

**County Employees Retirement System
and Kentucky Retirement Systems
Joint Audit Committee
April 7, 2022 at 10:00 a.m. Eastern Time
Live Video Conference/Facebook Live**

AGENDA

- | | | |
|----|--|-------------------|
| 1. | Call to Order | Betty Pendergrass |
| 2. | Opening Video Teleconference Statement | Betty Pendergrass |
| 3. | Roll Call | Sherry Rankin |
| 4. | Public Comment | Sherry Rankin |
| 5. | Approval of February 22, 2022 Joint Audit Committee Minutes* | Betty Pendergrass |
| 6. | Review of Issued Audits
Plan Liquidity, Phase 1 – Daily Qualification Process | Kristen Coffey |
| 7. | Joint Audit Committee Administrative Updates | |
| | a. Internal Audit Budget as of December 31, 2021 | Kristen Coffey |
| | b. Additions to the Current Audit Plan* | Kristen Coffey |
| | c. Status of Current Internal Audit Projects | Kristen Coffey |
| 8. | Adjourn* | Betty Pendergrass |

***Action may be taken by the Joint Audit Committee**

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
AND KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES JOINT AUDIT COMMITTEE
FEBRUARY 22, 2022, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the February 22, 2022 meeting of the Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, the following Committee members were present: Betty Pendergrass, William O'Mara, Larry Totten, and Lynn Hampton. Staff members present were David Eager, Rebecca Adkins, Erin Surratt, Vicki Hale, Connie Davis, Madeline Perry, Matthew Daugherty, Kristen Coffey, Elizabeth Smith, Carrie Bass, Ashley Gabbard, Sherry Rankin, Shaun Case, and PhillipCook. Others present included CERS Trustee George Cheatham, CERS CEO Ed Owens, III, and KRS CEO, John Chilton.

Ms. Pendergrass called the meeting to order and read the Opening Video Teleconference Statement.

Ms. Rankin called roll.

Being no Public Comment, Ms. Pendergrass introduced the agenda item *Approval of November 30, 2021 Joint Audit Committee Meeting Minutes*. A motion was made by Mr. Totten and seconded by Ms. Hampton to approve the minutes as presented. The motion carried unanimously.

Ms. Pendergrass introduced the agenda item *Draft GASB 68 and GASB 75 Proportionate Share Audits*. Ms. Pendergrass stated that Blue and Co does not have those audits completed and this item will be deferred to a future meeting. Realizing the March reporting deadline for the Water Districts is dependent upon the information in these proportionate share audits, Ms. Pendergrass expressed that once these audits are complete, a special meeting of this committee will be scheduled.

Ms. Pendergrass introduced the agenda item *Review of Issued Audits: Plan Liquidity, Phase I – Daily Qualification Process*. Ms. Pendergrass announced that Ms. Coffey was unable to attend this meeting and asked that this agenda item be deferred to a future meeting.

Ms. Pendergrass introduced the agenda item *KPPA Archives Policy*. Ms. Adkins stated that all state agencies are required to have on file an approved schedule of retention with the Kentucky Department of Libraries and Archives, the official record keepers for the Commonwealth of Kentucky. She reviewed the current KPPA Archives Policy, including the Record Retention and Electronic Record Retention Schedules followed by the agency. Upon conducting research, it was determined that KPPA currently has audio recordings since 2014, meeting minutes 2009 and forward digitized, video recordings since 2017 (available on the KPPA website and the Facebook page), and agenda, minutes, video records on KPPA website since 2021. Ms. Adkins indicated that KPPA is in the process of ensuring our record retention of board and committee meetings are compliance with KRS statutes. This project includes ensuring all meeting minutes are digitized and sent to KDLA and that all board minutes and materials that require adoption or ratification are posted properly. Ms. Pendergrass questioned the possibility of having a policy for retention that is outside of the statutes, as historical audio and/or video recordings, could be found beneficial for future use. Ms. Adkins stated that different agencies have varying needs and while it is possible, it would require the approval of KDLA. She indicated that this project will allow KPPA to work with KDLA to devise a schedule that will allow for flexibility in certain areas, such as keeping video and audio recordings to reflect the detail not fully shown in the written meeting minutes. Mr. O'Mara stated that record destruction with KDLA appears to be suggested not mandatory, and it is just encouraged to develop a policy that fits the agency's needs and to follow that policy. Mr. Chilton indicated that the discussion of details in the minutes has been a topic that he has discussed with Dentons, the KRS Legal Counsel. He stated that they will be issuing a memorandum soon, and he indicated that he will share that with both Ed Owens and Michael Board. This presentation was for informational purposes only.

Ms. Pendergrass introduced the agenda item *Financial Reporting Updates*. Ms. Adkins reviewed the KPPA Combining Statements of Fiduciary Net Positions for Pension and Insurance Funds, the KPPA Change in Fiduciary Net Positions for Pension and Insurance, the KPPA

Administrative Budget to Actual Analysis, the Contribution Reports for both Pension and Insurance Funds for all of the systems, KPPA Outstanding Invoices, and Penalty Waivers Report.

Ms. Davis provided a review of the changes made to the 2021 Annual Comprehensive Financial Report based on the comments received at the last joint audit committee meeting.

Ms. Davis then reviewed the Fiscal Year End June 30, 2021, End of Audit Requirements by stating that KPPA is required to submit its audited financial statements to the Legislative Research Commission and Auditor of Public Accounts. She indicated that the financial statements were sent electronically to both entities on December 8, 2022 and that the full Annual Comprehensive Financial Statement has been posted on the KPPA website. The full presentation under this agenda item was provided for informational purposes only.

Ms. Pendergrass introduced the agenda item *Joint Audit Committee Administrative Updates*. Ms. Bass provided a summary of the potential disclosures that occurred during the 4th Quarter of 2021, indicating that out of the eight possible occurrences, three warranted member notification while the remaining five did not. Ms. Bass stated that there were no external disclosures during this past quarter.

Ms. Bass then reviewed the Anonymous Tips Report indicating there were four cases in various stages during the last quarter. One has a hearing in progress, one is pending, and two were closed.

Ms. Pendergrass introduced Madeline Perry to present the updated Board Election Policies for both the CERS and KRS Boards. Ms. Perry indicated that there were a few minor changes that were necessary and she reviewed those changes on both of the CERS and KRS policies. The application process was amended to allow for the electronic submission through the KPPA Website using DocuSign and, in addition, require a candidate to submit a picture with an application. One additional change on the KRS Election policy pertains to invalid address of members and that if House Bill 297 passes that will change the portion to indicate a paper ballot

shall not be distributed by mail to a member address that has been proven invalid. Ms. Pendergrass expressed concern about communication issues with members, over and above the election ballots. Ms. Surratt stated that the member can contact KPPA directly, or use self-service, in order to provide the most updated addresses and other forms of communication. Mr. Totten questioned the increasing number of inactive accounts, which is currently stated to be approximately 140,000, and growing. He questioned if staff or an outside entity look into these accounts and update or clear those from the records. Ms. Surratt stated uncertainty in the number of members with invalid mailing addresses that are included in the inactive accounts. She agreed that this matter could be given some attention. Ms. Hampton asked for clarification regarding if these inactive accounts were retirees receiving benefits. Ms. Surratt indicated that the inactive accounts do not include members who are retired and receiving benefits. Mr. O'Mara made a motion and seconded by Ms. Hampton to recommend the CERS Election Policy as drafted to the CERS Board for approval. The motion passed unanimously. Ms. Hampton made a motion and seconded by Mr. Totten to recommend the KRS Election Policy with noted changes to the KRS Board for approval. The motion passed unanimously.

Ms. Pendergrass indicated that the items listed as Additions to the Current Audit Plan, Internal Audit Budget as of December 31, 2021, and the Status of Current Internal Audit Projects would all be deferred to a future meeting.

Ms. Pendergrass introduced the agenda item *Professional Articles*. Ms. Coffey provided two articles for review – AGA – *Auditors, Accountants, and ERM* and Gallup – *Five Ways Managers Can Stop Employee Turnover*.

There being no further business, Ms. Hampton moved and Mr. O'Mara seconded to adjourn the meeting. The motion was approved unanimously. Copies of all documents presented are incorporated as part of the minutes of the Audit Committee meeting as of February 22, 2022.

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CERTIFICATION

I do certify that I was present at this meeting and I have recorded above the action of the Committee on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in connection with this meeting.

Recording Secretary

I, as Chair of the Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on February 22, 2022 were approved by the Joint Audit Committee on April 7, 2022.

Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on February 22, 2022 for form, content, and legality.

Executive Director
Office of Legal Services



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: April 7, 2022

Subject: Final Audit Report Released

Please find attached the final audit report entitled **Plan Liquidity – Daily Qualification Process**. The report is dated February 3, 2022. The Division of Internal Audit Administration noted nine findings six reportable and three verbal , which are summarized below. The detailed findings and recommendations as well as management’s responses are attached for your review.

Summary of Audit Results

1. It is unclear as to how the retirement allowance account has been set up and whether it is being utilized as outlined in the state statutes.
2. Division of Accounting Accounting staff indicated that the JP Morgan Chase Clearing Account maintains a minimum balance of \$500,000 to cover employer credit invoices and payments made from employers with insufficient funds.
 - a. On 103 days, the remaining balance in the Clearing Account exceeded \$1,500,000.
 - b. On 32 days, the remaining balance in the Clearing Account was below \$500,000.
 - c. There are 12 bank accounts kept at JP Morgan Chase. The cash balances in these accounts is not currently required to be reported to the Office of Investments. The total balance of these 12 accounts on January 31, 2022 was \$4,114,459.
3. There are situations when Accounting staff do not transfer the full amount of contributions reported to the Bank of New York Mellon BNY Mellon . On those days, staff make a “judgment call” on the amount of funds that will be transferred. These “judgment calls” are based on certain criteria, but the criteria and process are not documented.
4. Employer and member contributions totaling \$3,362,781 received on November 11, 2020 should have been wired to BNY Mellon on November 13, 2020. However, the wire was not sent until November 16, 2020.
5. For fiscal year 2021, 180 Daily Qualification worksheets were prepared.

- a. Six Daily Qualification worksheets showed the same individual as the reviewer and verifier of the wire.
 - b. Two Daily Qualification worksheets were saved erroneously e.g., no wire was sent that day , but the worksheets contained initials for a preparer, reviewer, and verifier. Since these worksheets contained all initials, it gave the appearance that the wires had been approved and sent.
6. The manual qualification process is not documented.
7. We reviewed all individual transactions from the Daily PC001 Qualification Summary Report and the Daily Qualification Summary Report that were within the scope of our audit (2,557 transactions).
- a. Thirty-one transactions had an incorrect deposit date recorded on the Daily Qualification worksheet.
 - b. Ten transactions were noted on the Daily Qualification worksheet as coming from the incorrect report.
8. We reviewed all 255 business days during our scope.
- a. One day had two corresponding emails. The first email indicating there was no wire to be sent for the day. A second email was sent later in the day with instructions for a wire to be sent to BNY Mellon.
 - b. Two wire detail emails were sent after the 8:00 a.m. deadline; however, Accounting Investment Operations staff was not told to expect these emails at a later time than usual.
9. Of the 189 Daily Qualification worksheets prepared during the scope of the audit, 180 were daily qualification wires. Two of the 180 daily qualification wires sent to the custodial bank were posted to the Great Plains Employer Clearing Account (account 451) the day after the wire was sent to the custodial bank, rather than the same day the wire was sent.

Please note that the attached copy includes minor corrections to the background procedures.

Attachment

No action is required of the Committee.



KPPA
Kentucky Public Pensions Authority

Plan Liquidity – Daily Qualification Process
as of November 18, 2021

February 3, 2022

Executive Summary

The following findings were noted during our review of the Daily Qualification process. The related recommendations can be found in the Audit Results section of the report.

1. State statutes require the establishment of a retirement allowance account. It is unclear as to how this account has been set up and whether it is being utilized as outlined in the state statutes.
2. Employer and member contributions are deposited into the JP Morgan Chase Clearing Account before being transferred to the Bank of New York Mellon (BNY Mellon), the custodial bank. A clearing account typically maintains a zero balance. However, Division of Accounting (Accounting) staff indicated that the JP Morgan Chase Clearing Account maintains a minimum balance of \$500,000 to cover employer credit invoices and payments made from employers with insufficient funds.
 - a. On 103 days, the remaining balance in the Clearing Account exceeded \$1,500,000.
 - b. On 32 days, the remaining balance in the Clearing Account was below \$500,000.
 - c. There are 12 bank accounts kept at JP Morgan Chase¹. The cash balances in these accounts is not currently required to be reported to the Office of Investments. The total balance of these 12 accounts on January 31, 2022 was \$4,114,459.
 - i. Authorization to transfer funds from all JP Morgan Chase accounts to BNY Mellon is limited to four Accounting Cash Management employees (Division Director, Assistant Director, Graduate Accountant Manager, and Graduate Accountant II). No Office of Investments or Accounting Investment Operations staff have access to perform these transfers.
 - ii. Funds are transferred between the 12 JP Morgan Chase accounts via journal entries made to the statewide accounting system – the enhanced Management Administrative Reporting System (eMARS). The same individuals who are authorized to send wires from the JP Morgan Chase accounts as well as a Graduate Accountant I and Accountant II can approve transactions in eMARS.
3. There are situations when Accounting staff do not qualify the full amount of contributions reported. On those days, staff make a “judgment call” on the amount of funds that will be qualified and transferred to BNY Mellon. These “judgment calls” are based on certain criteria, but the criteria and process are not documented.
4. Employer and member contributions totaling \$3,362,781 received on November 11, 2020 should have been wired to BNY Mellon on November 13, 2020. However, the wire was not sent until November 16, 2020.
5. For fiscal year 2021, 180 Daily Qualification worksheets were prepared. These worksheets were prepared by opening the previous day’s worksheet and using the “save as” feature to create the new day’s worksheet. Utilizing the “save as” feature carried forward all information from the previous day’s worksheet, including approvals.
 - a. Six Daily Qualification worksheets showed the same individual as the reviewer and verifier of the wire.

¹ The 12 accounts at JP Morgan Chase are one clearing account, five pension accounts (KERS, KHAZ, CERS, CHAZ, and SPRS), five insurance accounts (KERS, KHAZ, CERS, CHAZ, and SPRS), and one account for excess benefit payments. Daily Qualification wires only take place in the Clearing Account so this phase of the audit focused solely on the Clearing Account. Review of the other JP Morgan Chase accounts has been recommended for a future audit.

- b. Two Daily Qualification worksheets were saved erroneously (e.g., no wire was sent that day), but the worksheets contained initials for a preparer, reviewer, and verifier. Since these worksheets contained all initials, it gave the appearance that the wires had been approved and sent.
6. The manual qualification process is not documented.

Commendations

We appreciate the time that Accounting staff took to explain the Daily Qualification process to Internal Audit (IA) staff. We also appreciate the timely answers that were provided to our questions. During testing we noted several areas that were working effectively:

1. All employer and member contributions received within the scope of this audit were transferred to BNY Mellon.
2. Significant evidence was found to determine that no favoritism was shown between the plans when a “judgment call” was used in determining which funds to qualify.
3. All manual qualifications were backed out correctly.
4. Wires entered in Great Plains agreed to the wires posted to the JP Morgan Chase Clearing Account.
5. Most notification emails were sent by 8:00 a.m., as required by Accounting policy.

Overview

Initially, this audit started by looking at the Daily Cash Projection worksheet used by Accounting Investment Operations staff to monitor the pension and insurance cash accounts at BNY Mellon. During preliminary review of this worksheet, it was revealed that there are many other procedures that influence numbers reflected on the Daily Cash Projection worksheet. It was determined that we would look at each of these procedures separately and release the results in three phases. The following procedures will be reviewed as a part of the Plan Liquidity audit:

1. Daily qualification wire procedures (Phase I)
2. Insurance wire procedures - Department of Employee Insurance and Humana (Phase II)
3. Approval of Capital Calls and Distributions (Phase III)
4. Daily Cash Projection procedures (Phase III)
5. Affirming Repo procedures (Phase III)

There are several other procedures that could have been reviewed as a part of this audit. However, those have been recommended as future projects to ensure the current audit is remained focused on procedures that have an immediate impact on plan liquidity.

Background – Daily Qualification

Daily Qualification was selected as the first phase since employer and member contributions are a main source of income for the BNY Mellon cash accounts. Daily Qualification wires are used to move employer and member contributions from the JP Morgan Chase Clearing Account to the pension and insurance flow-through accounts at BNY Mellon.

Employers are instructed by 105 Kentucky Administrative Regulation (KAR) 1:140 (3) to submit contributions in one of four ways:

1. Electronically through the Kentucky Public Pensions Authority (KPPA) Employer Self Service (ESS) portal. As of the completion of fieldwork, 1,276 employers were utilizing this option.
2. Transferring funds through eMARS, which is maintained by the Finance and Administration Cabinet. As of the completion of fieldwork 152 employers were utilizing this option.
3. Mailing a paper check to KPPA. During the scope of our audit, 221 employers made contribution payments using paper checks.
4. Wiring funds directly to the JP Morgan Chase Clearing Account. During calendar year 2021, 24 employers wired contribution payments directly to the Clearing Account.

The total number of employers listed above exceeds the overall total of KPPA employers because some employers used more than one payment method during the scope of the audit. Payments received through ESS, wire transfer, and eMARS are immediately deposited into the Clearing Account at JP Morgan Chase. Paper checks mailed to the KPPA office are entered into three systems by KPPA staff: START (Strategic Technology Advancements for the Retirement of Tomorrow), Great Plains, and eMARS. The paper checks are then sent to the state Treasury who scans the paper checks to JP Morgan Chase for deposit into the Clearing Account.

On a monthly basis, employers submit the contribution payment and employer reports to KPPA. In most cases, the contribution payment received is automatically balanced in START. If the contribution is not automatically balanced by START, staff within KPPA's Division of Employer Reporting, Compliance, and Education (ERCE) work with the employer to correct the errors (the balancing process has been recommended for a future audit; the error correction process was already included on the audit plan).

Once employer contributions are balanced (either automatically in START or by ERCE staff), the balanced contributions are posted to Great Plains and are reported on the next business day's PC001 Summary Report (PC) or Daily Qualification Summary Report (DQ). The PC reports show state agencies who utilize the Kentucky Human Resource Information System (KHRIS) and the DQ reports show employers who do not utilize KHRIS. These reports show contribution amounts for both pension and insurance by fund: County Employees Retirement System (CERS) Non-Hazardous, CERS Hazardous, Kentucky Employees Retirement System (KERS) Non-Hazardous, KERS Hazardous, and State Police Retirement System (SPRS). The PC and DQ reports include multiple tabs – a summary tab and various supporting tabs. Each individual value on the summary tabs of the PC and DQ reports is the sum of all similar types of employers from the supporting tabs. For example, employer and member contributions

for all KERS Non-Hazardous employers submitted on July 1, 2020 are reported as one line item on the summary tab. This review did not examine transactions on an employer specific basis (this will be recommended for a future audit).

Each day, Accounting Cash Management staff generate the PC and DQ reports from START for the prior business day. Accounting Cash Management staff copy and paste information from the reports onto the current day's Daily Qualification worksheet. Accounting has established a policy that contributions shown on the PC and DQ reports must cumulatively total \$1,000,000 before a qualifying wire is sent to BNY Mellon. Once the contributions are entered into the Daily Qualification spreadsheet, the total contribution amount is compared to the Clearing Account balance:

1. If the \$1,000,000 target is not met then contributions from that day's PC and DQ reports remain in the Clearing Account until the sum of contributions on the reports meets the qualification target.
2. If the \$1,000,000 target is met and the available cash balance in the Clearing Account exceeds the amount of contributions shown on the PC and DQ reports, the entire contribution amount on the reports is wired to BNY Mellon. This scenario takes into consideration that \$500,000 should remain in the Clearing Account after the qualifying wire is sent.
3. If the \$1,000,000 target is met but the available cash balance in the Clearing Account (taking into consideration the required minimum balance) is less than contributions shown on the PC and DQ reports, then the Accounting Cash Management staff member preparing the qualification wire must determine which individual transactions will be transferred to BNY Mellon and which will remain in the Clearing Account (this step was the process referred to as a "judgment call" by Accounting staff).

In addition, Accounting Cash Management staff performs manual qualifications for some contributions. A manual qualification is the transfer of contributions to the custodial bank that have not yet completed the balancing process. State agencies who are captured on the PC report pay contributions twice a month. The first payment comes in between the 15th and 20th of the month and the second half comes in between the 8th and 12th of the following month. In order to move these contributions as quickly as possible from the Clearing Account to BNY Mellon, the Finance and Administration Cabinet sends a report to the Graduate Accountant Manager that shows the contributions that will be included on the PC report once it is balanced. This report breaks down contributions by system and shows the split between employer and member contributions. It does not show the split between pension and insurance. Accounting Cash Management staff manually qualifies the values included on the report from the Finance and Administration Cabinet for KERS Non-Hazardous, KERS Hazardous, and SPRS in the pension section of the Daily Qualification worksheet. This manual qualification is only completed for the first half of the contributions received (those received between the 15th and 20th of the month). After the contributions have been balanced, the manual qualification amount is backed out by being recorded as a negative amount in the pension section of the Daily Qualification worksheet. Funds related to CERS are not manually qualified since these employers are balanced on a different day than the KERS and SPRS employers.

The Daily Qualification worksheet is prepared by a member of the Accounting Cash Management team, reviewed by another Accounting Cash Management staff member, and verified by a third Accounting Cash Management employee. Once the worksheet is approved, the individual who prepared the worksheet initiates two wires from the JP Morgan Chase Clearing Account to BNY Mellon – one for pension and one for insurance. The breakdown by system for each wire is shown at the bottom of the Daily Qualification worksheet. That same individual enters the wire information into Great Plains account 451 (Undistributed JP Clearing Account). A second Accounting Cash Management employee approves the wires at JP Morgan Chase, which releases the funds to be transferred to BY Mellon. An email containing the wire information and the Daily Qualification worksheet is sent to the BNY Mellon Cash Management team and KPPA Accounting Investment Operations staff. An internal Accounting policy requires that the Daily Qualification process be completed by 8:00 a.m. each day.

Objective

The overall objective of our Plan Liquidity audit is to verify that controls are in place to ensure an adequate available cash balance is maintained to cover daily investment activities. The objectives of our Daily Qualification process review were to ensure employer and member contributions received at JP Morgan Chase were wired to BNY Mellon in a timely manner. We will also ensure that all processes reviewed comply with state statutes and regulations as well as internal policies.

Scope and Sampling

The scope of this phase was July 1, 2020 to June 30, 2021. There were 255 business days during this time. A Daily Qualification worksheet was prepared for 180 of those days. A total of 2,617 individual transactions were recorded on the Daily Qualification worksheets. No sampling was used during the review of the Daily Qualification process. We reviewed all transactions on each Daily Qualification worksheet prepared during the scope of the audit.

Methodology

The following steps were performed to ensure the objectives of the Daily Qualification process review were met.

1. Reviewed current KPPA policies and procedures to determine if they were accurate and properly reflected the actual processes being followed.
2. Ensured employer and member contributions received were transferred to BNY Mellon.
3. Ensured information from the PC and DQ reports was properly entered into the Daily Qualification worksheets. Please see Exhibits B, C, and D for an example of the PC report, DQ report, and Daily Qualification worksheet.
4. Ensured information from the Finance and Administration Cabinet reports was properly entered into the Daily Qualification worksheets for the manual qualifications. Please see Exhibit E for an example of the report from the Finance Administration Cabinet.
5. Ensured the manual qualifications were appropriately backed out once the amounts were balanced.

6. Ensured Daily Qualification wires were properly created.
7. Analyzed the balance of funds remaining in the Clearing Account in excess of the stated required minimum balance. Determined the amount of additional funds that could potentially have been sent to BNY Mellon each day.
8. Ensured “judgment calls” used by staff did not unfairly favor one plan over another.
9. Ensured emails with wire information were accurate and sent timely.
10. Ensured wire information was accurately entered into Great Plains account 451.
11. Determined if the Daily Qualification worksheet was prepared, reviewed, and verified by three separate individuals.
12. Calculated the liquidity of the Clearing Account by determining the current ratio for each day. This ratio was calculated by dividing the opening balance by the day’s wire total. Please see Exhibit A for a complete analysis of the liquidity of the Clearing Account balance.

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

Audit Results

Item #1	Compliance with state statutes
Condition	State statutes require the establishment of a retirement allowance account. It is unclear as to how this account has been set up by KPPA and whether it is being utilized as outlined in the state statutes.
Criteria	<p>Kentucky Revised Statutes 16.555 [SPRS], 61.570 [KRS], and 78.630 [CERS] state, "All the assets of the system shall be held and invested in the [State Police Retirement Fund] [Kentucky Employees Retirement Fund] [County Employees Retirement Fund] and credited, according to the purpose for which they are held, to one of three accounts, namely, the members' account, the retirement allowance account, and the accounts established pursuant to 26 U.S.C. sec 401(h) within the funds established in Kentucky Revised Statutes 16.510, 61.515, and 78.520, as prescribed by Kentucky Revised Statutes 61.702(3)(b)."</p> <p>Kentucky Revised Statutes 16.560(4)(a) [SPRS], 61.575(4)(a) [KRS], and 78.630(4)(a) [CERS] state, "Upon the retirement of a member who began participating in the system prior to January 1, 2014, his or her accumulated account balance shall be transferred from the member's account to the retirement allowance account."</p> <p>Kentucky Revised Statutes 16.565 [SPRS], 61.580 [KRS], and 78.650 [CERS] state, "The retirement allowance account shall be the account in which shall be accumulated all employer contributions, amounts transferred from the member account, and to which all income from the investment assets of the system shall be credited. From this account there shall be paid the expenses of the system and the board incurred in the administration of the system, retirement allowances, and any other benefits payable after the member's retirement...."</p>
Cause	The accounts utilized by KPPA were established prior to current personnel beginning employment. Since then, the number of accounts used for each system has increased significantly. As a result, it is possible the current utilization of accounts has changed from how the accounts were used when they were first set up.
Effect	If there is not a clear definition of the retirement allowance account, current or future employees may not account for and track the CERS, KERS, and SPRS assets as required by state statutes.
Recommendation	<p>1. KPPA Executive staff, including the Executive Director, Deputy Executive Director, Executive Director of Investments, the Executive Director of Legal Services as well as the CEOs of CERS and KRS, should work together to document a clear definition of how the retirement allowance account has been established. This includes describing, in detail, the steps taken to meet the statutes referenced in the criteria.</p> <p>2. The Office of Legal Services should review the definition of the retirement allowance account prepared in the recommendation above and ensure KPPA is in compliance with all aspects of the referenced statutes, specifically, the meaning of the retirement allowance account and whether it is being utilized as intended.</p> <p>a. If during the review it is determined that KPPA is not in compliance with any aspect of the referenced statutes, the Office of Legal Services should work with Executive Management of KPPA, CERS, and KRS to determine action needed to achieve compliance.</p>
Deputy Executive Director Response	<p>Recommendation 1 – Agree but would add this is bigger than just the offices of Legal, Investments and Operations. The Executive Director, CEOs and the Executive Director of Benefits should be a part of the recommendations and, if changes are defined, a project team needs to be assembled to make the changes.</p> <p>Recommendation 2 – Agree with the exception that legal definition of retirement allowance account (recommendation 2) should be implemented simultaneously with the executive decisions in recommendation #1 not after it.</p>
Implementation Date	Research is ongoing.
Office of Investments Response	These recommendations were identified independently with findings by Office of Investments and we are recommending the process be changed. These findings were reviewed by Office of Legal and Finance and Administration Cabinet. The steps needed to change the process have also been investigated and we are confident this can be accomplished given enough time. We therefore, recommend getting started with creating a retirement allowance account at BNY Mellon and going from there.
Implementation Date	While this process takes time, I recommend beginning the change in process immediately.

Item #2	Inconsistency in JP Morgan Chase remaining balance
Condition	<p>Employer and member contributions are deposited into the JP Morgan Chase Clearing Account before being transferred to BNY Mellon. A clearing account typically maintains a zero balance. However, Accounting staff indicated that the JP Morgan Chase Clearing Account maintains a minimum balance of \$500,000 to cover employer credit invoices and payments made from employers with insufficient funds. The transfer to the custodial bank takes place after the contributions are balanced, with the exception of some contributions which are manually qualified and transferred to BNY Mellon before the balancing process is completed.</p> <ol style="list-style-type: none"> 1. On 103 days (57%), the remaining balance in the Clearing Account was \$1,500,000 or more. On average, an additional \$12,334,499 could have been sent on these days without the balance falling below the target minimum balance. This amount includes some large values that increased the average. The median additional amount that could have been sent without going below the target minimum balance was \$4,174,579. 2. On 32 days (18%), the remaining balance in the Clearing Account fell below the target. The lowest remaining balance was \$82,039. <p>In addition, there are 12 bank accounts kept at JP Morgan Chase. The cash balances in these accounts are not currently required to be reported to the Office of Investments. The total balance of these 12 accounts on January 31, 2022 was \$4,114,459.</p> <ul style="list-style-type: none"> * Authorization to transfer funds from all JP Morgan Chase accounts to BNY Mellon is limited to four Accounting Cash Management employees (Division Director, Assistant Director, Graduate Accountant Manager, and Graduate Accountant II). No Office of Investments or Accounting Investment Operations staff have access to perform these transfers. * Funds are transferred between the 12 JP Morgan Chase accounts via journal entries made in eMARS. The same individuals who are authorized to send wires from the JP Morgan Chase accounts as well as a Graduate Accountant I and Accountant II can approve transactions in eMARS.
Criteria	<p>During our audit, Accounting staff indicated that the target remaining balance for the Clearing Account at JP Morgan Chase is \$500,000.</p> <p>The CERS Investment Policy Statement (IPS) (approved November 10, 2021) Section III. Asset Allocation Guidelines establishes a cash allocation of no more than 3% of the funds dedicated to investment activities. The KRS IPS (approved November 16, 2021) Section III. Asset Allocation Guidelines establishes a cash allocation of 1.5% to 3% of the funds dedicated to investment activities for KERS Hazardous and an allocation of 5% to 10% for KERS Non-Hazardous and SPRS.</p>
Cause	<p>A balance is maintained in the JP Morgan Chase Clearing Account to cover employer checks with insufficient funds as well as employer credit invoices. The target remaining balance is arbitrary; it is not established by policy or regulation. In addition, Accounting staff indicated that funds must remain in the Clearing Account until they have been balanced. However, there are times when funds are transferred out of the Clearing Account prior to them being balanced.</p>
Effect	<p>Assets that could be transferred to BNY Mellon and used for investment activities may be sitting in the JP Morgan Chase accounts.</p>
Recommendation	<ol style="list-style-type: none"> 1. Division of Accounting (Cash Management and Investment Operations) should work with the Executive Director of the Office of Investments to establish a target balance for all JP Morgan Chase accounts. The target balance for the Clearing Account should be documented in the Daily Qualification Wire Procedures as well as the reasoning for the target balance (e.g., to cover insufficient funds or other activities). 2. Once the targets from the recommendation above are established, all funds received into the Clearing Account that are over the established target should be transferred to the BNY Mellon flow-through accounts immediately upon receipt. Once the contributions have been balanced by ERCE, the contributions can be allocated to the appropriate pension or insurance fund. 3. Office of Investments staff should work with the Division of Accounting staff to determine if the balances in all JP Morgan Chase accounts need to be reported to the Office of Investments. If so, staff within the Office of Investments and Accounting should work together to determine how this information will be shared and how often. 4. The Daily Qualification Wire Procedures or other document should describe the types of transactions that flow through JP Morgan Chase Clearing Account. 5. KPPA Executive staff (specifically, the Deputy Executive Director and the Executive Director of Investments) should work with Accounting staff and Office of Investments staff to ensure proper individuals have access to transfer money from JP Morgan Chase to BNY Mellon as well as ensure proper individuals have approval authority in eMARS.

<p>Deputy Executive Director Response</p>	<p>Recommendation 1 – Agree – A target balance should be established and documented. The target balance is zero. All money that can be transferred should be transferred.</p> <p>Recommendation 2 – Conditionally Agree – All funds received into the Clearing Account should be transferred to the custodial bank cash accounts as quickly as possible but not immediately upon receipt. Funds cannot be transferred unless two conditions are met: First, the funds must be qualified. To be qualified means that we have identified which of the 10 pension/insurance funds to transfer the funds to. When contributions are received from an employer, we do not know what plan or fund the contributions belong to until the report is balanced and processed. Once a report has been balanced/processed, the contributions can be "qualified". An employer can report for one or more of five plans (KERS, KERS Hazardous, CERS, CERS Hazardous, and SPRS), so until the report has been balanced/processed, we do not know the breakdown between the potential five plans. We also do not know the pension and insurance split until balancing/processing occurs. This is why we must deposit the contributions into the clearing account upon receipt. The contributions referenced in conditions #1 above had not been "qualified" yet, so they could not have been sent to BNY Mellon as the condition incorrectly indicates. Alternatively, a new clearing account could be set up at BNY Mellon. There is currently no clearing account at Mellon. This option will be examined with the research referred to in the response to Finding #1. It is important to note that the qualification of funds is required prior to investment without regard to the location of the clearing account - either JP Morgan Chase or a new account at BNY Mellon, as they are not qualified into "pension" or "insurance" funds, yet. Second, funds can only be transferred if it leaves a non-negative balance in the account. Generally, this is due to an employer payment with insufficient funds.</p> <p>Recommendation 3 – Agree – If Office of Investments staff are interested in the balance, they are given the balance. Accounting and investment staff discussed this and for now have agreed to leave the procedures unchanged (no balance provided without a specific request).</p> <p>Recommendation 4 – Agree – The procedures have been updated to reflect the types of transactions.</p> <p>Recommendation 5 – Agree – The appropriate staff already have access based on current processes; however this could change depending on the research referred to in our response to Finding #1.</p>
<p>Implementation Date</p>	<p>Recommendation 1 – 02/01/2022</p> <p>Recommendation 2 – Pending research referred to in our response to Finding #1. If the research results in changes in process, then an implementation date will be established at that time.</p> <p>Recommendation 3 – 02/01/2022</p> <p>Recommendation 4 – 02/01/2022</p> <p>Recommendation 5 – Pending research referred to in our response to Finding #1. If the research results in changes in process, then an implementation date will be established at that time.</p>
<p>Office of Investments Response:</p>	<p>Recommendations 1 and 2 - Recommend sweeping the entire balance.</p> <p>Recommendation 3 - No balances are needed.</p> <p>Recommendation 5. This needs to be remedied by using the clearing accounts at the custodian so no cash remains in non-trust accounts. Let BNY Mellon account for the contributions coming in to the custody account using the wire documentation from the employer to Chase. There seems to be no way to account for the Chase on-going balances in order to know which plan/fund is owed the money.</p>
<p>Implementation Date</p>	<p>This can be done immediately.</p>

<p>Auditor Response</p>	<p>We do not believe the condition contains an inaccurate statement. As indicated in the cause, there are times when funds are transferred to BNY Mellon before the contributions are balanced. This would indicate that it is feasible for the balancing process to be completed after funds are transferred to BNY Mellon. With that understanding, we analyzed the amount of funds that remained in the Clearing Account in excess of the stated required minimum balance. Our condition is based on that analysis.</p> <p>For clarification, when recommending that funds be transferred immediately upon receipt, that is not a suggestion that funds be transferred multiple times a day (i.e. every time a transaction comes into the Clearing Account). This recommendation could be met by reviewing the activity in the Clearing Account at the beginning of each day and transferring all funds received the prior day. This is similar to the current process, but without the following stipulations: the requirement that the contributions reported be \$1,000,000 before initiating a wire, the "judgment call" process, the manual qualification process, and the requirement to first complete the balancing process (though in many cases the balancing process will have been automatically completed through START for the prior day's contributions). It is stated that the balancing process is needed because a breakdown of contributions is unknown until the balancing process is completed. However, the breakdown of contributions is included on the detail report submitted by each employer. Therefore, allocation of incoming contributions is known upon receipt of the funds. Furthermore, there are currently contributions that are transferred, without issue, prior to the completion of the balancing process.</p> <p>Two flow-through accounts currently exist at BNY Mellon. If it is determined that recommendation #2 for this finding will be implemented, Executive Management (KPPA, CERS, and KRS) should determine if one of these flow-through accounts can be utilized in place of the JP Morgan Chase Clearing Account. We understand that if a BNY Mellon account were utilized, funds deposited there would still likely need to go through some type of reconciliation process to ensure proper allocation occurs.</p> <p>We agree that a negative balance should not exist. We understand the concern that sending all contributions upon receipt could result in a negative balance if a payment is received from an employer with insufficient funds or if an employer's payment triggers the creation of a credit invoice. However, contributions are received on a daily basis. We are recommending that all contributions received the prior day be transferred to BNY Mellon. This means contributions received for the current day would remain in the Clearing Account. The contributions received on any given day are likely to be adequate to cover insufficient funds and employer credit invoices. In addition, holding funds to cover employer credit invoices and insufficient funds is potentially penalizing investment activity of contributions. Immediately transferring all contributions received and increasing investment activity is essential to those serving in a fiduciary role. While Tier 1 and Tier 2 benefits may not be effected as much by delayed transfers to the custodial bank, Tier 3 benefits are heavily impacted by any reduction to investment returns.</p>
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Item #3	Issues related to undocumented judgment call process
Condition	<p>Within the scope of the audit, 2,617 qualification transactions were recorded on the Daily Qualification worksheets. In cases where contributions on the PC and DQ reports exceeded \$1,000,000, but there were not enough funds in the Clearing Account to send the full amount on the reports, Accounting Cash Management staff utilized a "judgment call" to determine which contributions were sent to BNY Mellon and which were held in the JP Morgan Chase Clearing Account. This "judgment call" process is not documented. During testing, the following items were noted:</p> <ol style="list-style-type: none"> 1. Seventy-six transactions (3%) could have been wired on a date earlier than the date the wire was actually sent. <ol style="list-style-type: none"> a. Accounting staff indicated that 35 of the wires were not sent because it would have required a negative entry to at least one fund's individual bank account. Staff prefer not to make negative entries. These items have been included as findings since this preference was not documented in the procedures and was not communicated to audit staff until after testing was completed. b. Accounting staff indicated that 41 wires were not sent because it would have left a remaining balance in the Clearing Account of less than \$500,000. These items remained as findings to show that the \$500,000 balance is not consistently used when determining wire amounts. <ol style="list-style-type: none"> i. Eight wires, if transferred on the testing date, would have left a balance above \$500,000, ii. Thirty wires, if transferred on the testing date, would have left a balance below \$500,000, but above the lowest balance left by Accounting staff on other days. iii. Three of the wires, if transferred on the testing date, would have left a balance lower than the lowest balance left by Accounting staff on other days. 2. In one instance, CERS contributions were not transferred on the date received because there was an insufficient balance in the Clearing Account. However, this transaction was not given priority on the next qualifying day. Instead, these contributions were sent to BNY Mellon 20 days later. 3. One wire of \$633,920 was sent to BNY Mellon even though it did not meet the stated \$1,000,000 qualification target.
Criteria	The purpose of the Daily Qualification Wire procedures is to send as much money as possible to BNY Mellon each day as long as it meets the <u>\$1,000,000 qualification target and the remaining balance in the JP Morgan Chase Clearing Account is approximately \$500,000.</u>
Cause	<ol style="list-style-type: none"> 1. The "judgment call" process is not documented, even though staff seem to follow a similar process each time the situation arises. 2. All goals/preferences utilized during the qualification process are not documented. Some of these undocumented items include the following: <ol style="list-style-type: none"> a. Minimizing the number of individual transactions that are held to be transferred another day. b. Keeping a single day's contributions together. c. Ensuring negative entries are not made to an individual fund's bank account (this would trigger a withdrawal from BNY Mellon, rather than a deposit). 3. The monthly wire reconciliation process is not documented. 4. The qualification and remaining balance targets are arbitrary and unenforced. There are exceptions to the \$1,000,000 qualification target that are not documented (e.g., keeping the JP Morgan Chase balance low at calendar year-end).
Effect	Staff serving as the backup for this process may not be able to successfully complete the Daily Qualification process if the procedures are not fully documented.
Recommendation	<p>If recommendation #2 from finding #2 is implemented, there will be no need for a "judgment call" process as all funds would be transferred upon receipt. If this recommendation is not implemented, we recommend the following:</p> <p>The Daily Qualification Wire Procedures should be updated to include all steps of the process. At a minimum, the following should be added:</p> <ol style="list-style-type: none"> 1. The "judgment call" process. 2. Goals and preferences utilized by staff when determining the amount of the wire to send to BNY Mellon. 3. The monthly wire reconciliation process. 4. Known exceptions to the qualification or remaining balance targets. As stated in finding #2, the Executive Director of the Office of Investments and Accounting staff should review these targets and ensure they are sufficient. Once established, these targets should be documented and enforced.
Deputy Executive Director Response	Agree - What is being referred to as a "judgment call" is in fact a defined process. We agree this should be documented.

Implementation Date	2/1/2022
Office of Investments Response:	This should not be a judgment call. It should be handled at our Plan Accountant - BNY Mellon.
Implementation Date	Immediately
Auditor Response	We agree that a process was in place and just not documented. We refer to this as a "judgment call" because that was the term staff used when describing this process to us.

Item #4	Wire sent later than it should have been sent
Condition	Employer and member contributions totaling \$3,362,781 received on November 11, 2020 should have been wired to BNY Mellon on November 13, 2020, but were not wired until November 16, 2020.
Criteria	Accounting staff indicated that a qualification wire is sent to BNY Mellon if the contributions received total at least \$1,000,000 and there are enough funds in the JP Morgan Chase Clearing Account to cover the transfer and leave a remaining balance of \$500,000.
Cause	Graduate Accountant Manager was scheduled to be out of the office on November 13, 2020 so the Daily Qualification worksheet for that day was prepared on November 12, 2020. This included adding a large negative back-out of a manual qualification to the November 13, 2020 worksheet. However, when staff reviewed the Daily PC001 Qualification Summary Report for November 13, 2020, it did not properly balance and they were unsure of what to do about the negative back-out amount on the worksheet. Therefore, staff did not perform a qualification that day and instead waited until November 16, 2020.
Effect	Assets that could have been utilized for investment purposes remained at JP Morgan Chase for an additional three days.
Recommendation	If recommendation #2 from finding #2 is implemented, this situation would be less likely to arise in the future. Whether or not that recommendation is implemented, Daily Qualification worksheets should not be prepared in advance. If the individual who typically prepares the worksheet is going to be out of office, the individual's designated backup should prepare the Daily Qualification worksheet.
Deputy Executive Director Response	Disagree - The next day's qualification worksheet needs to be started the prior day if there are items to be carried forward. This helps to ensure that items are not omitted from the next day's qualification. The issue identified in the audit was a one time incident, and staff have been instructed and procedures have been updated to ensure that staff know how to handle this situation.
Implementation Date	2/1/2022
Office of Investments Response:	See Item #3 for my response.
Implementation Date	Immediately
Auditor Response	While we understand that the worksheet for the next day may be started in advance, we are recommending that the entire worksheet not be completed in advance, which is what happened in this instance. Since the entire worksheet was already completed, staff were unclear of what needed to be done when an issue was encountered the next day.

Item #5	Review of Daily Qualification worksheets
Condition	For fiscal year 2021, 180 Daily Qualification worksheets were prepared. 100% of these worksheets were reviewed: 1. Six Daily Qualification worksheets (3%) showed the same individual as the reviewer and verifier of the wire. 2. Two Daily Qualification worksheets (1%) were saved erroneously (e.g., no wire was actually sent). Those worksheets included initials for a preparer, checker, and verifier, which made it appear as though the wires needed to be processed.
Criteria	The Daily Qualification Wire Procedures state, "An email is sent to appropriate accounting staff for approval." During the audit, Accounting staff indicated that one person prepares wire worksheets, a different person checks the worksheet and a third person verifies the worksheet.

Cause	The Daily Qualification Wire Procedures are not clear on the type of review required for the Daily Qualification worksheet. In addition, the previous day's Daily Qualification worksheet is opened and the "save as" feature is used to create the current day's worksheet. This automatically carries forward the approvals from the prior day. Accounting staff indicated the control for this procedure lies with who initiates and approves the wires at JP Morgan Chase. However, we were unable to identify the initiator and reviewer in the JP Morgan Chase system. Therefore, we could not verify that different individuals performed these tasks.
Effect	Since the initials of the preparer, reviewer, and verifier are carried forward each day, the initials on the spreadsheet are not a sufficient internal control. These spreadsheets could be prepared, reviewed, and verified all by the same individual.
Recommendation	1. The Daily Qualification Wire Procedures should be updated to specify the type of review to be performed for this worksheet, including the roles of the preparer, reviewer, and verifier. 2. Accounting staff should develop another way (other than initials in a spreadsheet) to document review of the Daily Qualification worksheet. In addition, the Daily Qualification Wire Procedures should be updated to include a step to remove the initials of the preparer, reviewer, and verifier after the "save as" function as been utilized to create the new day's worksheet. Being able to extract the initiator and reviewer information from JP Morgan Chase would be a sufficient control.
Deputy Executive Director Response	Recommendation 1- Agree - Procedures have been updated. Recommendation 2- Agree - We have a method to extract the initiator and reviewer information from JP Morgan Chase, and the procedures have been updated.
Implementation Date	2/1/2022
Office of Investments Response:	See Item #3 for my response.
Implementation Date	Immediately

Item #6	Manual qualification process not documented
Condition	The manual qualification process is not documented.
Criteria	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...."
Cause	Accounting Cash Management staff who complete this task have worked with this process for a long time. Since no new staff have been assigned to the task, current staff have not taken the time to document the process.
Effect	New staff and staff serving as the backup for this process may not be aware that this process is supposed to occur. In addition, if this task is performed, it may be completed in a manner unintended by management.
Recommendation	If recommendation #2 from finding #2 is implemented, this process would change as all funds would be transferred upon receipt. We recommend that the new process be documented in detail. If this recommendation is not implemented, we recommend the following: Daily Qualification Wire Procedures should be updated to document the manual qualification process, including the back-out of the manual qualifications. The procedures should also explain how to access reports from the Finance and Administration Cabinet.
Deputy Executive Director Response	Agree - Procedures have been updated.
Implementation Date	2/1/2022
Office of Investments Response:	See Item #3 for my response.
Implementation Date	Immediately

Exhibit A: Clearing Account Liquidity Analysis

Purpose

The purpose of this analysis was to connect results of various tests performed during the audit in order to highlight which parts of the process are performing well and which areas may need improvement.

Source

All employer and member contributions recorded on the Daily Qualification worksheets prepared by the Accounting Cash Management team between July 2020 and June 2021.

Methodology

In order to test the efficiency and accuracy of the wire creation process, IA staff recreated each Daily Qualification worksheet using the information available to the Accounting Cash Management team. As described in the background of the audit report, Accounting Cash Management staff must sometimes make a judgment call regarding which funds to transfer to BNY Mellon and which funds to hold in the JP Morgan Chase Clearing Account. As a part of this test, the audit team looked for any biases towards a particular plan, fund, or report type as well as any other factors that influenced the timeliness with which contributions were transferred to BNY Mellon.

The criteria used by Accounting Cash Management staff when making judgment calls is not documented and was not described in detail prior to testing. Therefore, the IA testing was performed using the steps described below:

1. Using the transactions reported by Accounting, a database was created that included all contributions received during fiscal year 2021. This database was set up to show each individual transaction and defined the deposit date, report type (DQ or PC), fund, system, and wire date.
2. The wire date in the database was the day that the transaction should have been reviewed for qualification purposes. For example, contributions deposited on 7/1/2020 (deposit date) should have been reviewed on 7/2/2020 to see if they could be qualified. In this instance, the wire date would be listed as 7/2/2020.
3. During the scope of the audit, there were 255 business days that contributions were reviewed to determine if a qualification wire could be sent (e.g., met the \$1,000,000 target). Each transaction for each business day was sorted from least to greatest to ensure that each plan, fund, and report type was treated the same.
4. Transactions were added starting from the top (least) going to the bottom (greatest). Once the total contributions received were known, IA staff followed the scenarios described below.
 - a. Scenario 1 - If the total contributions received for the day were **under** the \$1,000,000 target, the “wire date” was changed to the next business day and the same method of adding transactions was used for the next day. If the next day still didn’t qualify with the current day’s contributions and the prior day’s contributions everything was moved to the next day until the cumulative sum met the \$1,000,000 target.

- b. Scenario 2 - If the total for the current day met the target and the available balance from the wire worksheet for the day could cover everything then the wire date was not changed from the original review date because it would have been sent on the day it was reviewed.
 - c. Scenario 3 - If the total met the target, but the available balance could not cover everything then transactions were added from top to bottom until the sum was as close to the available balance as possible. Transactions that could not be included were moved to the next day and were given priority by adding them first.
5. As a part of this test, IA staff also looked at the remaining balance in the JP Morgan Clearing Account to determine if it was kept to approximately \$500,000, as this was stated to be the desired minimum balance for the account. Ideally, a clearing account should operate with a near zero balance, but there are times when employers make payments from an account with insufficient funds. There are also situations when KPPA creates a credit invoice to employers; these credits hit the Clearing Account. A balance is kept in the Clearing Account to help cover these situations.

Analysis

Of the 255 business days in fiscal year 2021, the IA testing method and Accounting method agreed on 109 days (42%). For the remaining 146 days, the IA and Accounting methods disagreed with when to transfer individual transactions that fell under Scenario 3 described above. After testing was completed, it was discovered that in addition to maintaining a minimum balance of \$500,000, there are other criteria that Accounting staff use when preparing the Daily Qualification worksheet. These undocumented procedures (listed below) may account for differences discovered in IA and Accounting methods used to create wires.

1. Create wires as close to the opening balance as possible.
2. Ensure the total transferred for each individual plan is a positive number (a negative number would cause a withdrawal from BNY Mellon).
3. Keep contributions received on the same day together and move as few individual transactions as possible.

Table 1 shows the count by report type. Employers captured on the PC reports are state agencies that utilize KHRIS. All other employers are shown on the DQ reports. This means that mostly KERS Non-hazardous, KERS Hazardous, and SPRS employers are captured on the PC reports because these agencies generally report through the Personnel Cabinet, which administers KHRIS. The only CERS employers reporting through KHRIS are County Clerk and Sheriff Offices. All other CERS employers are captured on the DQ reports. Health Departments are the only KERS employers captured on the DQ reports.

Table 2 shows the count difference by fund type, Pension or Insurance. Pension will always have more contributions submitted than insurance based on statutory requirements.

Table 1: Transactions moved in Scenario 3, by report type					Table 2: Transactions moved in Scenario 3, by fund type				
Count by Report Type	Internal Audit Method		Accounting Method		Count by Fund Type	Internal Audit Method		Accounting Method	
	PC	DQ	PC	DQ		Pension	Insurance	Pension	Insurance
CERS	1	84	4	65	CERS	72	13	43	26
CERS Hazardous	0	23	4	57	CERS Hazardous	20	3	34	27
KERS	8	17	20	42	KERS	18	7	38	24
KERS Hazardous	0	0	22	10	KERS Hazardous	0	0	19	13
SPRS	0	0	7	15	SPRS	0	0	19	3
Total	9	124	57	189	Total	110	23	153	93

As seen above in Tables 1 and 2, Accounting’s method moved nearly twice as many individual transactions compared to the IA method. Ordering individual transactions from least to greatest caused more CERS Non-Hazardous pension transactions on the DQ report to be moved than any other plan, fund, or report type (for the IA method). Since the CERS Non-hazardous pension fund is the largest contributor and most CERS employers are captured on the DQ reports, this will naturally cause these types of contributions to be the largest transactions on most days. When ordering transactions numerically, these transactions were consistently identified as contributions that needed to be moved to the next qualifying day under scenario 3.

This difference between the IA method and Accounting method can be seen again in the tables 3 and 4, which show the values of transactions being moved.

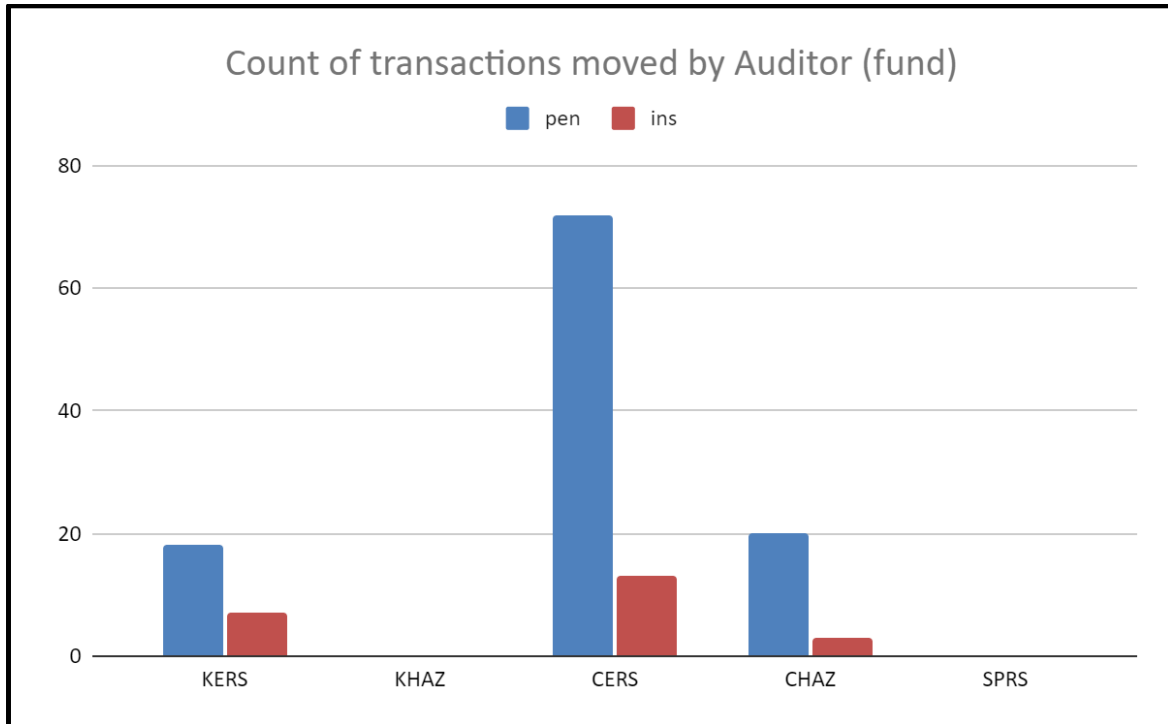
Table 3: Value of transactions moved in Scenario 3, by report				
Value by report type	Internal Audit Method		Accounting Method	
	PC	DQ	PC	DQ
CERS	\$1,399,972	\$340,045,403	\$1,462,813	\$205,880,985
CERS Hazardous	\$0	\$56,078,029	\$3,817	\$45,016,784
KERS	\$109,850,734	\$29,180,877	\$(40,955,438)	\$26,612,733
KERS Hazardous	\$0	\$0	\$(6,958,743)	\$58,395
SPRS	\$0	\$0	\$1,818,819	\$(9,208)
Total	\$111,250,706	\$425,314,309	\$(44,628,732)	\$277,559,689

Table 4: Value of transactions moved in Scenario 3, by fund				
Value by report type	Internal Audit Method		Accounting Method	
	Pension	Insurance	Pension	Insurance
CERS	\$320,170,024	\$21,275,352	\$188,636,271	\$18,707,527
CERS Hazardous	\$50,120,399	\$5,957,630	\$39,713,089	\$5,301,512
KERS	\$69,114,811	\$69,926,800	\$(16,412,236)	\$2,069,531
KERS Hazardous	\$0	\$0	\$(7,038,668)	\$138,320
SPRS	\$0	\$0	\$138,392	\$1,671,219
Total	\$439,405,234	\$97,159,782	\$205,036,848	\$27,894,109

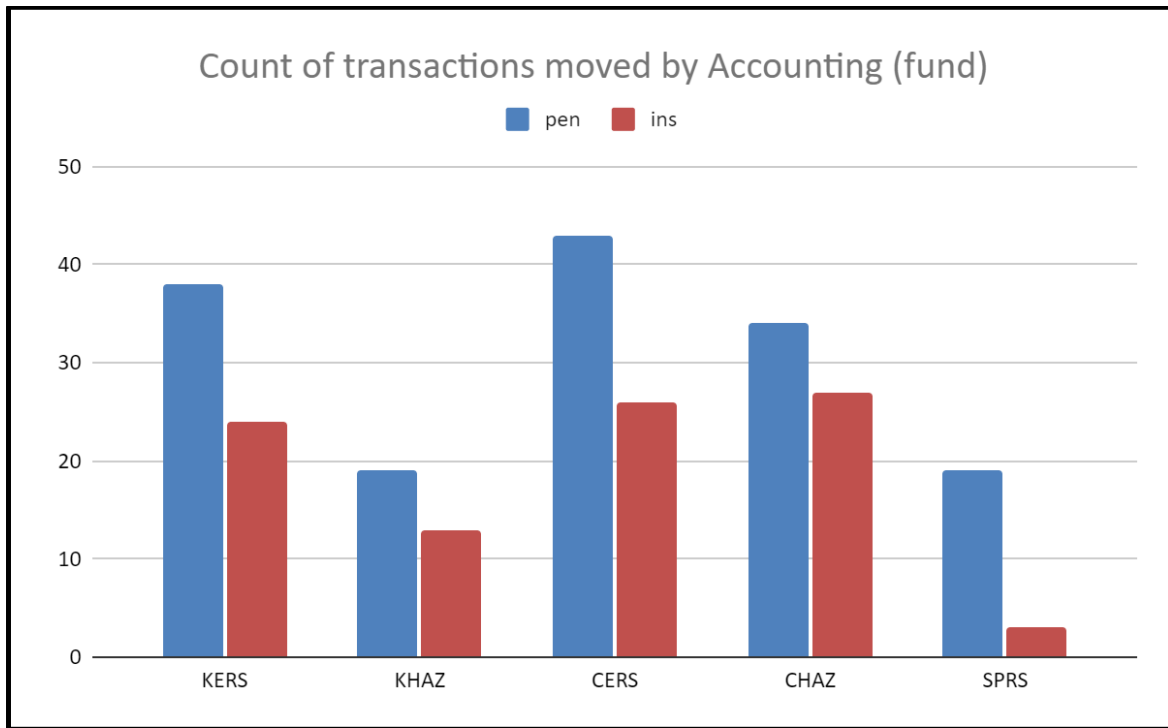
The IA method resulted in transferring fewer individual contributions, but did result in a greater value being transferred overall. The IA method never held a negative transaction because these were always added first (least amount). The Accounting method held these so that no individual fund showed a negative balance on the Daily Qualification worksheet. A negative balance on the Daily Qualification worksheet would result in withdrawal from Mellon. To prevent this, Accounting held the negative values until enough contributions were received to make a positive transfer to Mellon.

The graphs below suggest that sorting transactions from least to greatest when determining what to hold was an efficient method. Transactions moved by fund type and report type in the IA method and Accounting method appear to slightly mirror each other, but the differences from the IA method are more extreme. This shows that the values of the transactions, not the system, fund, or report type determines what stays and what goes. Again, CERS is moved the most due to CERS being the largest contributor and nearly all CERS employers being captured in the same report type.

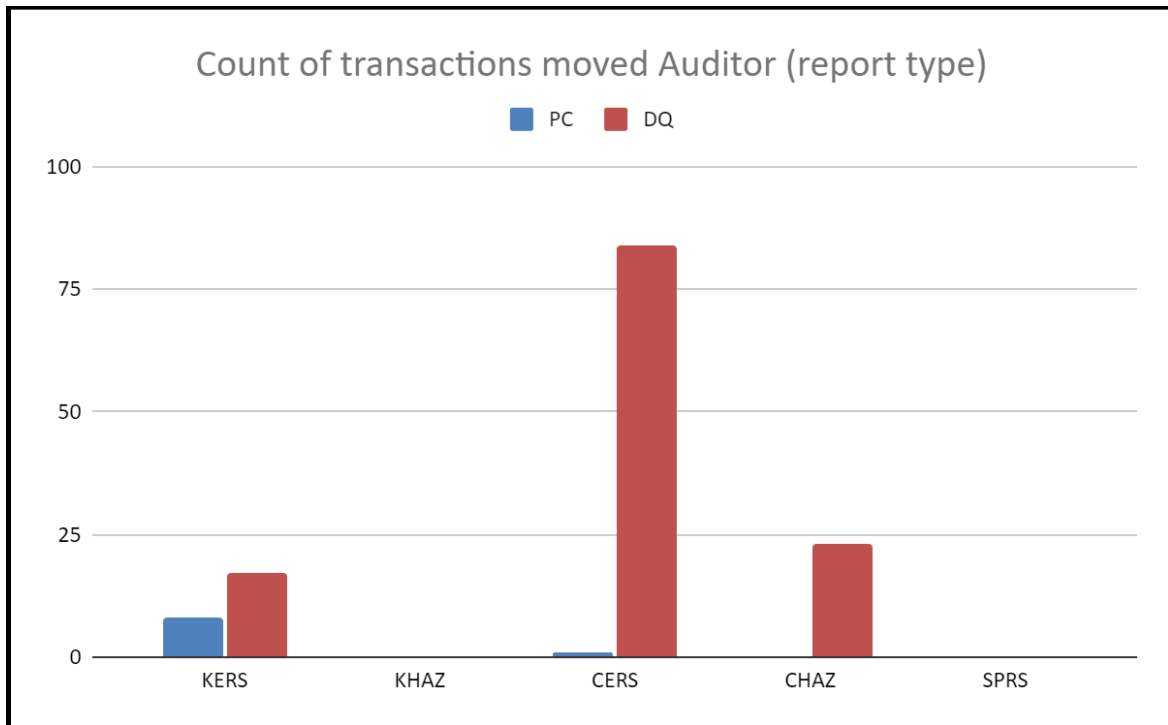
Graph 1:



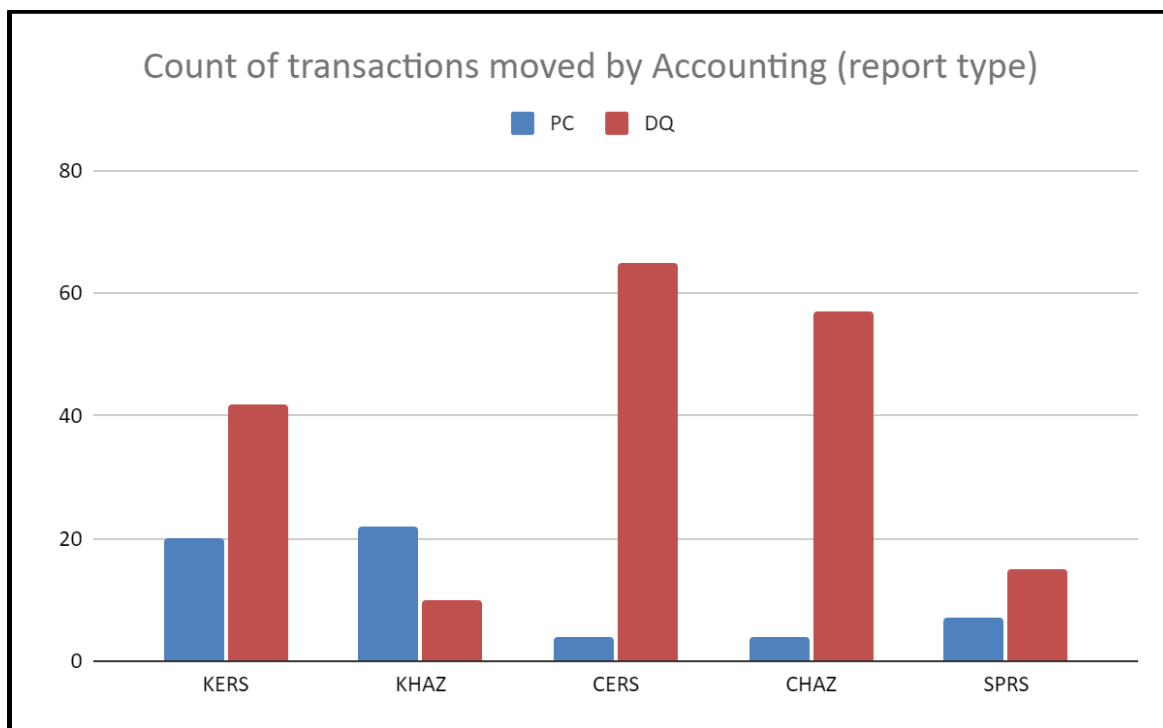
Graph 2:



Graph 3:



Graph 4:



Despite the differences in how the wires were created, there is sufficient evidence to say that Accounting is not showing favoritism between the systems, funds, or report types. CERS transactions on the DQ report in the pension fund are moved more frequently than other types of transactions, but this is because most CERS employers are pooled into the DQ reports, which naturally causes them to be the highest volume transaction type.

The total amount of wires created by Accounting were then compared to the available balance to see if Accounting kept the daily qualification wires as close to the opening balance as possible. This was measured by calculating the current ratio which is current assets (the opening balance) divided by current liabilities (qualification wire for corresponding day). If the ratio is 1 then this means that Accounting sent everything available because the daily qualification was exactly what the opening balance was. This would not be an expected ratio because there needs to be at least \$500,000 left in the clearing account to cover insufficient funds and employer credit invoices. A more reasonable expectation would be something between 1 and 2. If a ratio is above 2 then that means that the amount of the qualification wire could have been sent more than twice based on the Clearing Account balance.

There were 180 daily qualification wires sent within the scope of this audit. The average ratio was 2.286, but this includes several extremely high ratios including the maximum ratio of 23. The median ratio, 1.24, was a better metric for this population. Half of the ratios fell between the first and third quartiles, 1.08 and 2.43. The minimum ratio was 1.004.

Table 5 gives the full picture of the distribution overall:

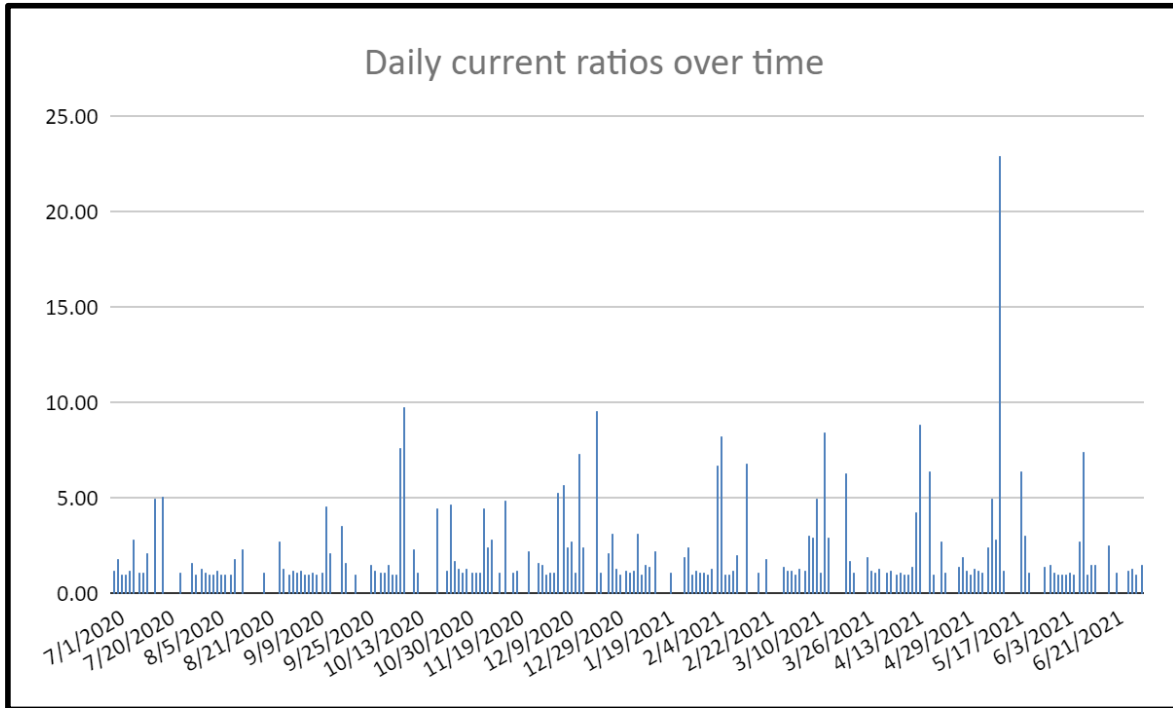
Table 5: Daily Current Ratios	
Current Ratios	% of Ratios
126 days < 2	70.00%
2 ≤ 23 days < 3	12.78%
3 ≤ 5 days < 4	2.78%
4 ≤ 12 days < 6	6.67%
6 ≤ 14 days ≤ max	7.78%

The median ratio, and the fact that 70% of all ratios were below 2, indicates that Accounting Cash Management staff generally created wires as close to the opening balance as possible. The remaining 30% of ratios indicate there may be contributions being unnecessarily held in the JP Morgan Chase Clearing Account.

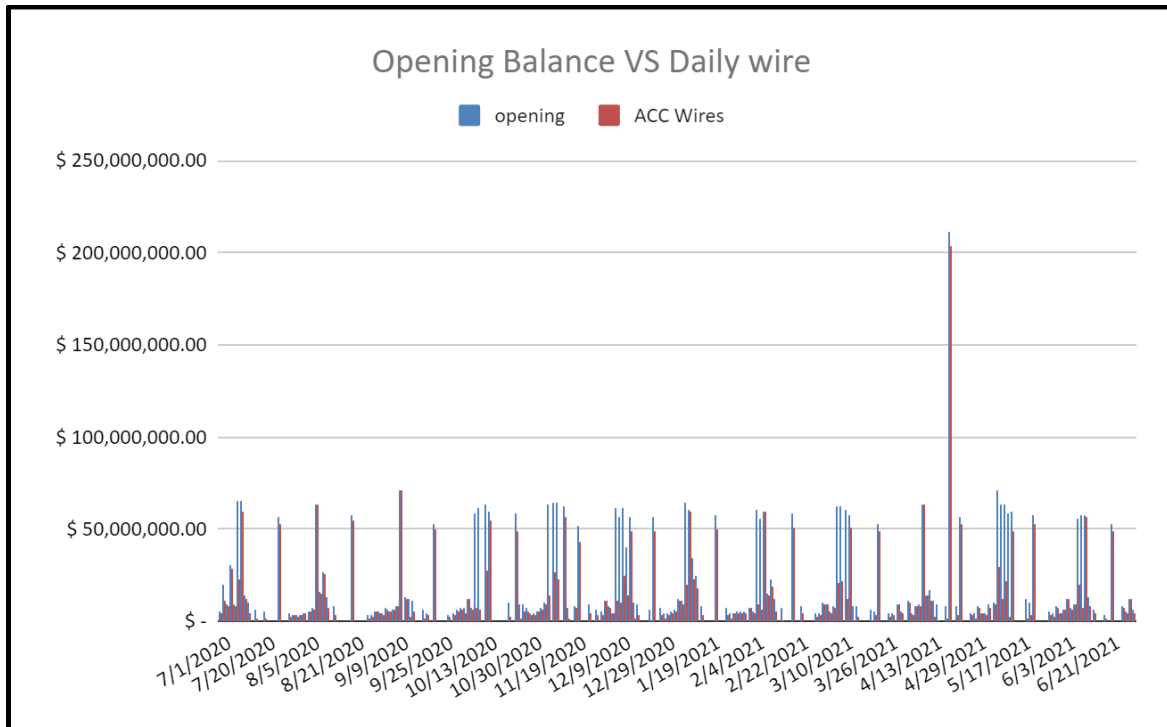
There is an Accounting policy that the cumulative sum of contributions received each day must be at least \$1,000,000 before a qualifying wire is created. The graphs below shows how the daily ratios change over time in a non-normal fashion. Ratios at the beginning of the month are low, hovering around the median ratio 1.24. As the month goes on, the ratios climb, cresting mid-month, and plummeting to 0 for days with no wire sent as the cycle resets. This pattern seems to follow when employers submit contributions and is consistent throughout fiscal year 2021.

The employers captured on the PC reports submit contributions twice a month, around the 1st and 15th of each month. At the beginning and in the middle of any given month, the contributions received most likely meet the \$1,000,000 qualification target. Between these two periods of the month, contributions barely meet the qualification target and it's on these days when the higher current ratios occur.

Graph 5:



Graph 6:



Here again it can be seen that Accounting wires generally match the opening balances. Days where the opening balance is far above the wire are easy to identify. This is one element that caused the higher ratios. Another element that may have caused higher ratios was the remaining balance, since the remaining balance became part of the next day’s opening balance.

The remaining balance for each day was compared against the desired \$500,000 minimum balance. The difference between the remaining balance and \$500,000 was then compared to the \$1,000,000 qualification target. This result was considered an excess of contributions in the Clearing Account. The amount that could have been sent to Mellon while still maintaining the minimum balance of \$500,000 was then calculated from the excess.

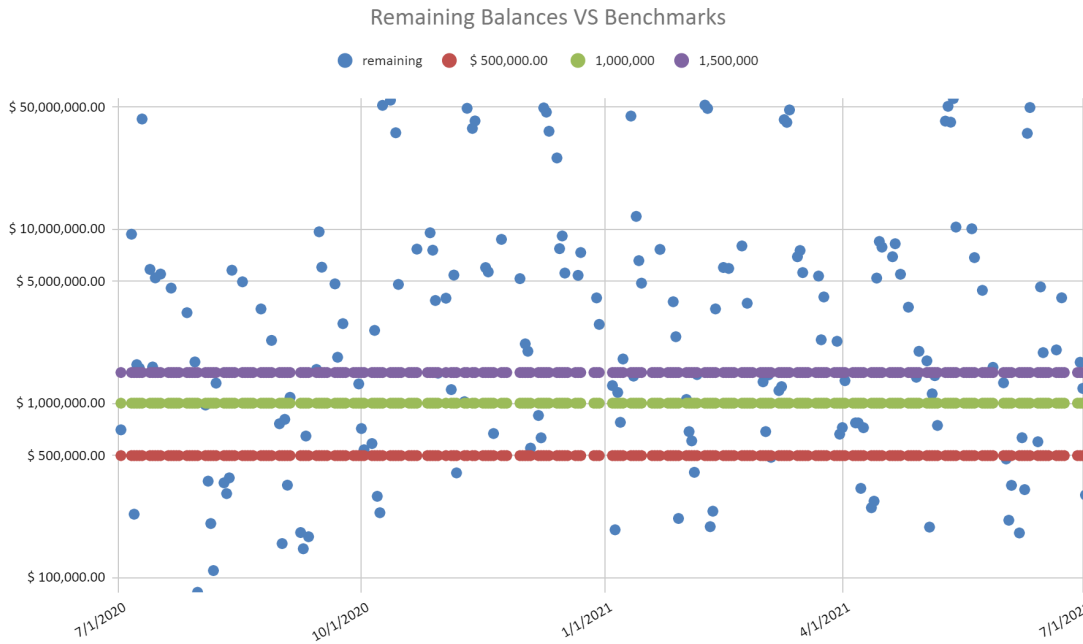
The average remaining balance was \$8,206,099, but this includes several extreme values including the maximum remaining balance or \$56,085,821. The median remaining balance of \$4,174,579 was a better metric for this population. Half of the remaining balances fell between the first and third quartiles, \$712,092 and \$6,174,493, while the minimum remaining balance was \$82,039.24.

Table 6 below gives the full picture of the distribution overall:

Table 6: Remaining Balances	
Remaining Balances	% of Total Wires
32 days < \$500,000	17.78%
\$500,000 ≤ 24 days < \$1,000,000	13.33%
\$1,000,000 ≤ 21 days < \$1,500,000	11.67%
\$1,500,000 ≤ 103 days	57.22%

The median remaining balance of \$4,174,579, and the fact that 57% of remaining balances were greater than or equal to \$1,500,000, indicates that the minimum \$500,000 balance was not consistently followed. Further evidence of this is shown on Graph 7.

Graph 7:



Graph 7 is based on a logarithmic scale, which means that the distances on the Y-axis are to be interpreted in percent change. For example, there is a 100% increase in the remaining balance between \$500,000 and \$1,000,000. The minimum balance target, qualification target, and \$1,500,000 target are added for reference. Current Accounting procedures do not describe what to do in cases where the remaining balance meets the \$1,000,000 qualification target. All funds in the Clearing Account are employer contributions. Therefore, employer contributions that meet the \$1,000,000 qualification target are remaining in the Clearing Account rather than being transferred to BNY Mellon. This delay in wiring employer contributions to BNY Mellon could result in decreased investment returns.

One explanation for maintaining a balance in the Clearing Account was that occasionally employers submit payments from an account with insufficient funds. Also, there are times when KPPA must reimburse contributions to employers. The scope of this audit did not include reviewing reimbursements to employers because that process does not directly impact plan liquidity. Review of this process has been recommended as a future audit.

Table 7 below shows all withdrawals from the JP Morgan Chase Clearing Account. As expected, daily qualification wires created in this procedure were essentially the only type of withdrawal in the Clearing Account. These were the 352 transfers to Mellon. The remaining withdrawals come from 4 employer payments that were deemed to be from accounts with insufficient funds (NSF) and 16 credits back to employers. The sum of the maximum NSF and employer credit invoices was \$1,155,211. Though these make up only .05% of the population, these transactions have the potential to cause an overdraft of the Clearing Account if a remaining balance is not maintained. However, the logarithmic graph above shows that many remaining balances are excessive compared to the amount expected in NSFs and employer credit invoices.

Table 7: Withdrawal Activity in JP Morgan Chase Clearing Account				
	Withdrawals	Transfers to Mellon	Employer Credit Invoices	Insufficient Funds
Count	372	352	16	4
Sum	\$2,650,031,982	\$2,648,690,714	\$193,143	\$1,148,125
Monthly Average	\$220,835,999	\$220,724,226	\$16,095	\$95,677
Average by Count	\$7,123,742	\$7,524,690	\$12,071	\$287,031
Max	\$175,158,926	\$175,158,926	\$72,154	\$1,083,057
Min	\$16.75	\$3,244	\$16.75	\$1,948
Percentage of all Withdrawals	100%	99.95%	.01%	.04%

This audit was based on only one year of data; a year in which many individuals and businesses faced financial hardship. This may or may not have influenced the number and value of NSF's and employer credit invoices. While it would not be prudent to only use the results of this study to determine the optimal remaining balance, this analysis does show that the required minimum balance should be reviewed. Once the optimal remaining balance is determined, it should be documented in the procedures.

Summary and Recommendations

Even though the “judgment call” process was not documented, the three people who completed this task made similar judgment calls, as can be seen in the comparison between the IA and Accounting methods. Daily qualification wires were created by Accounting with no bias to fund, system, or report type. The total of the qualification wires was as close to the opening balance as possible. However, the remaining balance for most days far exceeded the expected expenses from NSF's and employer credit invoices.

To mitigate extreme remaining balances, Accounting staff should work with the Office of Investments to reassess the optimal remaining balance. An element of this future study should be dedicated to identifying trends in NSF's from employers. Procedures should be created to minimize or eliminate bad checks. A list should be created that includes all employers with a history of NSF's. Employers should be asked to provide an explanation of why the situation occurred and create a strategy to prevent future NSF situations. KPPA could consider asking these employers to use other methods to submit contributions if the strategy created fails to eliminate NSF situations. NSF's impact when contributions can be invested and may lead to the creation of penalty invoices. Procedures created to minimize or eliminate NSF's would benefit KPPA and employers. Additionally, this future review should investigate employer credit invoices and determine how these can be minimized and/or predicted to help with creating the optimal remaining balance.

The Daily Qualification procedures seem to create an unnecessary level of complexity in transferring contributions to BNY Mellon. Accounting staff indicated that contributions cannot be transferred to BNY Mellon until they have been balanced; however, each month unbalanced contributions are transferred. The

ultimate goal of the Daily Qualification process, as expressed by staff, is to transfer money as quickly as possible from the Clearing Account to the custodial bank. With this ideology in mind, we recommend that Executive Management from CERS, KRS, and KPPA consider implementing a policy that requires all contributions received on any given day be immediately wired the next business day to the pension and insurance flow-through accounts at BNY Mellon, less the optimal minimum remaining balance (if necessary). Once the reports are balanced by ERCE, the BNY Mellon Cash Management team can be provided with instructions on how to allocate the contributions. This recommendation would ensure that contributions are deposited as quickly as possible at BNY Mellon and are available for investment activities. Alternatively, Executive Management of CERS, KRS, and KPPA could determine if it is feasible to have employer and member contributions submitted directly to BNY Mellon. This would eliminate any delay in transferring funds to the custodial bank. Current state statutes and regulations would need to be reviewed to determine if contributions can be submitted to BNY Mellon rather than JP Morgan Chase.

Kentucky Public Pensions Authority
DAILY QUALIFICATION SUMMARY Report
 Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$10,125.19	\$0.00	\$212,884.66	\$441,297.00	\$0.00	\$664,306.85
	CR	\$0.00	\$0.00	\$30.16	\$0.00	\$0.00	\$30.16
Insurance:	DR	\$4,776.21	\$0.00	\$47,801.24	\$117,455.31	\$0.00	\$170,032.76
	CR	\$0.00	\$0.00	\$20.70	\$0.00	\$0.00	\$20.70
Pension Total:		\$10,125.19	\$0.00	\$212,854.50	\$441,297.00	\$0.00	\$664,276.69
Insurance Total:		\$4,776.21	\$0.00	\$47,780.54	\$117,455.31	\$0.00	\$170,012.06
Summary Total:		\$14,901.40	\$0.00	\$260,635.04	\$558,752.31	\$0.00	\$834,288.75

**Kentucky Public Pensions Authority
DAILY QUALIFICATION SUMMARY Report**

Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Deposit #:		Q KB 070120 8210		GP Cash Receipt #:		55840	
Employer:		KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS	Total
FUND							
Pension:	DR	\$10,125.19	\$0.00	\$0.00	\$0.00	\$0.00	\$10,125.19
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$4,776.21	\$0.00	\$0.00	\$0.00	\$0.00	\$4,776.21
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$10,125.19	\$0.00	\$0.00	\$0.00	\$0.00	\$10,125.19
Insurance Total:		\$4,776.21	\$0.00	\$0.00	\$0.00	\$0.00	\$4,776.21
Employer Total:		\$14,901.40	\$0.00	\$0.00	\$0.00	\$0.00	\$14,901.40

Employer:		V021		KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS	Total
FUND									
Pension:	DR	\$0.00	\$0.00	\$3,122.22	\$0.00	\$0.00	\$0.00	\$0.00	\$3,122.22
	CR	\$0.00	\$0.00	\$0.07	\$0.00	\$0.00	\$0.00	\$0.00	\$0.07
Insurance:	DR	\$0.00	\$0.00	\$2,375.23	\$0.00	\$0.00	\$0.00	\$0.00	\$2,375.23
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$3,122.15	\$0.00	\$0.00	\$0.00	\$0.00	\$3,122.15
Insurance Total:		\$0.00	\$0.00	\$2,375.23	\$0.00	\$0.00	\$0.00	\$0.00	\$2,375.23
Employer Total:		\$0.00	\$0.00	\$5,497.38	\$0.00	\$0.00	\$0.00	\$0.00	\$5,497.38

Employer:		V007		KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS	Total
FUND									
Pension:	DR	\$0.00	\$0.00	\$150.30	\$0.00	\$0.00	\$0.00	\$0.00	\$150.30
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$206.91	\$0.00	\$0.00	\$0.00	\$0.00	\$206.91
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$150.30	\$0.00	\$0.00	\$0.00	\$0.00	\$150.30
Insurance Total:		\$0.00	\$0.00	\$206.91	\$0.00	\$0.00	\$0.00	\$0.00	\$206.91
Employer Total:		\$0.00	\$0.00	\$357.21	\$0.00	\$0.00	\$0.00	\$0.00	\$357.21

Employer:		V035		KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS	Total
FUND									
Pension:	DR	\$0.00	\$0.00	\$0.00	\$220.98	\$0.00	\$0.00	\$0.00	\$220.98
	CR	\$0.00	\$0.00	\$30.09	\$0.00	\$0.00	\$0.00	\$0.00	\$30.09
Insurance:	DR	\$0.00	\$0.00	\$0.00	\$136.74	\$0.00	\$0.00	\$0.00	\$136.74
	CR	\$0.00	\$0.00	\$20.70	\$0.00	\$0.00	\$0.00	\$0.00	\$20.70

**Kentucky Public Pensions Authority
DAILY QUALIFICATION SUMMARY Report**

Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Pension Total:	\$0.00	\$0.00	(\$30.09)	\$220.98	\$0.00	\$190.89
Insurance Total:	\$0.00	\$0.00	(\$20.70)	\$136.74	\$0.00	\$116.04
Employer Total:	\$0.00	\$0.00	(\$50.79)	\$357.72	\$0.00	\$306.93

Employer: L756

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$1,273.92	\$0.00	\$1,273.92
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$0.00	\$1,402.76	\$0.00	\$1,402.76
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$1,273.92	\$0.00	\$1,273.92
Insurance Total:		\$0.00	\$0.00	\$0.00	\$1,402.76	\$0.00	\$1,402.76
Employer Total:		\$0.00	\$0.00	\$0.00	\$2,676.68	\$0.00	\$2,676.68

Deposit Totals

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$10,125.19	\$0.00	\$3,272.52	\$1,494.90	\$0.00	\$14,892.61
	CR	\$0.00	\$0.00	\$30.16	\$0.00	\$0.00	\$30.16
Insurance:	DR	\$4,776.21	\$0.00	\$2,582.14	\$1,539.50	\$0.00	\$8,897.85
	CR	\$0.00	\$0.00	\$20.70	\$0.00	\$0.00	\$20.70
Pension Total:		\$10,125.19	\$0.00	\$3,242.36	\$1,494.90	\$0.00	\$14,862.45
Insurance Total:		\$4,776.21	\$0.00	\$2,561.44	\$1,539.50	\$0.00	\$8,877.15
Deposit Total:		\$14,901.40	\$0.00	\$5,803.80	\$3,034.40	\$0.00	\$23,739.60

**Kentucky Public Pensions Authority
DAILY QUALIFICATION SUMMARY Report**

Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Deposit #:	20200630ER002		GP Cash Receipt #:		0		
Employer:	K114						
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$209,612.14	\$439,802.10	\$0.00	\$649,414.24
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$45,219.10	\$115,915.81	\$0.00	\$161,134.91
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$209,612.14	\$439,802.10	\$0.00	\$649,414.24
Insurance Total:		\$0.00	\$0.00	\$45,219.10	\$115,915.81	\$0.00	\$161,134.91
Employer Total:		\$0.00	\$0.00	\$254,831.24	\$555,717.91	\$0.00	\$810,549.15

Deposit Totals							
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$209,612.14	\$439,802.10	\$0.00	\$649,414.24
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$45,219.10	\$115,915.81	\$0.00	\$161,134.91
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$209,612.14	\$439,802.10	\$0.00	\$649,414.24
Insurance Total:		\$0.00	\$0.00	\$45,219.10	\$115,915.81	\$0.00	\$161,134.91
Deposit Total:		\$0.00	\$0.00	\$254,831.24	\$555,717.91	\$0.00	\$810,549.15

Kentucky Public Pensions Authority

8/19/2021 4:26:19 PM

DAILY PC001 QUALIFICATION SUMMARY REPORT Report

Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$29,880.42	\$33,076.05	\$0.00	\$0.00	\$0.00	\$62,956.47
	CR	\$5,326.95	\$0.00	\$0.00	\$0.00	\$0.00	\$5,326.95
Insurance:	DR	\$70,035.80	\$16,750.10	\$505.02	\$0.00	\$0.00	\$87,290.92
	CR	\$929.95	\$0.00	\$0.00	\$0.00	\$0.00	\$929.95
Pension Total:		\$24,553.47	\$33,076.05	\$0.00	\$0.00	\$0.00	\$57,629.52
Insurance Total:		\$69,105.85	\$16,750.10	\$505.02	\$0.00	\$0.00	\$86,360.97
Summary Total:		\$93,659.32	\$49,826.15	\$505.02	\$0.00	\$0.00	\$143,990.49

Kentucky Public Pensions Authority
DAILY PC001 QUALIFICATION SUMMARY REPORT Report
 Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Deposit #:		GP Cash Receipt #:					
Employer:		54520					
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$5,326.95	\$0.00	\$0.00	\$0.00	\$0.00	\$5,326.95
	CR	\$5,326.95	\$0.00	\$0.00	\$0.00	\$0.00	\$5,326.95
Insurance:	DR	\$929.95	\$0.00	\$0.00	\$0.00	\$0.00	\$929.95
	CR	\$929.95	\$0.00	\$0.00	\$0.00	\$0.00	\$929.95
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Employer Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Deposit Totals							
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$5,326.95	\$0.00	\$0.00	\$0.00	\$0.00	\$5,326.95
	CR	\$5,326.95	\$0.00	\$0.00	\$0.00	\$0.00	\$5,326.95
Insurance:	DR	\$929.95	\$0.00	\$0.00	\$0.00	\$0.00	\$929.95
	CR	\$929.95	\$0.00	\$0.00	\$0.00	\$0.00	\$929.95
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Deposit Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Kentucky Public Pensions Authority
DAILY PC001 QUALIFICATION SUMMARY REPORT Report
 Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Deposit #:	ITA070120		GP Cash Receipt #:		0		
Employer:	39079						
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$731.82	\$731.82	\$0.00	\$0.00	\$0.00	\$1,463.64
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$731.82	\$731.82	\$0.00	\$0.00	\$0.00	\$1,463.64
Employer Total:		\$731.82	\$731.82	\$0.00	\$0.00	\$0.00	\$1,463.64

Employer:	31125						
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$731.82	\$0.00	\$0.00	\$0.00	\$0.00	\$731.82
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$731.82	\$0.00	\$0.00	\$0.00	\$0.00	\$731.82
Employer Total:		\$731.82	\$0.00	\$0.00	\$0.00	\$0.00	\$731.82

Employer:	39130						
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$6,598.05	\$0.00	\$0.00	\$0.00	\$0.00	\$6,598.05
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$7,072.92	\$0.00	\$0.00	\$0.00	\$0.00	\$7,072.92
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$6,598.05	\$0.00	\$0.00	\$0.00	\$0.00	\$6,598.05
Insurance Total:		\$7,072.92	\$0.00	\$0.00	\$0.00	\$0.00	\$7,072.92
Employer Total:		\$13,670.97	\$0.00	\$0.00	\$0.00	\$0.00	\$13,670.97

Employer:	54525						
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$31,702.48	\$0.00	\$0.00	\$0.00	\$0.00	\$31,702.48
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Kentucky Public Pensions Authority
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Pension Total:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:	\$31,702.48	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$31,702.48
Employer Total:	\$31,702.48	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$31,702.48

Employer: 51531

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$17,053.51	\$0.00	\$0.00	\$0.00	\$0.00	\$17,053.51
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$6,605.24	\$0.00	\$0.00	\$0.00	\$0.00	\$6,605.24
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$17,053.51	\$0.00	\$0.00	\$0.00	\$0.00	\$17,053.51
Insurance Total:		\$6,605.24	\$0.00	\$0.00	\$0.00	\$0.00	\$6,605.24
Employer Total:		\$23,658.75	\$0.00	\$0.00	\$0.00	\$0.00	\$23,658.75

Employer: 51530

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$2,367.97	\$0.00	\$0.00	\$0.00	\$0.00	\$2,367.97
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$2,367.97	\$0.00	\$0.00	\$0.00	\$0.00	\$2,367.97
Employer Total:		\$2,367.97	\$0.00	\$0.00	\$0.00	\$0.00	\$2,367.97

Employer: 51540

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$901.91	\$0.00	\$0.00	\$0.00	\$0.00	\$901.91
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$901.91	\$0.00	\$0.00	\$0.00	\$0.00	\$901.91
Insurance Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Employer Total:		\$901.91	\$0.00	\$0.00	\$0.00	\$0.00	\$901.91

Employer: 58676

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Kentucky Public Pensions Authority
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	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$710.94	\$5,833.68	\$0.00	\$0.00	\$0.00	\$6,544.62
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$710.94	\$5,833.68	\$0.00	\$0.00	\$0.00	\$6,544.62
Employer Total:		\$710.94	\$5,833.68	\$0.00	\$0.00	\$0.00	\$6,544.62

Employer: 58680

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$29,728.25	\$0.00	\$0.00	\$0.00	\$29,728.25
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$10,184.60	\$0.00	\$0.00	\$0.00	\$10,184.60
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$29,728.25	\$0.00	\$0.00	\$0.00	\$29,728.25
Insurance Total:		\$0.00	\$10,184.60	\$0.00	\$0.00	\$0.00	\$10,184.60
Employer Total:		\$0.00	\$39,912.85	\$0.00	\$0.00	\$0.00	\$39,912.85

Employer: 58681

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$5,691.04	\$0.00	\$0.00	\$0.00	\$0.00	\$5,691.04
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$5,691.04	\$0.00	\$0.00	\$0.00	\$0.00	\$5,691.04
Employer Total:		\$5,691.04	\$0.00	\$0.00	\$0.00	\$0.00	\$5,691.04

Employer: 58685

<u>FUND</u>		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$731.82	\$0.00	\$0.00	\$0.00	\$0.00	\$731.82
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$731.82	\$0.00	\$0.00	\$0.00	\$0.00	\$731.82
Employer Total:		\$731.82	\$0.00	\$0.00	\$0.00	\$0.00	\$731.82

Kentucky Public Pensions Authority
DAILY PC001 QUALIFICATION SUMMARY REPORT Report
 Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Employer:		53729					
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$3,347.80	\$0.00	\$0.00	\$0.00	\$3,347.80
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$3,347.80	\$0.00	\$0.00	\$0.00	\$3,347.80
Insurance Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Employer Total:		\$0.00	\$3,347.80	\$0.00	\$0.00	\$0.00	\$3,347.80

Employer:		39750					
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$6,462.86	\$0.00	\$0.00	\$0.00	\$0.00	\$6,462.86
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$6,462.86	\$0.00	\$0.00	\$0.00	\$0.00	\$6,462.86
Employer Total:		\$6,462.86	\$0.00	\$0.00	\$0.00	\$0.00	\$6,462.86

Employer:		39757					
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$710.94	\$0.00	\$0.00	\$0.00	\$0.00	\$710.94
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$710.94	\$0.00	\$0.00	\$0.00	\$0.00	\$710.94
Employer Total:		\$710.94	\$0.00	\$0.00	\$0.00	\$0.00	\$710.94

Employer:		39758					
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$4,349.16	\$0.00	\$0.00	\$0.00	\$0.00	\$4,349.16
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Kentucky Public Pensions Authority
DAILY PC001 QUALIFICATION SUMMARY REPORT Report
 Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Insurance Total:	\$4,349.16	\$0.00	\$0.00	\$0.00	\$0.00	\$4,349.16
Employer Total:	\$4,349.16	\$0.00	\$0.00	\$0.00	\$0.00	\$4,349.16

Employer:		39785					
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$1,236.84	\$0.00	\$0.00	\$0.00	\$0.00	\$1,236.84
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$1,236.84	\$0.00	\$0.00	\$0.00	\$0.00	\$1,236.84
Employer Total:		\$1,236.84	\$0.00	\$0.00	\$0.00	\$0.00	\$1,236.84

Deposit Totals							
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$24,553.47	\$33,076.05	\$0.00	\$0.00	\$0.00	\$57,629.52
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$69,105.85	\$16,750.10	\$0.00	\$0.00	\$0.00	\$85,855.95
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$24,553.47	\$33,076.05	\$0.00	\$0.00	\$0.00	\$57,629.52
Insurance Total:		\$69,105.85	\$16,750.10	\$0.00	\$0.00	\$0.00	\$85,855.95
Deposit Total:		\$93,659.32	\$49,826.15	\$0.00	\$0.00	\$0.00	\$143,485.47

Kentucky Public Pensions Authority
DAILY PC001 QUALIFICATION SUMMARY REPORT Report
 Accounting transactions between 12:00 a.m. 7/1/2020 and 11:59 p.m. 7/1/2020

Deposit #:		Q KB 070120		GP Cash Receipt #:		55840	
Employer:		39939					
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$505.02	\$0.00	\$0.00	\$505.02
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$0.00	\$0.00	\$505.02	\$0.00	\$0.00	\$505.02
Employer Total:		\$0.00	\$0.00	\$505.02	\$0.00	\$0.00	\$505.02

Deposit Totals							
FUND		<u>KERS Non-Haz</u>	<u>KERS Haz</u>	<u>CERS Non-Haz</u>	<u>CERS Haz</u>	<u>SPRS</u>	<u>Total</u>
Pension:	DR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance:	DR	\$0.00	\$0.00	\$505.02	\$0.00	\$0.00	\$505.02
	CR	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pension Total:		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:		\$0.00	\$0.00	\$505.02	\$0.00	\$0.00	\$505.02
Deposit Total:		\$0.00	\$0.00	\$505.02	\$0.00	\$0.00	\$505.02

Exhibit D: Example of Daily Qualification Worksheet

Joint Audit Committee Special Called Meeting - Review of Issued Audits

Kentucky Retirement Systems						
Daily Transfer of Funds to Mellon						
PENSION						
Date	KERS KR2F001002	KERH KR2F002002	CERS KR2F003002	CERH KR2F004002	SPRS KR2F005002	Total
6/30/2020	\$1,644,423.68					\$ 1,644,423.68
						\$ -
						\$ -
						\$ -
						\$ -
						\$ -
						\$ -
						\$ -
						\$ -
						\$ -
Pension Total	\$ 1,644,423.68	\$ -	\$ -	\$ -	\$ -	\$ 1,644,423.68
INSURANCE						
Date	KINS KR3F001002	HINS KR3F002002	CINS KR3F003002	ZINS KR3F004002	SINS KR3F005002	Total
6/30/2020	\$312,372.14		\$1,852,016.40	\$379,833.56		\$ 2,544,222.10
6/30/2020 PC001	\$89,619.68	\$282.59				\$ 89,902.27
						\$ -
						\$ -
						\$ -
						\$ -
						\$ -
Insurance Total	\$ 401,991.82	\$ 282.59	\$ 1,852,016.40	\$ 379,833.56	\$ -	\$ 2,634,124.37
Total	\$ 2,046,415.50	\$ 282.59	\$ 1,852,016.40	\$ 379,833.56	\$ -	\$ 4,278,548.05
					Bank Balance	\$ 4,981,570.17
					Remaining	\$ 703,022.12
Pension						
Plan	GSP	Account	Amount			
KERS			\$ 1,644,423.68		Creator	LDN
KERH			\$ -			
CERS			\$ -		Approver	VD
CERH			\$ -			
SPRS			\$ -		Verifier	LS

Joint Audit Committee Special Called Meeting - Review of Issued Audits

		Total	\$ 1,644,423.68		
Insurance					
Plan	GSP	Account	Amount		
KINS			\$ 401,991.82		
HINS			\$ 282.59		
CINS			\$ 1,852,016.40		
ZINS			\$ 379,833.56		
SINS			\$ -		
		Total	\$ 2,634,124.37		
		Wire Total	\$ 4,278,548.05		

Exhibit E: Example of Finance and Administration Cabinet Report

Payroll Retirement Distribution Worksheet for Pay Period Ending 7/15/2020							PP14 of 2020				
Wage Type Name	Wage Type	EMPLOYER SHARE ("9**R")	EMPLOYEE SHARE ("6**E")	RETIREMENT PAYBACK	PRE-INSTALLMENT PURCHASES ("6**P")	POST-INSTALLMENT PURCHASES ("6**A")	TOTAL	JV CALCULATION		JOURNAL VOUCHER NUMBER	
								ACCOUNT	CREDIT	DEPT	JV
KERS	600	21,470,909.78	1,271,241.21		53,091.50	2,095.18	22,797,337.67		51,218,164.46		JV - 758 - 100 7/15/2020 REGPAY
KERS 08	611	6,572,753.07	467,727.74		247.06	810.16	7,041,538.03				
KERSRRET	620	1,375,796.66	-		-	-	1,375,796.66				
KERS LEGIS	609	21,140.56	1,252.02		-	-	22,392.58				
KERS LEGIS 08	617	9,060.24	643.86		-	-	9,704.10				
KERS LEGIS RRET	624	2,738.86	-		-	-	2,738.86				
KERS Cash Bal 2014	627	10,891,580.19	773,976.27		74.22	-	11,665,630.68				
KERS Haz Cash Bal 2014	628	1,218,734.36	307,204.00		-	-	1,525,938.36				
HAZ	602	905,318.21	201,259.09		1,337.61	-	1,107,914.91				
HAZ 08	616	454,245.50	113,534.89		-	-	567,780.39				
HAZRRET	621	108,154.10	-		-	-	108,154.10				
ST POL	603	1,763,938.49	98,344.22		2,218.25	-	1,864,500.96				
ST POL 08	613	658,147.03	41,277.12		121.33	-	699,545.48				
CERS	607	556,790.06	116,458.81		3,096.05	441.12	676,786.04				
CERS 08	614	135,188.09	34,012.22		-	-	169,200.31				
CERS HAZ	608	238,325.99	49,235.08		-	-	287,561.07				
CERS HAZ 08	618	103,029.34	23,463.57		85.91	-	126,578.82				
CERS HAZ RRET	623	22,359.73	-		-	-	22,359.73				
CERSRRET	622	25,437.61	-		-	-	25,437.61				
CERS Cash Bal 2014	629	298,870.24	74,843.45		-	-	373,713.69				
CERS Haz Cash Bal 2014	630	106,571.83	24,251.14		-	509.13	131,332.10				
SPRS Cash Bal 2014	631	579,855.60	36,366.71		-	-	616,222.31				
SPRS Return Ret Alloc	625	-	-		-	-	0.00	Paid by Personnel	#REF!		
GRAND TOTAL		#####	3,635,091.40	0.00	60,271.93	3,855.59	51,218,164.46		#REF!		

New wage Type:633
 New wage Type:623
 New wage Type:625

Created: XXXXXXXXXX
 Emailed to KRS: 8/5/2020



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: April 7, 2022

Subject: Fiscal Year 2022 Internal Audit Budget as of December 31, 2021

Account Number	Account Name	FYE 2022 Budget	FY 2022 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries*	\$ 209,000.00	\$ 106,805.10	\$ 102,194.90	48.90%
121	Employer Paid FICA	15,988.50	7,896.55	8,091.95	50.61%
122	Employer Paid Retirement	175,497.30	89,209.45	86,287.85	49.17%
123	Employer Paid Health Insurance*	41,000.00	19,201.12	21,798.88	53.17%
124	Employer Paid Life Insurance*	48.00	25.00	23.00	47.92%
125	Employer Paid HRA	-	-	-	-
133T	Tuition Assistance	2,500.00	-	2,500.00	100.00%
259T	Conference Expenses	1,500.00	1,700.00	(200.00)	-13.33%
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	50.00	4,950.00	99.00%
399T	Miscellaneous	200.00	-	200.00	100.00%
	Total	\$ 451,683.80	\$ 224,887.22	\$ 226,796.58	50.21%

* 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

1st Quarter - \$1,700 - AGA Internal Controls and Fraud Prevention Seminar for Kristen, Jerry, Madeline, and Matt.

Dues and Subscriptions

1st Quarter - \$50 - AGA membership for Matthew



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: April 7, 2022

Subject: Additions to the Internal Audit Plan

The Division of Internal Audit Administration (Division) has authority to look at all areas of operation within the Kentucky Public Pensions Authority (KPPA). The goal of the Division is to ensure areas are complying with established regulations as well as to suggest ways to increase the efficiency of processes. The Division works with the Joint Audit Committee as well as the Executive Management teams of KPPA, the County Employees Retirement System (CERS), and the Kentucky Retirement Systems (KRS) to identify the highest risk areas. The Division is currently working on an overall agency Risk Assessment. Once that Risk Assessment is completed, an Audit Plan will be presented for approval.

During audits, Division staff routinely make recommendations for future audit consideration. The following items have been identified as areas of potential risk and the Division is requesting approval to add these to the current audit plan.

1. Review of all JP Morgan Chase accounts.
 - There are several bank accounts kept at JP Morgan Chase. This audit would include documenting the purpose of each account, reviewing the cash flows in and out of the accounts, assessing how the funds available in the account are handled at year-end, and determining how the balances in these accounts are reported to management and the Boards.
2. Review of Administrative Expenses, including plan specific expenses.
 - Administrative expenses are shared between CERS and KRS. This audit would look at how the administrative expenses are allocated. This process is still in development. We would perform this audit after the process is officially in place.
3. Review of the employer contribution process, including the balancing process.
 - Employers submit contributions to KPPA each month. This audit would include recalculating the amount of the contribution owed to KPPA, verifying that the amounts received are accurate, and documenting how amounts received are balanced.
4. Review of cash receipt process.
 - The KPPA office still receives checks for some payments. This audit would look at how KPPA handles receipt of the checks to ensure the checks are deposited timely and stored securely. In addition to working with the Division of Accounting, this audit would include speaking to other divisions who have reported that checks are occasionally received by their staff.

5. Review of investment manager and performance fee reconciliations.
 - KPPA pays various fees to investment managers. This audit would recalculate the amount of the fee owed and ensure the proper amount was paid. It would also look at the review process for these payments. These amounts are posted to the KPPA website. As a part of this audit, we would ensure the amount posted on the website accurately reflects the amount paid.
6. Review of the investment reconciliation between BNY Mellon and Great Plains.
 - Investment related information from BNY Mellon is uploaded into the general ledger, which is used in the generation of the KPPA financial statements. This audit would reconcile the information in the general ledger to BNY Mellon to ensure it is accurate.
7. Review of the process for investing direct repo.
 - Investment directors follow a process to calculate the repo for each day. This audit would look at the documented process and ensure it is up-to-date with current practices. This audit would also look at the approval process for these transactions.

On February 11, Internal Audit staff requested to add to the current audit plan a review of the process followed by KPPA staff to update an individual's death status in the KPPA system. Approval to begin this audit was granted on February 14 and this audit is currently in progress.

Action Needed: We request the Joint Audit Committee approve the additions to the current Audit Plan.



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: April 7, 2022
 Subject: Status of Current Projects

The Division of Internal Audit Administration is currently working on 23 projects: 4 Audit/Review and 19 Other Projects.
 Internal Audit has completed 18 projects for the fiscal year: 4 Audits/Reviews and 14 Other Projects.
 Internal Audit has 16 planned projects that have not yet been assigned to an auditor (5 investment related and 11 operations/benefits related).

For the projects completed during fiscal year 2022:
 - It took an average of 418 hours to complete audit projects and an average of 113 days or 16 weeks.
 - It took an average of 13.25 hours to complete other projects. Average days/weeks not shown because a project may span several weeks, but work may not be performed each week.

In Process			
Type	Name	Description	Status
Audits/Reviews	2022-1 Plan Liquidity/ Available Cash Balance - Employer Insurance Process (Phase 2)	Auditor will review the process for making employer insurance payments (part of the Daily Cash Projection process).	This phase is in review with Director.
Audits/Reviews	2022-1 Plan Liquidity/ Available Cash Balance - Daily Cash Projection Process (Phase 3)	Investment Retirement Specialist and Auditor will review the process for ensuring there is enough cash on hand to meet daily investment activities.	This phase is in Fieldwork.
Audits/Reviews	2022-3 Process for Updating an Individual's Death Status	Auditor will review the process for updating a member's death status in START.	Director has completed review of planning and fieldwork for this audit.
Audits/Reviews	Not yet started: Review of House Bill 8 Calculations (AUP)	Deputy Executive Director suggested that Internal Audit review the procedures followed to comply with House Bill 8 calculations. Testing will involve selecting a sample and recalculating the liability amount.	Not yet started
Other Projects	2022 KRS Board Annual Meeting	IA staff will ensure information is prepared and submitted for meeting.	Meeting scheduled for 4/12/2022.
Other Projects	2022 CERS Board Annual Meeting	IA staff will ensure information is prepared and submitted for meeting.	Meeting scheduled for 4/20/2022.
Other Projects	2022 KPPA Annual Meeting	IA staff will ensure information is prepared and submitted for meeting.	Meeting scheduled for 4/28/2022.
Other Projects	2022 Audit Committee Charter Updates	Director and Retirement Investment Specialist will update the Audit Charter for fiscal year 2022.	Will work on this as time allows.
Other Projects	2022 Internal Audit Charter Updates	Director and Retirement Investment Specialist will update the Internal Audit Charter for fiscal year 2022. This includes adding the COSO information.	Will work on this as time allows.
Other Projects	2022 2nd Quarter Audit Committee	IA staff will ensure information is prepared and submitted for meeting.	Meeting scheduled for 5/24/2022.
Other Projects	2022 2nd Quarter KRS Board Meeting	IA staff will ensure information is prepared and submitted for meeting.	Meeting scheduled for 6/6/2022.
Other Projects	Hiring Intern	IA staff will work with Human Resources to hire an intern to assist during the summer of 2022.	Position Description submitted 2/25/2022.
Other Projects	2022 2nd Quarter CERS Board Meeting	IA staff will ensure information is prepared and submitted for meeting.	Meeting scheduled for 6/14/2022.
Other Projects	2022 2nd Quarter KPPA Board Meeting	IA staff will ensure information is prepared and submitted for meeting.	Meeting scheduled for 6/22/2022.
Other Projects	Audit Software Review	IA staff will work with IT to determine if it is feasible to purchase audit software.	Have discussed with IT. This is in the preliminary phase.
Other Projects	KPPA Inventory	Director and Auditor will work with Assistant Director of Procurement and Office Services on establishing inventory procedures and completing an inventory assessment for KPPA.	Began 2/28/2022
Other Projects	SPRS 2023 Election	Retirement Investment Specialist will work with KRS Election team and Election Services Vendor to oversee the SPRS 2023 election.	Not yet started
Other Projects	Risk Assessment	IA staff will work with Executive Management to develop a risk assessment for KPPA	Estimated completion date not yet known.
Other Projects	Annual Audit Plan	IA staff will work with Audit Committee, all Boards, all Executive Management, and KPPA Directors to develop a new audit plan.	Initial discussions took place at the August Audit Committee meeting.
Other Projects	Management Response to Findings	Director will create a project in Gravity to show all findings made to management and the status of the finding.	This is now on-hold pending the purchasing of new audit software.
Other Projects	Process Documentation	Director will ensure all Internal Audit procedures are documented and saved to the KPPA Process Documentation SharePoint site. Twenty-one processes need to be documented.	Completed as of 8/25/2021: 16 processes

Joint Audit Committee Special Called Meeting - Joint Audit Committee Administrative Updates

Type	Name	Description	Status
Other Projects	Training Videos	Director 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 2/22/2022: One video has been recorded.
Other Projects	QAR Self-Assessment	All Internal Audit staff 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.

Completed			
Type	Name	Description	Completed Dates
Audits/ Reviews	2021-3 System Access Review	Reviewed employee access to various IT systems and determine if the access was reasonable. Ensured proper policies were followed.	Completed By: Internal Auditor Final Report Issued: 9/9/2021 Presented to Audit Committee: 11/4/2021
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
Audits/ Reviews	2022-2 Waived Employer Penalties	Reviewed process for waiving employer penalty invoices and ensured the process was documented and being followed.	Completed By: Internal Auditor Final Report Issued: 11/19/2021 Presented to Audit Committee: 11/30/2021
Audits/ Reviews	2022-1 Plan Liquidity/ Available Cash Balance - Daily Qualification Process (Phase 1)	Reviewed the process used to transfer contributions received from the JP Morgan Chase Clearing Account to the custodial bank.	Completed By: Retirement Investment Specialist Final Report Issued: 2/3/2022 Presented to Audit Committee: 4/7/2022
Other Projects	Hiring a New Position	Hiring new Auditor I.	Completed By: IA Team Employee Start Date: 7/16/2021
Other Projects	2021 Internal Audit Charter Updates	Made updates to the Internal Audit Charter to reflect changes effective April 1, 2021.	IA Charter Approved: 9/15/2021
Other Projects	Housekeeping Bill	Submitted suggested items for the Housekeeping Bill to be requested in the 2022 legislative session.	Completed By: Director Suggestions Submitted: 9/29/2021
Other Projects	Review of IT Governance Policies	Reviewed IT Governance policies and provide feedback as needed.	Completed By: Director Policies Approved: 9/30/2021
Other Projects	Review of Continuity of Operations Plan	Reviewed COOP and provided feedback as needed.	Completed By: Director Review Completed: 10/5/2021
Other Projects	2021 Audit Committee Charter Updates	Updated the Audit Charter to reflect changes effective April 1, 2021.	Audit Committee Charter Approved: 11/16/2021
Other Projects	Review of Procurement Standard Operating Procedures	Reviewed Procurement SOPs and provided feedback as needed.	Review Completed: 12/14/2021
Other Projects	Annual Comprehensive Financial Report	IA staff will review all non-investment sections of the ACFR.	Approved by Audit Committee: 11/30/2021
Other Projects	KRS Board Election Policy Update	Updated the KRS Board Election Policy.	Presented to Audit Committee: 2/22/2022 KRS Board Approval: 3/2/2022
Other Projects	CERS Board Election Policy Update	Updated the CERS Board Election Policy.	Presented to Audit Committee: 2/22/2022 CERS Approval: 3/14/2022
Other Projects	Review of IT Governance Risk Assessment	Reviewed IT Governance Risk Assessment and provided feedback as necessary.	Completed By: Director Feedback Provided: 3/14/2022
Other Projects	Trustee Application - DocuSign	Worked with KPPA Division of Enterprise and Technology Services to create a DocuSign version of the Trustee Application.	Completed By: Director Application Approved: 3/23/2022
Other Projects	KERS 2022 Election	Worked with KPPA Election team and Election Services Vendor to oversee the KERS 2022 election.	New Trustees sworn in on 4/12/2022.
Other Projects	Special Called Audit Committee	Ensured information is prepared and submitted for meeting.	Meeting held 4/7/2022