviews	2020-2 Reconciliation of Great Plains to eMARS and Coding of Expenditures	Determined if there is a process in place to reconcile Great Plains to eMARS. Determined if there is a process in place to ensure expenditures are properly coded in both Great Plains and eMARS.	Completed By: Internal Auditor Final report issued: 3/11/2021 Presented to Audit Committee: 8/26/2021
Audits/ Reviews	2020-3 KRS Perimeter Park West, Inc. Review FY 2020	Reviewed accuracy and completeness of financial statements and compliance with contracts/agreements. Test 100% of transactions based on prior audit results.	Completed By: Director Final report issued: 9/1/2020 Presented to PPW Board: 9/17/2020
Audits/ Reviews	2020-5 Process Documentation and Established Back-ups (Survey)	Sent a survey to KRS management and inquired as to who has been established as a back-up for key processes and if the procedures for these processes are documented.	Completed By: Director Memorandum Issued: 10/28/2020 Presented to Audit Committee: 11/5/2020
Audits/ Reviews	2021-8 Investment Custodial Fee Payment Process	Reviewed the process for making payments to the Custodial Bank. Ensured payments follow agency process and ensured payments agree to contract with the custodial bank.	Completed By: Retirement Investment Specialist Final Report Issued: 7/29/2021 Presented to Audit Committee: 8/26/2021
Investment Compliance	2020-6 FY 2020 4th Quarter Compliance Report	Prepared of Quarterly Compliance Report	Completed By: Assistant Director Presented to Investment Committee: 8/25/2020
Investment Compliance	2021-1 AUP Number of Investment Transactions	Conducted an Agreed Upon Procedures related to risks associated with the number of investment transactions.	Completed By: Assistant Director Final report issued: 1/19/2020 Presented to Audit Committee: 2/4/2021
Investment Compliance	2021-2 Memorandum Concerning Ratio of Staff to Managers	Determine the ratio of staff to investment managers and accounts.	Completed By: Assistant Director Memorandum Issued: 10/27/2020 Presented to Audit Committee: 11/5/2020
Investment Compliance	2021-4 Review of Quarter Capital Calls 7/1/2018 to 6/30/2020	Reviewed capital calls beginning in fiscal year 2018.	Completed By: Assistant Director Completed: 8/15/2020
Investment Compliance	2021-7 FY 2021 1st Quarter Compliance Report	Prepared of Quarterly Compliance Report	Completed By: Assistant Director Presented to Investment Committee: 2/2/2021
Other Projects	Electronic Balloting RFP	Contract was awarded to complete electronic balloting services for CERS 2021 election.	Completed By: Director and Assistant Director. Final contract loaded in eMARS on 2/26/2020.
Other Projects	HB 484 Analysis	Analyzed impact of HB 484 on rules and procedures governing membership, election, terms, filling vacancies, etc. for the new boards.	Completed By: Director Completed: 6/10/2020
Other Projects	2020 Review of KRS Website	Reviewed areas of KRS website "owned" by Internal Audit.	Completed By: Director Completed: 7/16/2020
Other Projects	2020 Board Election Policy Update	Updated Board Election Policy to include procedures related to electronic balloting.	Completed By: Director and Assistant Director Approved by Board: 9/10/2020
Other Projects	Documenting Standard Memos and Work Papers	Added all standard memos and work papers utilized by Internal Audit to the Internal Audit Team SharePoint Site.	Completed By: Director Completed: 9/18/2020
Other Projects	Review of COOP	Reviewed KRS Continuity of Operations Plan (COOP).	Completed By: Director Completed: 11/4/2020
Other Projects	Fiscal Year 2020 Annual Report Review	Reviewed entire Annual Report and Summary Annual Report.	Completed by: All IA Staff Presented to Board: 12/3/2020
Other Projects	External Auditor RFP	Contract was awarded for FY 2021 external auditing services.	Completed by: Director and Assistant Director. Decision on contract made 1/7/2021.
Other Projects	Trustee Application Changes	Updated Trustee application to reflect move to KPPA as well as removal of duplicate areas of application.	Completed By: Director Approved by Board: 2/18/2021 Email for Elections Established: 2/26/2021
Other Projects	Anonymous Tip Reporting	Updated the process for receiving anonymous tips at KPPA.	Completed By: Director Decision on new process made: 3/1/2021.

Joint Audit Committee - Special Called Meeting - August 26, 2021 - Division of Internal Audit Updates

Other Projects	Hiring a New Position	Hired Retirement Investment Analyst 1.	Completed by: Director and Assistant Director Start Date of New Employee: 3/16/2021
Other Projects	KPPA IT Governance Risk Assessment Review	Reviewed KPPA IT Risk Assessment.	Completed by: Director Returned to DETS Director: 3/31/2021
Other Projects	CERS 2021 Election	KRS Election team and Election Services Vendor oversaw the CERS 2021 election.	Completed By: Director and Assistant Director Approved by CERS Board: 4/1/2021
Other Projects	HB 484 Policy Update Project	Reviewed KRS policies and the updates needed as we moved to KPPA, CERS Board, and KRS Board.	Completed By: Director and Assistant Director Presented to CERS and KRS Boards: 4/1/2021
Other Projects	2021 KRS Board Election Policy Update	Updated KRS Board Election Policies to reflect new Board structure.	Completed by Director and Assistant Director. Approved By KRS Board: 4/15/2021
Other Projects	CERS Board Vacancy - Elected Position	Worked with Division of Communications and CERS Board to fill CERS Board vacancy.	CERS Appointed Trustee: 5/10/2021
Other Projects	2021 Review of KRS Website	Reviewed areas of KRS website "owned" by Internal Audit.	Completed By: Director Completed: 5/28/2021
Other Projects	KERS Board Vacancy - Elected Position	Worked with Division of Communications and KRS Board to fill KERS Board vacancy by required date.	Completed By: Director Completed: 6/22/2021
Other Projects	CERS CEO Position	Facilitate background checks for CERS CEO positions.	Completed By: Director Completed: 6/22/2021
Other Projects	Hiring a New Position	Hiring new Auditor I.	Completed By: IA Team Completed: 7/16/2021



## Kentucky Public Pensions Authority

### Internal Audit Administration



Kentucky Public  
Pensions Authority

To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA *KNC*  
Division Director, Internal Audit Administration

Date: August 26, 2021

Subject: Final Audit Report Released

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Please find attached the final audit report entitled *Reconciliation of Great Plains to eMARS and Coding of Expenditures*. The report is dated March 9, 2021. The Division of Internal Audit Administration noted four findings, which are summarized below. The detailed findings and recommendations as well as management's responses are attached for your review. A separate management letter was not issued.

#### Audit Results

1. Lunches for Board of Trustees (Board) meetings and various Board Committee meetings were posted to the Office Supplies expense category.
2. Travel expenses were coded improperly.
3. Division of Accounting staff do not have documented procedures related to how to ensure expenditures are properly coded in Great Plains. In addition, there are no documented procedures related to reviewing the expense category of posted expenditures.
4. The reconciliation between Great Plains and eMARS (enhanced Management Administrative Reporting System) is only performed at the overall cash level and not at the individual expense category level.

Attachment

**No action is required of the Committee.**



RECONCILIATION OF GREAT PLAINS TO EMARS  
AND CODING OF EXPENDITURES  
As of February 11, 2021

March 9, 2021

### **Executive Summary**

The following findings were noted during our review of the Reconciliation of Great Plains to the enhanced Management Administrative Reporting System (eMARS) and Coding of Expenditures processes. The related recommendations can be found in the Audit Results section of the report.

1. Lunches for Board of Trustees (Board) meetings and various Board Committee meetings were posted to the Office Supplies expense category.
2. Travel expenses were coded improperly.
3. Division of Accounting (Accounting) staff do not have documented procedures related to how to ensure expenditures are properly coded in Great Plains. In addition, there are no documented procedures related to reviewing the expense category of posted expenditures.
4. The reconciliation between Great Plains and eMARS is only performed at the overall cash level and not at the individual expense category level.

### **Objective**

The objectives of our Reconciliation of Great Plains to eMARS and Coding of Expenditures audit were to ensure internal controls were in place and operating effectively and to ensure compliance with applicable state regulations as well as policies and procedures established by the Kentucky Retirement Systems (KRS) Board and management.

### **Background**

Accounting staff reconcile the overall cash balance in Great Plains to the KRS eMARS balance on a daily basis. This reconciliation is performed for the five pension funds, five insurance funds, the clearing account, and the administrative expense account. Investment related items are not included in the reconciliation to eMARS. In addition, individual line item balances are not reconciled. The reconciliation is documented on a spreadsheet that is kept on a network drive accessible by Accounting staff. The spreadsheet provides details related to the Great Plains balance, the eMARS balance, and any reconciling items. The most common reconciling items are Cash Receipt documents uploaded to eMARS that are not yet recorded in Great Plains and payments entered in eMARS, but not yet approved and posted by the Finance and Administration Cabinet.

### **Scope and Sampling**

From July 1, 2019 to March 31, 2020, there were 1,369 Great Plains transactions totaling \$4,190,588 and 1,252 eMARS transactions totaling \$5,245,290. For reconciliation and expenditure coding purposes, auditor looked at 100% of these transactions.

From July 1, 2019 to March 31, 2020, there were 187 business days. Auditor judgmentally selected to test the 1<sup>st</sup> and 15<sup>th</sup> day of each month from July 1, 2019 to March 16, 2020. For each of these days, auditor compared the cash account balance to the corresponding checkbook balance. If the selected date did not balance, auditor checked all subsequent dates until the account was found to be in balance.

### **Methodology**

The following steps were performed to ensure the Reconciliation of Great Plains to eMARS and Coding of Expenditures processes complied with applicable state regulations as well as policies and procedures established by the KRS Board and management.

- Reviewed current KRS policies and procedures to determine if they were accurate and properly reflected the actual processes being followed.
- Ran a Great Plains report and an eMARS report for July 1, 2019 to March 31, 2020 and performed the following procedures:
  - Reconciled the Great Plains individual line item balances to the corresponding eMARS categories.
  - Ensured expenditures were posted in the same accounting period in Great Plains and eMARS.
  - Ensured expenditures were properly coded in Great Plains and eMARS.
- Compared the daily balance of the pension checkbook to the five pension cash accounts and the clearing account.
- Compared the daily balance of the insurance checkbook to the total of the five insurance cash accounts.

### **Commendations**

We would like to thank Accounting staff for their assistance on this audit. All staff was helpful in addressing questions and was knowledgeable of the processes reviewed.

This report is intended solely for use by Accounting staff, the KRS Executive Management team, the Audit Committee, and the KRS Board, and is not intended to be, and should not be, used by anyone other than the specified parties. All reports are subject to Open Records Requests.

**Item #1 Board and Committee Lunches**

<b>Condition</b>	At least \$843 related to lunches for Board and Committee meetings was posted to the Office Supplies expense category.
<b>Criteria</b>	Finance Administrative Policies and Procedures (FAP) 111-58-00 (4) states, "An agency shall ensure that the proper accounting structure is charged for the purchase."
<b>Cause</b>	Accounting staff received guidance from a former employee to post lunches for Board and Committee meetings to the Office Supplies expense category.
<b>Effect</b>	The total amount posted to the Office Supplies expense category does not reflect the actual amount spent on office supplies. In addition, an expense category may go over budget if expenses are improperly posted.
<b>Recommendation</b>	The Executive Director of Operations should review these expenses and consider if another expense category would be more appropriate for Board and Committee lunches.
<b>Management Response</b>	The coding was based on a request from a former Executive Director of Operations. Going forward, these will be coded as 361 travel expenses since they are lunches for the board.
<b>Implementation Date</b>	March 2021
<b>Auditor Response</b>	Not Required

**Item #2 Travel Expenses**

<b>Condition</b>	Travel expenses were not properly coded. a. \$1,355 related to Out of State travel was posted in eMARS as In-State travel. b. \$492 related to lodging was posted to the Miscellaneous expense category in Great Plains; however, other lodging expenses reviewed during the audit were recorded as travel expenses. c. \$18 related to In-State travel was posted in Great Plains as Out of State travel.
<b>Criteria</b>	FAP 111-58-00 (4) states, "An agency shall ensure that the proper accounting structure is charged for the purchase."
<b>Cause</b>	Travel expenses are often paid with a Procurement Card. It can be difficult to separate the in-state and out-of-state travel expenses.
<b>Effect</b>	The total amount posted to the travel expense categories does not reflect actual travel activity. In addition, a travel expense category may go over budget if expenses are improperly posted.
<b>Recommendation</b>	1. When reviewing posted expenses, the Graduate Accounting Branch Manager should ensure the proper expense category is used. 2. Accounting staff should make adjustments if it is determined that an expense is posted to the wrong account.
<b>Management Response</b>	These expenses are typically posted correctly in Great Plains (statements are produced from Great Plains not eMARS). When an error is found in eMARS, it has not been our practice to correct the details as the correcting Journal Voucher will not post without manual intervention. Accounting will begin preparing and posting correcting Journal Vouchers to eMARS when an error occurs, provided the account numbers in eMARS match our account number schematic in Great Plains. We will develop a spreadsheet with account numbers that are used in eMARS but not in Great Plains with a crosswalk of what will be used in Great Plains.
<b>Implementation Date</b>	April 2021
<b>Auditor Response</b>	Not Required



**Item #3 Policy and Procedures Manual**

<b>Condition</b>	Accounting staff do not have documented procedures related to how to ensure expenditures are properly coded in Great Plans. Procedures related to reviewing the expense category of posted expenditures are also not documented.
<b>Criteria</b>	200 Kentucky Administrative Regulation (KAR) 38:070 states, "Each fiscal officer shall develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets...An internal control plan shall include... Detailed procedures to be followed in the performance of job duties and functions to emphasize duties that comprise the overall framework of accountability and internal controls, and to help ensure the continuation of agency operations in the event of staffing changes...Assessment of the control environment, risks, impact of abuse, unintentional errors and potential fraud for...disbursements."
<b>Cause</b>	When documenting the reconciliation procedures, Accounting staff did not realize that steps were needed that relate to selecting the expense category in Great Plains or the review process for ensuring the correct expense category was selected.
<b>Effect</b>	Staff could post items to the improper accounts. New employees may not be aware of how to select the proper expense categories. Those tasked with reviewing items may not be aware that checking the expense category is something that should be reviewed.
<b>Recommendation</b>	Accounting staff should update their procedures to include steps related to ensuring the proper expense category is selected as well as steps related to reviewing posted expenses.
<b>Management Response</b>	Accounting staff will add a spreadsheet of expenses and their proper coding to the existing procedures.
<b>Implementation Date</b>	June 2021
<b>Auditor Response</b>	Not Required

**Item #4 Reconciliations between eMARS and Great Plains**

<b>Condition</b>	Reconciliations are only performed at the overall cash level.
<b>Criteria</b>	200 KAR 38:070 states, "Each fiscal officer shall develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets...An internal control plan shall include...Detailed procedures to be followed in the performance of job duties and functions to emphasize duties that comprise the overall framework of accountability and internal controls, and to help ensure the continuation of agency operations in the event of staffing changes...Assessment of the control environment, risks, impact of abuse, unintentional errors and potential fraud for...disbursements."
<b>Cause</b>	A former employee reconciled items at the individual account level, but this has not been performed since that employee's departure.
<b>Effect</b>	Improper coding of expenses may not be detected during a cash level reconciliation. While the overall balance may reconcile, individual categories could go over budget as a result of expenses posting to the incorrect category.
<b>Recommendation</b>	The Executive Director of Operations should consider assigning an employee to perform reconciliations at the individual account levels. Previously, these reconciliations were performed by someone outside of the accounting function, which serves as a separation of duties and allows for an outside review of expenses. These reconciliations should be completed at least quarterly.
<b>Management Response</b>	The Executive Director of Operations agrees to assign an employee outside of Accounting to perform reconciliations at the individual account levels. The employee will either be in Procurement or in the Enterprise Project Management Office.
<b>Implementation Date</b>	July 2021
<b>Auditor Response</b>	Not Required



**Kentucky Public Pensions Authority**  
Internal Audit Administration



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To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA *KNC*  
Division Director, Internal Audit Administration

Date: August 26, 2021

Subject: Final Audit Report Released

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Please find attached the final audit report entitled Custodial Fee Payment Process. The report is dated July, 29, 2021. The Division of Internal Audit Administration noted two findings, which are summarized below. The detailed findings and recommendations as well as management's responses are attached for your review. A separate management letter was not issued.

**Audit Results**

1. From June 2019 to December 2020, Kentucky Public Pensions Authority (KPPA) made payments totaling \$25,875 for Private IQ services that had an effective ending date of March 2019.
2. Procedures related to the custodial fee payment process do not include the due date for the fees.

**No action is required of the Committee**

Attachment



**KPPA**  
Kentucky Public Pensions Authority

Investment Custodial Fee Payment Process  
As of June 30, 2021

July 29, 2021

## **Executive Summary**

The following findings were noted during our review of the Investment Custodial Fee Payment process. The related recommendations can be found in the Audit Results section of the report.

1. From June 2019 to December 2020, Kentucky Public Pensions Authority (KPPA) made payments totaling \$25,875 for Private IQ services that had an effective ending date of March 2019.
2. Procedures related to the custodial fee payment process do not include the due date for the fees.

## **Commendations**

The procedures created by Investment Operations staff related to the reviewing and paying of custodial fees are thorough and well documented. We appreciate the time the Division of Accounting Assistant Director over Investment Operations and the Retirement Systems Investment Branch Manager took to explain this process and their cooperation in answering our questions. We also appreciate the time that the Investment Research Analyst and Office of Investments Directors took to explain the services provided by the custodial bank, including the services utilized by the Office of Investments.

During testing, we noted several areas that working effectively and efficiently:

- Invoices were supported by proper backup documentation.
- All payment confirmation documents were signed and approved by the appropriate, authorized persons.
- All payments were made to the custodial bank before incurring late fees.
- The trending analysis spreadsheet is efficiently and effectively monitoring all fees.
- Users have the appropriate access in Nexen.

## **Background**

Bank of New York (BNY) Mellon entered a custodial contract with KPPA in 2013. KPPA receives quarterly invoices for the pension and insurance plans. The total charges on the invoice are supported by an excel document that lists each individual transaction for the quarter. Staff from Investment Operations (a branch within the Division of Accounting) receive the invoices and compare the charges on the supporting documents to the contract with BNY Mellon to ensure accuracy. For some charges, a trend analysis is performed to ensure any fluctuation in charges is reasonable. After Investment Operations staff completes their review, the invoices are sent to the Office of Investments for approval. Once approved, an Investment Operations staff member enters the payment information into the BNY Mellon system and another staff member reviews the information and releases the payment.

When an employee needs to have access to Nexen (the BNY Mellon system) granted or revoked, the Division of Accounting Assistant Director over Investment Operations contacts BNY Mellon and makes the request.

### **Objective**

The objectives of our Investment Custodial Fee Payment process audit were to ensure internal controls were in place and operating efficiently, and to ensure compliance with applicable state regulations as well as policies and procedures established by the boards and management of the County Employees Retirement System (CERS), Kentucky Retirement Systems (KRS), and KPPA.

### **Scope and Sampling**

The scope of this audit encompassed custodial fee invoices for pension and insurance funds for quarters ending between September 2019 and December 2020. For the period of September 2019 – December 2020, KPPA received 12 quarterly invoices – six for pension and six for insurance. For those 12 invoices, there were 6,690 individual transactions. Auditor selected a statistical sample of 144 items using a 99% confidence level with a 1.50% sampling error and a .50% maximum expected error rate. In addition, all 12 invoices were reviewed for proper payment and approval.

Auditor also obtained a security access report through Nexen, which lists all users with Nexen access. Auditor reviewed access levels for 100% of the users.

### **Methodology**

The following steps were performed to ensure the Investment Custodial Fee Payment process complied with state regulations as well as policies and procedures established by the boards and management of the County Employees Retirement System, Kentucky Retirement Systems, and KPPA.

1. Reviewed current Investment Operations policies and procedures to determine if they were accurate and properly reflected the actual processes being followed.
2. Ensured invoices were properly approved, had supporting documentation on file, and were paid timely.
3. Ensured invoice charges agreed to the BNY Mellon Fee Schedule.
4. Compiled data sets for the pensions and insurance transactions and graphed each fee type. Analyzed the data for specific trends. Please see Exhibit A for the complete analysis and regression testing results:
  - a. Used graphs to determine if seasonality was a component in fee fluctuations.
    - i. If seasonality was not a component of the fee type data set then the simple mean on the trending analysis spreadsheet was deemed an appropriate metric for modeling and predicting future fees.

- ii. If seasonality was component then regression analysis was used to test the theory. If the analysis produced statistically significant results, a predictive model was built.
- b. Reviewed the graphs for extreme irregularities.
- 5. Ensured KPPA staff has proper access to Nexen.
- 6. Reviewed services provided by custodial bank to determine if KPPA was paying for unutilized and/or duplicative services.

This report is intended solely for use by the Office of Investments; Division of Accounting; Joint Audit Committee; the Boards of Trustees for CERS and KRS; and the Executive Management teams for KPPA, CERS, and KRS. This report is not intended to be, and should not be, used by anyone other than the specified parties. All reports are subject to Open Records Requests.

**Audit Results**

**Item #1 Fee Charged for Cancelled Service**

<b>Condition</b>	One of the 144 fees in the statistical sample did not match the fee schedule.
<b>Criteria</b>	BNY Mellon provided a letter date July 12, 2019 that shows when Private IQ services were canceled. An updated listing of services that would continue after the date on the letter. Private IQ was not one of the services listed.
<b>Cause</b>	The former Executive Director of the Office of Investments did not communicate the termination of the Private IQ services to the Investment Operations team in a timely manner.
<b>Effect</b>	KPPA was charged \$25,875 for Private IQ services from September 2019 to December 2020.
<b>Recommendation</b>	<ol style="list-style-type: none"> <li>1. The Retirement Systems Investment Branch Manager should continue working with the custodial bank to recover this overpayment.</li> <li>2. The Retirement Systems Investment Branch Manager should continue working with the custodial bank to have this fee removed from future invoices.</li> <li>3. The Executive Director of the Office of Investments should immediately communicate any changes to services, including the effective date of the changes, to the entire Investment Operations team.</li> <li>4. The Executive Director of the Office Investments should save correspondence related to vendor services in a centralized location. Please note, this may be in the process with the new investment vendor that was hired in June 2021.</li> </ol>
<b>Management Response</b>	<p><b>Response from Investment Operations:</b> Management concurs with the recommendation. BNY Mellon has confirmed the reimbursement will be returned to us in the form of a reduction in our 6/30/2021 Custodial Fee Invoice.</p> <p><b>Response from Office of Investments:</b> Office of Investments agrees with the recommendations and you are correct on number four, we now have a central repository for all correspondence related to investment vendor services.</p>
<b>Implementation Date</b>	6/10/2021

**Item #2 Custodial Fee Due Date**

<b>Condition</b>	Procedures related to the payment of the custodial bank fee do not include the deadline for paying the fees.
<b>Criteria</b>	The Custodial Bank Fee Schedule Section V (page 13, bullet 11) states, "All amounts due will be payable within 30 days of invoice date. Fees not paid within 60 days of the date of the invoice will be subject to a late charge of 1.5% per month. Any objections, corrections, or adjustments to a bill must be raised within 12 months of the billing date."
<b>Cause</b>	The Investment Operations team was not aware of the deadlines included in the custodial bank fee schedule.
<b>Effect</b>	New employees completing this task may not be aware of the deadline. If the deadline is missed, KPPA would incur an additional 1.5% charge, per month.
<b>Recommendation</b>	<p>The Retirement Systems Investment Branch Manager should update the custodial fee payment procedures to include the deadline of 30 days of the invoice date. The procedures should note the penalty for fees not paid within 60 days of the invoice date.</p> <p>Note: On July 15, 2021 the Retirement Systems Investment Branch Manager posted updated procedures on the Investment Operations SharePoint site. The new procedures state that invoices are payable within 30 days and are due in 60 days of invoice date.</p>
<b>Management Response</b>	Management concurs with recommendation. The deadline to pay the invoice has been added to the procedures.
<b>Implementation Date</b>	7/15/2021

## Exhibit A: Trending Analysis Study

### **Purpose:**

The purpose of this study is to determine how well the trending analysis worksheet monitors fees.

### **Source:**

Our data comes from the trending analysis worksheet compiled by Investment Operations staff by inputting grand totals for each fee from invoices provided by Bank of New York Mellon (Mellon). The spread sheet breaks the fees down into funds (pension and insurance) and 5 types of fees: Ancillary, structural admin, asset admin, transactions and additional. Additional fees are the sum of out of pocket expenses and custody fees. This analysis will use all the data available for 9/2013-12/2020 quarters.

### **Background:**

From 9/2019-12/2020 the average number of transactions that make up invoices for insurance and pension funds is 557 transactions. Due to this large volume of line items, the trend analysis spreadsheet was created to help Investment Operations staff efficiently monitor custodial fees. Investment Operations staff are generally aware of how active KPPA managers have been in any particular quarter and this knowledge, along with professional intuition, informs their expectations of how certain fees should be moving over time. For example, if KPPA managers have been more active in quarter 2 than they were in quarter 1, then it would be reasonable to expect that asset admin fees to increase in quarter 2 compared to quarter 1.

The staff member who has reviewed these fees since 2017 saves her questions about fees in the folder of whichever quarter she is working on. There aren't any emails saved for 2017-2020 which tells me that the trending analysis spreadsheet hasn't detected any irregularities big enough to cause concern for Investment Operations staff.

The spreadsheet's function takes the fees from the current year minus the prior year for each quarter and each fee type. This outcome is labeled "variance". The spreadsheet also calculates each fee's quarterly average and the total yearly average for the variance and grand totals. These measurements are showing the short term trends.

### **Objective:**

Showing the short term trend is helpful to detect large irregularities but does little to detect small irregularities that can make a big difference over time.

The aim of this study is to build a predictive model based on past trends to Investment Operations staff detect these small differences with substantial impact.



**Methodology:**

Generally, quarterly data has an inherent trend so the simple mean used in the trending worksheet is not a recommended statistic to describe or predict this type of data over a long period of time because natural seasonality trends violate the assumption of normality and independence due to autocorrelation.

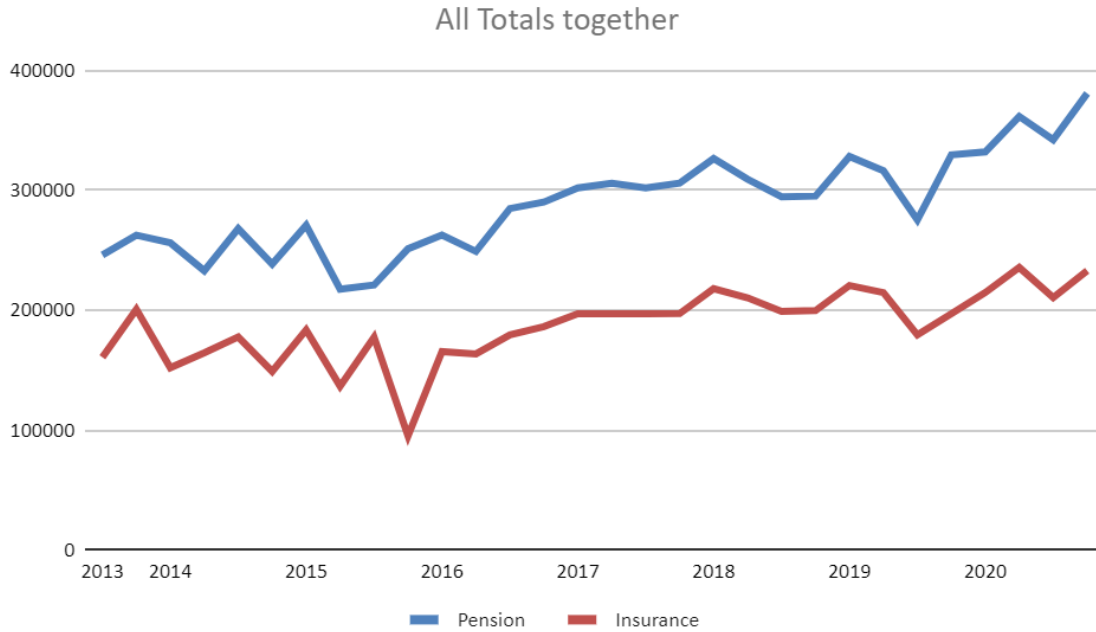
Many of the fees in the transaction, asset admin, custody and expense tabs are charged per line item, per LP, or per account basis. Line items on the back up excel spreadsheet are created because of money movement due to trades which usually follow cyclical patterns like the S&P 500 therefore, it would be reasonable to expect some of the fee types to have a seasonality component. If some of the fee types have a seasonality component, then this needs to be taken into consideration when building a predictive model.

On the other hand, our contract with Mellon has a few fixed flat fees that should not change over time. For example, we would expect the structural admin fee to stay at \$2,500 per our contract. For these types of fees, the simple mean and difference in a quarter from one year to the next is a good way to model the data and detect abnormalities.

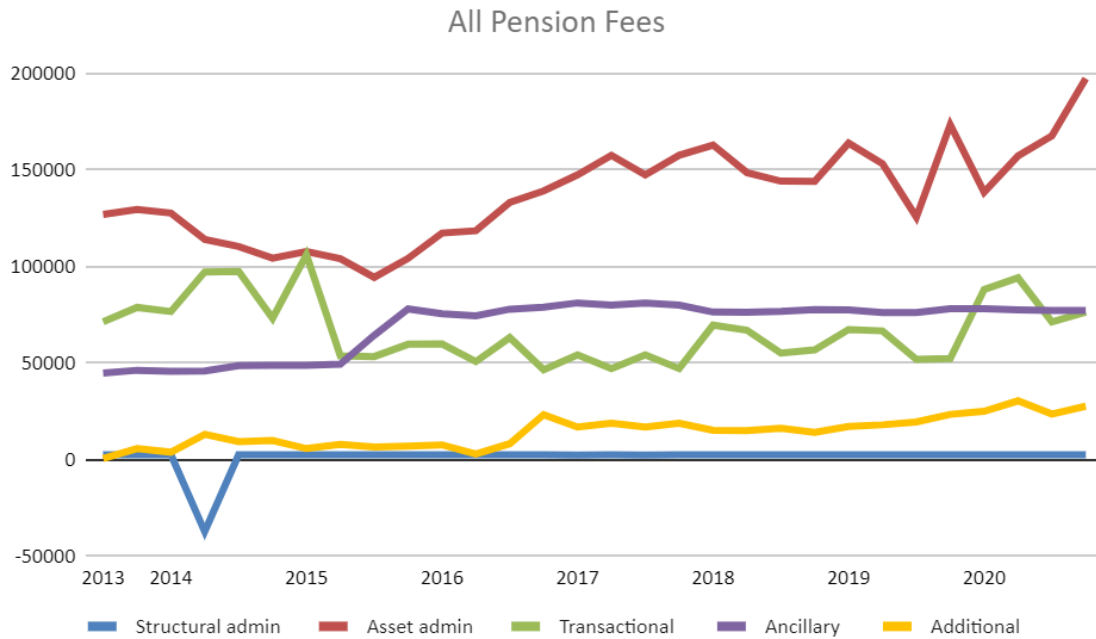
To tackle these problems, this analysis will be using time series analysis and regression testing techniques.

**Data summary:**

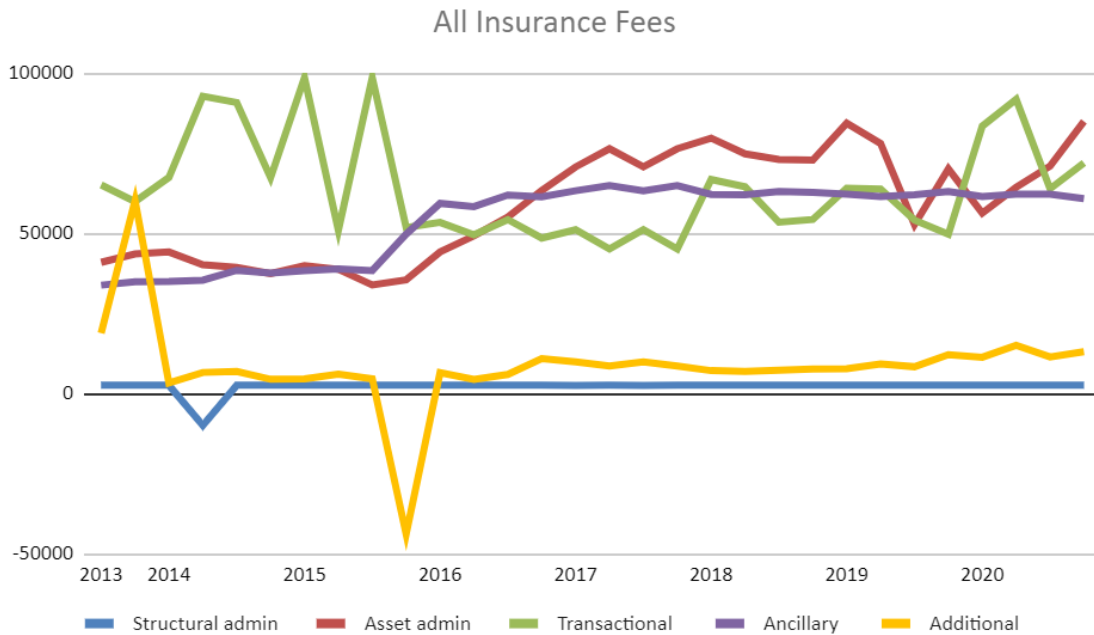
First, we need to graph the data to see how the grand totals act over time. If there is a cyclical pattern of consistent highs and lows, then this will signal that there is a seasonality component.



This graph shows the grand total for all fees split up between the pension and insurance funds. There may be a slight seasonality component from 2013-2015 and again mid 2019 to the end of 2020. Keep in mind that there are fixed fees captured in this graph so this should not be used to describe the trends in all fee types. What we can conclude from this graph is that there is an overall upward trend and the two funds seem to mirror each other with the insurance fund constantly being lower than pension. Next, we will investigate each fund and fee type more closely on its own.



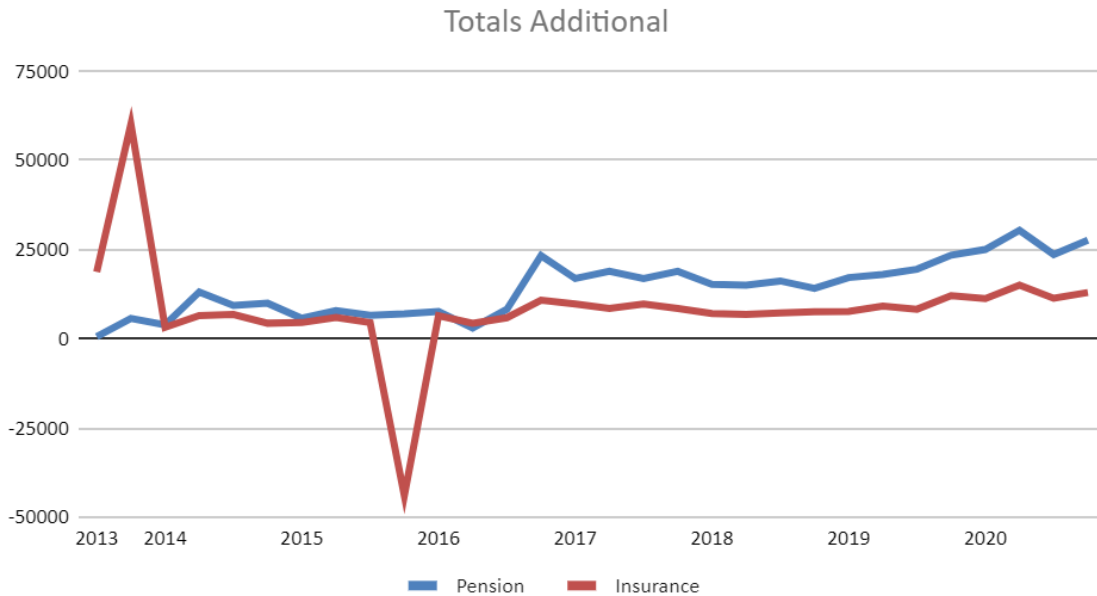
If we break down all the pension fees into their individual categories, it seems to clear up that seasonality is not a component for all fee types. We expected structural admin fees to always be \$2,500. Its flat line appearance is not surprising. There is an odd negative number in 2014 but this falls outside the scope of this audit and it appears to be the only outlier so it will be omitted from future analysis of this fee type. Ancillary and additional fees seem to have a fairly stagnant trend as well so seasonality will not be considered in the analysis of these fee types. Asset admin and transactional fees seem to be the only ones with the potential for seasonality. They also have a faint upward trend and might have a relationship of some nature. This will be tested later.



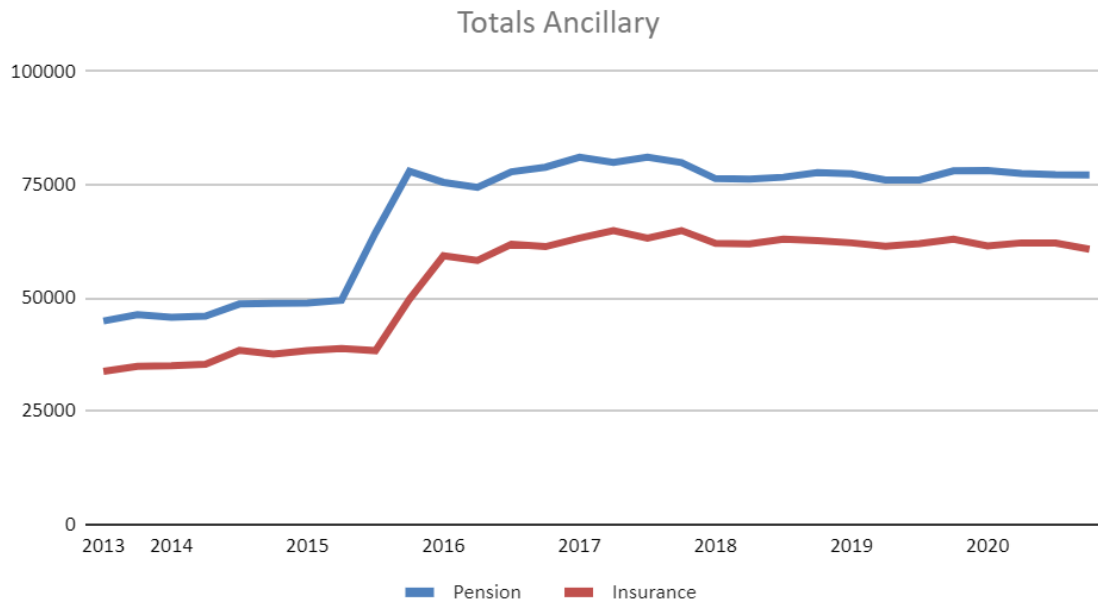
The breakdown of insurance fees tells a similar story. Structural admin, ancillary and additional fees appear to be consistent with a few exceptions in 2013 and 2015 which, again, are isolated events that fall outside the scope of this audit. Asset admin and transactional fees aren't acting like they do with pension. Asset admin fees tended to be higher than transactional fees for the pension fund but that is not the case for the insurance fund. This relationship will be tested later. Transactional fees look more volatile for insurance than pension but keep in mind that the range of values on this graph is shorter than on the pension graph which will cause differences to look more exaggerated in insurance than they are in pension. Transactional fees for pension and insurance will be graphed together later so we can get a better look at how they compare to each other.

**Analysis:**

One of the main purposes of the trending analysis spreadsheet is to help Investment Operations staff detect unusual charges that aren't specified in the fee schedule. These unspecified charges usually fall into the "Additional" category which is the sum of custody and out of pocket expenses. Many fees that fall into these categories are pass-through fees that Mellon incurs from managers who are working with KPPA money.



Other than the two spikes in 2013 and 2015 for the insurance fund, it looks like additional fees have been fairly stagnant since the beginning of our contract with Mellon. Using the simple mean to describe and predict this fee type is appropriate since seasonality doesn't seem to be a factor in this data set. The simple mean for insurance would be influenced by the two spikes but as time goes on and this linear trend holds, the impact of these spikes will lessen. There aren't any emails from 2017 onward about additional fees and based on this consistency, I don't find it alarming that nothing has been saved.



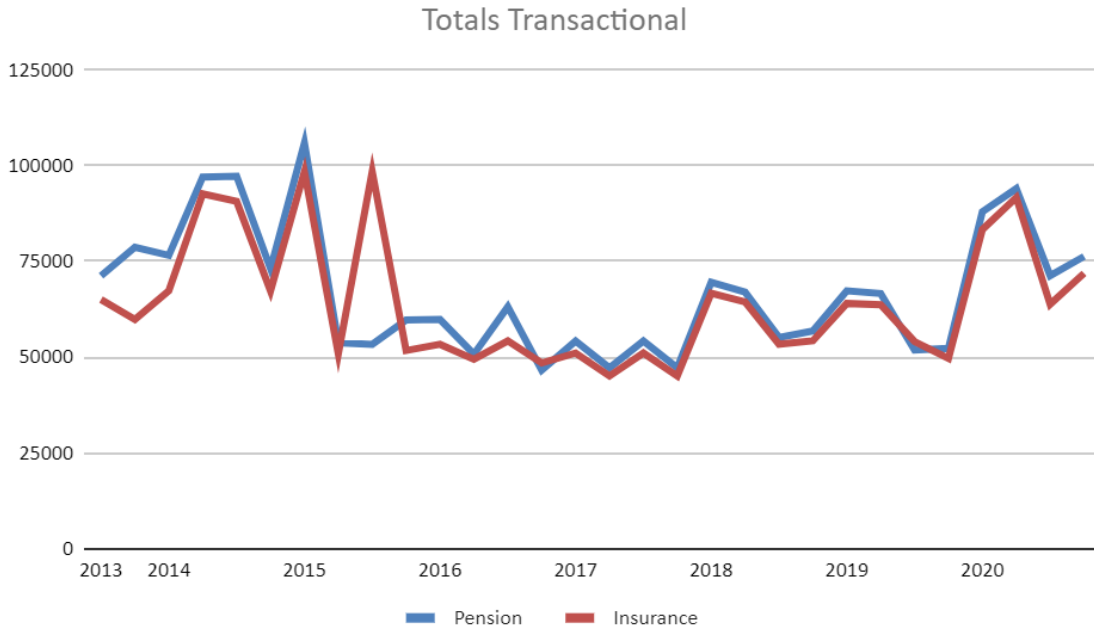
What is surprising is that ancillary fees are essentially flat from 2013 to the end of 2015 and then at the beginning of 2016 to 2020. The increase shown between 2015 to 2016 is from a service being added to this category. Using the simple mean would be appropriate to describe and predict this fee since seasonality does not appear to be a component of this fee.

This was one area of concern for the Executive Director of the Office of Investments. It was conjectured that we may have been charged unnecessarily or unfairly by hidden fees in this category. It has been determined from interviews with Investment Operations and Office of Investment staff that all services in this category are used. Private IQ service had been dropped from Mellon effective 2019 so future auditors or reviewers of this analysis should expect a significant drop in both insurance and pension showing payment for this service being reimbursed and no longer charged but the horizontal trend going forward should continue after this drop.

The staff member in charge of reviewing the invoices hasn't saved any emails about this fee type since she started completing this task in 2017. I don't find it alarming to see that no emails about this fee have been saved. It appears that the trend analysis worksheet is helping Investment Operations staff monitor this fee type efficiently and effectively.

Lastly, we will look at how asset admin and transactional fees act over time and how they relate to each other. If we find that there is a relationship between these two fees, then Investment Operations staff will have another tool to monitor future fees.

Transactional and asset admin fee will be reviewed separately first and then reviewed together.



There's clearly some form of seasonality displayed here. It would not be appropriate to use the simple mean to describe or predict this fee. We will conduct a times series analysis and regression analysis to test this theory and to see if we can build a predictive model. Since the two funds follow each other closely, we will only test the pension fund for seasonality.

If we find that there is a relationship between transaction and asset admin fees, then we may want to talk to Investment Operations staff about why asset admin fees don't act the same way as transactional fees. This is the only fee type where pension and insurance are basically on top of each other instead of insurance mirroring pension at a lower level.

To start testing for seasonality we need to decompose the actual values for each quarterly transactional fee in order to isolate the seasonality component and deseasonalize the actual data. Once we have the decomposition elements, we will use regression testing to see if there is a relationship between the cyclicity of quarters and the deseasonalized data. If we find statistically significant evidence to say that there is a relationship then we can build a multiplicative model and forecast future fees.

The model will be based on the coefficients produced from the regression analysis.

Here are the results from the regression test in excel:

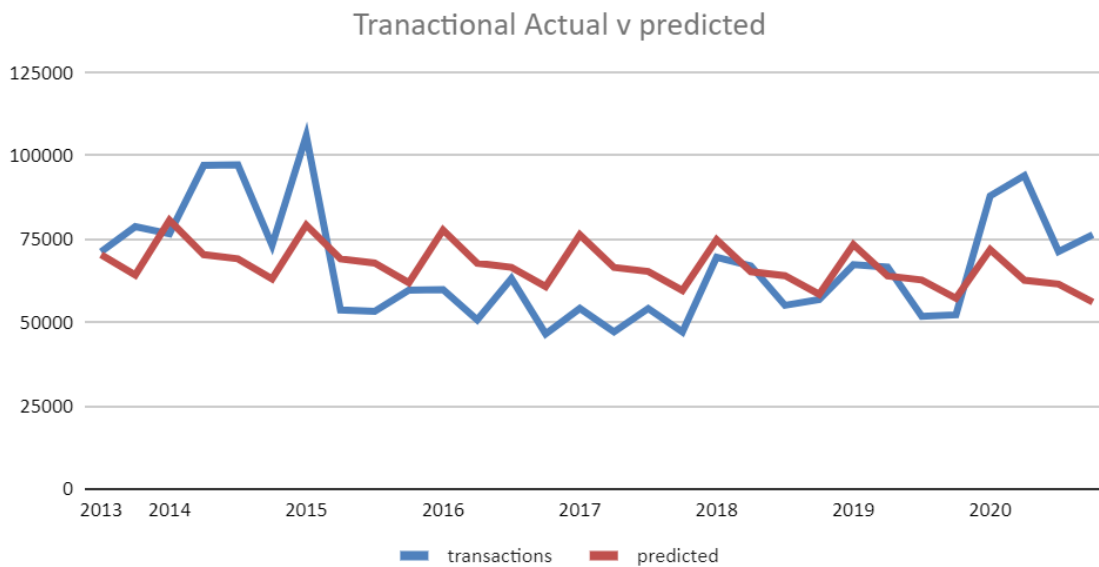
Ho: Transactional data does NOT have an inherit trend

Ha: Transactional data has an inherit trend

$\alpha = .05$ , p-value = 0.3402, R squared = 0.0325

Only 3.25% of the variability in deseasonalized transactional data is explained by the multiplicative model. At the 5% significance level, we fail to reject the null hypothesis. We do not have enough evidence to say that there is an inherent trend in transactional data.

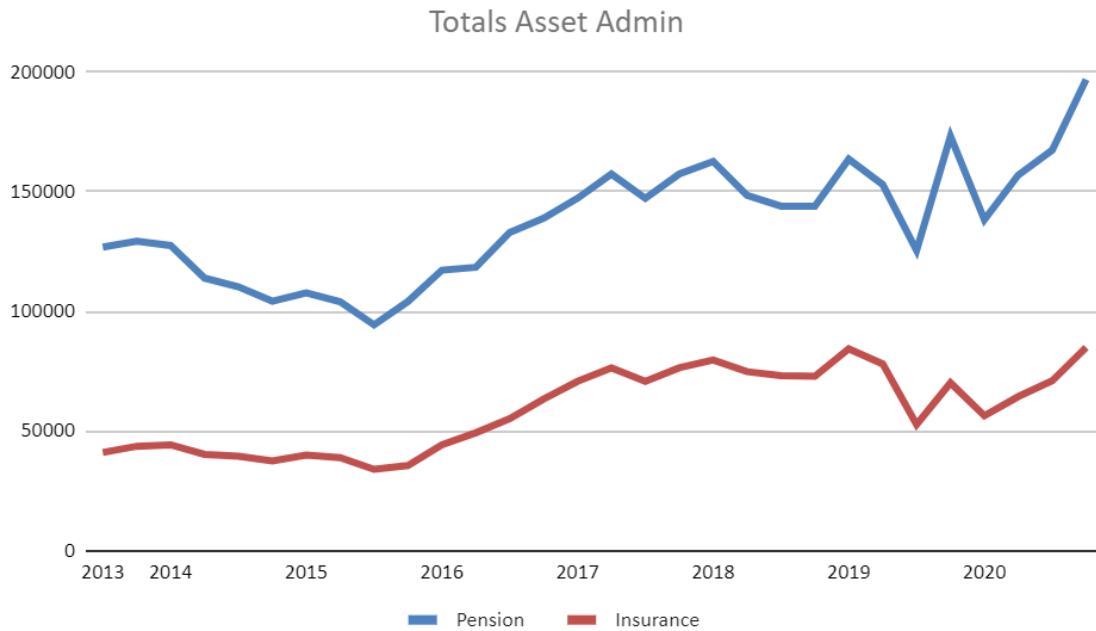
Since we didn't produce statistically significant results in testing the seasonality we can't use the multiplicative model to describe or predict this fee.



This shows the predicted value using the multiplicative model against the actual values. We can see here that the actual values don't follow the predictive model closely.

If we excluded data from 2013 to 2015, we may have come to a different conclusion since this time period is more volatile than the rest. It also has a little bit of a downward trend while the rest has an upward trend. Future auditors and reviewers of this analysis may consider re-running this test once more quarters are added to the trending spreadsheet. If the slight upward trend from mid-2016 to 2020 continues, we may be able to build a model. However, as it stands, the early volatility may be causing issues that this analysis will not address at this time.





Seasonality is probably an element around 2019-2020. It's not so obvious with the rest of the data. We will use the same technique that we used for transactional fees to test for seasonality and build a model. We will only test the pension fund for now.

Here are the results for regression testing:

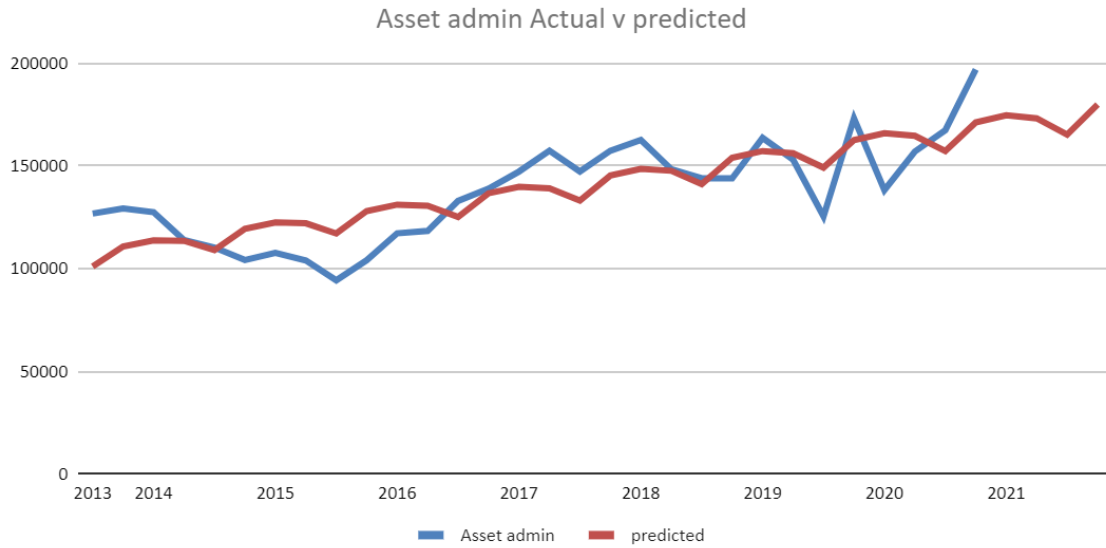
Ho: Asset Admin data does NOT have an inherent trend

Ha: Asset Admin data has an inherent trend

$\alpha = .05$ , p-value = .0000, R squared = .59327

59.33% of the variability in deseasonalized Asset admin data is explained by the multiplicative model. At the 5% significance level, we reject the null hypothesis. We have enough evidence to say that there is an inherent trend in asset admin data.

Surprisingly we have statistically significant results telling us that there is in fact a seasonal trend in asset admin fees.



As we can see here, the multiplicative model for predicted values follows the actual values closely. Investment Operations staff may want to consider using the predictive model as an additional tool to monitor this fee type. Fiscal year 2021 has been forecasted on this graph.

Now that we have an understanding of how transactional and asset admin fees act over time, we can test their relationship.

It was originally thought that asset admin fees and transactional fees would have some kind of correlation because transactional fees are created when Mellon handles settled trades and money is added or subtracted from our account. It was thought that if asset admin fees go up then transactional fees would go up as well, but now that we have tests showing that they don't share the same kind of inherit trend, it is possible this theory will hold up in the next few tests. We will test this relationship for pension and insurance since transactional fees don't act like all the other fees where insurance mirrors pension but at a lower level.

Here are the Pension fund regression test result from excel:

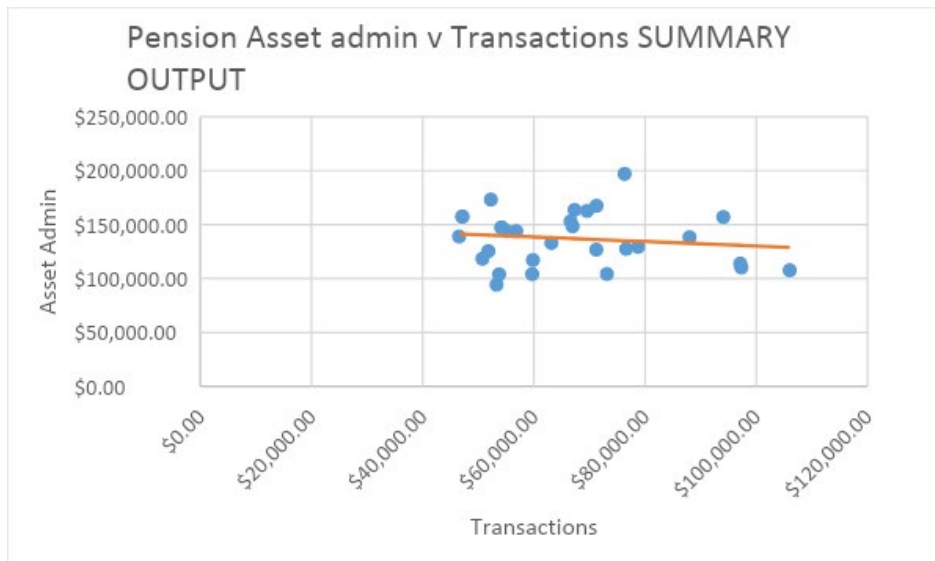
Pension (asset admin v transactions)

Ho: Asset Admin fees are NOT explained by Transactional fees.

Ha: Asset Admin fees are explained by Transactional fees.

$\alpha = .05$ , p-value = 0.4589, R squared = 0.0197

Only 1.97% of the variability in asset admin fees is explained by transactional fees which shows a weak relationship between these two variables. Additionally, we are 95% confident that the average difference between Asset admin fees and transactional fee is (\$0.77) and \$0.36 which shows no significant difference because \$0.00 is captured in this interval. In conclusion, at 5% significance level, we fail to reject the null hypothesis. We do NOT have enough evidence to say that Transactional fees have an effect on Asset admin fees.



Here are the Insurance fund regression test results from excel:

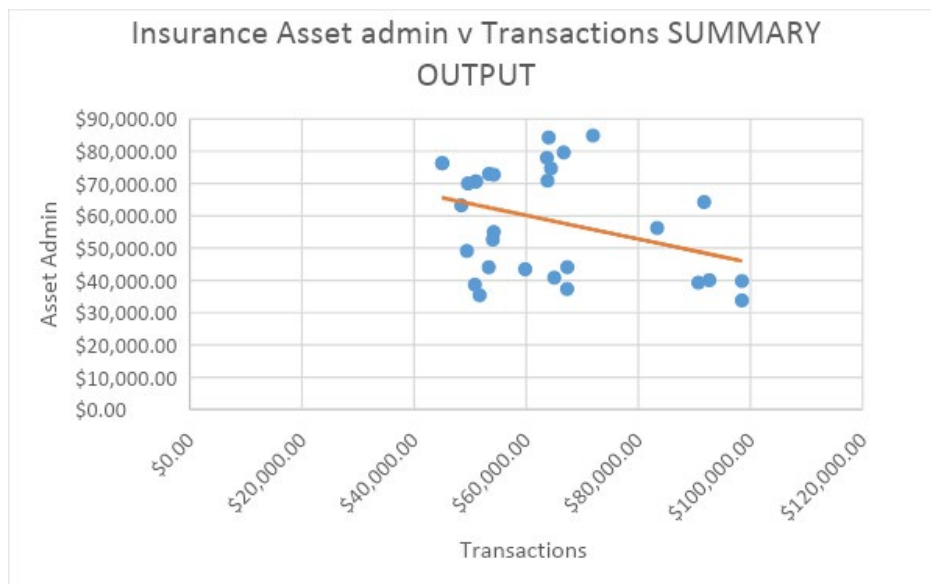
Insurance (asset admin v transactions)

Ho: Asset Admin fees are NOT explained by Transactional fees.

Ha: Asset Admin fees are explained by Transactional fees.

$\alpha = .05$ , p-value = 0.0554, R squared = 0.1248

Only 12.49% of the variability in asset admin fees is explained by transactional fees which shows a weak relationship between these two variables. Additionally, we are 95% confident that the average difference between Asset admin fees and transactional fee is (\$0.73) and \$0.09 which shows no significant difference because \$0.00 is captured in this interval. In conclusion, at 5% significance level, we fail to reject the null hypothesis. We do NOT have enough evidence to say that Transactional fees have an effect on Asset admin fees.



The tests above show that asset admin and transaction fees do not have a relationship like initially thought, but this is most likely due to asset admin having a seasonality component and transactional fees not having a seasonality component. Investment Operations staff should not use the movement of transactional fees to judge variability in asset admin fees.

**Conclusion:**

The goal of this analysis was to determine trends and create models if possible. We found that not only is the structural admin fee constant but ancillary and additional fees are fairly constant as well. Using the simple mean is an appropriate way to describe and predict these fees.

The only model we were able to create was a multiplicative model for asset admin fees that takes seasonality into account. Hopefully this will be a useful tool for Investment Operations staff to use in monitoring this fee. Transactional fees may be modeled better at a later date with more data available.

No emails from 2017 to 2020 have been saved in the custodial fee folder about abnormalities and our analysis didn't find any abnormalities that might cause us to expect there to be an email. There are a few unusual spikes around 2015 and 2016 in structural admin and asset admin fees but these spikes appear to be isolated events. Over all the trending analysis worksheet appears to efficiently monitor all fee types.



## Kentucky Public Pensions Authority

### Internal Audit Administration



To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA *KNC*  
Division Director, Internal Audit Administration

Date: August 26, 2021

Subject: Discussion of Audit Plan

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The following items were included on the previous audit plan, but have not yet been completed. We will begin the process of developing the new audit plan, which will include seeking input from the Audit Committee, all Boards, Executive Management, and KPPA Directors. Internal Audit staff will continue working on the items below until the new plan is approved.

1. Accounting – Outstanding Employer Invoices
2. Accounting – Follow-up on Accounts Payable Invoice Process
3. ERCE – Delinquent Employers
4. Investments – Contract Process
5. Investment Operations – Management Fee Reporting and Fee Payment
6. Investments Operations – Reconciliation of Great Plains to Custodial Bank
7. Member Services – Outstanding System Issues
8. Retiree Health Care – Reconciliation of Benefits between DEI, KHRIS, START, and Humana

**No action is required of the Committee.**



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## Be a Problem-solver

Laura Soileau September 25, 2019

"Mom, be a problem-solver," my six-year-old recently told me. At the time, I was trying to get him to go to bed while he was asking for yet another bedtime story. I explained that I couldn't read him another story because I had just prepared a cup of tea and it was getting cold (this may or may not have been the real reason for my reluctance to read another story). At this point, he said to me, "Mom, be a problem-solver," and then went on to tell me that I should bring my tea to his room and drink it while I was reading to him.

While I was a bit surprised — and honestly impressed — by his comments, it occurred to me that often there are times in life and in our internal audit careers that we may not always embrace the opportunity to solve the problems that we encounter. For example, when it comes to interactions with our internal audit customers, do we readily seek to work with our customers to identify practical solutions to the risks in front of them? Or, do we simply identify the risk and leave it to our audit customers to think through the pros and cons of different potential solutions?

Similarly, if the way we had initially planned to test a high-risk area doesn't work because the data isn't available in the right form, do we seek alternative methods of testing or do we move on because the initial approach did not work? Do we think through possible solutions or do we attempt to make the lack of available data someone else's problem?

Having a problem-solving mindset is a critical skill for internal auditors. As we seek to further develop our problem-solving skills, we position ourselves and our internal audit teams to build stronger relationships with our audit customers and other stakeholders. In addition, we position ourselves and our teams to deliver greater value through the work that we do.

The Division of Internal Audit works with the auditee to develop a feasible solution to our findings.

The Division of Internal Audit is flexible when it comes to testing. If our first approach does not work, we adjust the test. Also, if something is not available that we believe should be, we note this as a part of the audit results.

Here are a few quick thoughts on how can we position ourselves to be better problem-solvers:

- **Develop a strong understanding of the problem at hand.** There are times when we may be tempted to jump straight to potential solutions. However, before jumping straight to the answer, step back and look at the challenge from multiple angles to confirm you have a solid understanding of what the problem really is. Also, consider asking a team member to brainstorm the problem with you to more comprehensively evaluate the situation before zeroing in on a solution. Another way to think about it is that usually the person who asks the best questions comes up with the best solutions.
- **Move beyond checklists.** Don't simply allow checklists to drive your audit work. Use a problem-solving mentality to better understand the risks within the process that you are auditing and let the risks drive where you spend your limited audit time.
- **Embrace the opportunity to learn and grow.** Seek out every opportunity that you can to expand your knowledge. You can do this through reading, trying new things, or spending time with people who think differently than you. Look for different points of view and then reach your own conclusion. See my post, "[What Did You Learn Today?](#)", for additional thoughts on continuous learning.
- **Understand the business.** Obviously, from an internal audit perspective, the better we understand our respective businesses, the better positioned we are to help evaluate potential solutions and the risks/rewards to various situations that we encounter in our audit work. Understanding the key business drivers, metrics, financial ratios, and other similar information can better prepare us to have a more comprehensive understanding of the information that we are provided during the audit process.

As we pursue continued growth in our careers, problem-solving is a key skill. To operate at a strategic level, we must be able to think critically and be a problem-solver.

As always, I welcome your feedback. What advice would you give to someone who is looking to enhance his or her problem-solving skills?

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When we find an error during testing, we meet with the auditee to ensure an error truly did occur (e.g. we ensure we did not miss something).

We develop a customized audit plan for each audit.

We attend multiple training sessions throughout the year, which give us new ideas and techniques.

We perform a walkthrough of each process. We document our understanding and have the auditee review to ensure we did not miss anything.



*Internal Auditor is pleased to provide you an opportunity to share your thoughts about these blog posts. Some comments may be reprinted elsewhere, online or offline.*



## **Laura Soileau**

Laura Soileau, CIA, CRMA, CPA, discusses the daily challenges facing today's internal auditors. She is a director in Postlethwaite & Netterville's Consulting Department in Baton Rouge, La.

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# The audit committee checklist for COVID-19

## The audit committee's responsiveness during the COVID-19 pandemic

Lori Sexton, CPA, CGMA, AICPA Senior Technical Manager

The novel coronavirus (COVID-19) pandemic is changing the ways we do business and conduct our organizational strategies. These changes may potentially continue for years. All aspects of the business and finance process are experiencing previously unthought-of challenges.

Audit committees, be they in a public, private, government or not-for-profit entity, face drastic challenges. Not only must they suddenly conduct virtual meetings, but they also must handle emerging risks. These risks are related to assessments, entity on-site operations (including culture), the impact of new legislation, financial and reporting disclosures, technology and cybersecurity.

We have developed a tool to meet the challenges the COVID-19 pandemic caused.

## Audit Committee COVID-19 Checklist of Essential Considerations

**We will be working on the Audit Plan for the upcoming year. I wanted to provide this for consideration when looking at risks throughout KPPA.**

Purpose of this tool: This audit committee COVID-19 checklist provides questions and considerations regarding the board's responsibilities of oversight, risk management and governance process. These questions are not intended to be all-inclusive, but to provide guidance as the audit committee's entity relies upon them for guidance in several key areas. These questions should be discussed in an open forum through the committee's interaction with senior management, independent auditors, external and internal auditors, and other key members of the financial management team. These questions are written in such a manner that a "no" response indicates a weakness that should be addressed.

Audit committee COVID-19 checklist	Yes	No	Not sure	Comments
<b>A. Risk management</b>				
<p>1. Does management have a process in place to proactively assess risk of significant changes, such as entering a new market, disruptive innovations, economic/geopolitical shifts, fraud, and management override of internal controls?</p> <p>If not, is the entity creating such during this global event?</p>				
<p>2. Have specific areas of focus been identified and are risk assessments being executed as a result of the COVID-19 pandemic?</p>				
<p>3. Does management have a plan to address existing risk assessments and updating the identification, impact and mitigation related to COVID-19?</p>				
<p>4. Has the entity considered significant risks to the achievement of objectives, financing and the availability of funding for key programs, information systems security and disaster recovery?</p>				
<p>5. Has management considered sufficiently the interdependency of potentially related events in its event identification and risk assessment process?</p>				
<p>6. Is the audit committee engaging with the internal audit department to ensure completeness regarding risk identification and response?</p>				

Audit committee COVID-19 checklist	Yes	No	Not sure	Comments
<b>B. Entity operations, including culture</b>				
1. Are the entity's revised strategies, objectives and operational plan in alignment with the changing environment?				
2. Does the entity include in their contingency plan actions for most of their workforce to work remotely?  If not, is the entity developing and planning to formalize such a plan?				
3. Are the entity's communication needs being addressed, including the consideration of privacy and security?				
4. Does the governing body and management have an effective level of communication in place to enable the fulfillment of their roles with most employees working remotely?				
5. Has the governing body reviewed and considered management's authority over significant decisions and limitations of authorities and responsibilities?				
6. Does the entity identify related issues and trends expected as the health care event subsides and the financial recovery becomes paramount?				
7. Has the entity developed business continuity plans based on various potential recovery scenarios?				

Audit committee COVID-19 checklist	Yes	No	Not sure	Comments
<b>C. Impacts of new legislation</b>				
1. Has the entity assessed its financial and business response to the CARES Act?				
2. Does the entity properly understand the impacts of this Act upon the entity and aware of the necessary execution?				
3. Are specifics of the Act identified and addressed in the strategic plan? (Economic disaster loan, loan forbearance, access to retirement accounts, sick leave and FMLA affects)				
<b>D. Financial reporting and disclosures</b>				
1. Does the governing body continue to set the expectations for the performance, integrity, and ethical values of senior management during the COVID-19 event?				
2. Is there appropriate oversight responsibility for management's design, implementation and conduct of internal control as they relate to COVID-19 being executed?				
3. Is the entity reviewing and considering the current environment and the impacts on investor disclosures: projections of growth and expansion; loan covenants, profits; timetables, etc.?				

Audit committee COVID-19 checklist	Yes	No	Not sure	Comments
<b>D. Financial reporting and disclosures</b> (continued)				
4. Is the entity reviewing and considering the impact of the loans/grants and their terms and conditions from the COVID-19 stimulus package(s) on the reporting and disclosures?				
5. Is the audit committee receiving, reviewing and considering the information management it is using (KPIs, data analysis, metrics) to assess the impact of COVID-19 and how it is communicating this information to appropriate stakeholders and determining reporting factors?				
6. Do open communication channels exist to allow relevant information to flow to the board from internal and external sources, including stakeholders, auditors, regulators, and employees?				
<b>E. Technology and cybersecurity</b>				
1. Has the governing body established appropriate oversight structures and processes (e.g., board and committees) that reflect the working-from-home structure for most employees now in place?				
2. Has virtual auditing been coordinated with the external auditors?				

Audit committee COVID-19 checklist	Yes	No	Not sure	Comments
<b>E. Technology and cybersecurity</b> (continued)				
3. Does the audit committee understand the nature and scope of monitoring activities, including ongoing assessment and/or separate evaluations to enable an effective determination of whether the components of internal control continue to function with the increased reliance on technology?				
4. Has the entity identified areas of exceptional privacy and data concern and ensured safeguards are in place as well as contingencies and alternative actions?				
5. Is there an effective process established and publicized periodically to political officials, employees and others to allow open communication of suspected instances of wrongdoing by the entity or employees?  Is the whistleblower hotline being checked continually and not forgotten?				

The COVID-19 considerations the audit committee and other governing bodies conducted are a paramount activity directly related to the entities' strategy, objectives, financial health and ability to expedite recovery. For additional resources for the audit committee, please refer to these resources: (Government Audit Committees – Part 1; Audit Committee Toolkit and the AICPA Coronavirus Resource Center.



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