

**KPPA Audit Committee  
Quarterly Meeting  
August 26, 2025 at 10:00 a.m. Eastern Time  
Live Video Conference/Facebook Live**

**AGENDA**

- |     |   |                      |
|-----|---|----------------------|
| 1.  | Call to Order   | Bill O'Mara          |
| 2.  | Opening Video Teleconference Statement                                  | Legal Representative |
| 3.  | Roll Call   | Sherry Rankin        |
| 4.  | Public Comment  | Sherry Rankin        |
| 5.  | <b>Approval of May 29, 2025 KPPA Audit Committee Minutes*</b>           | Bill O'Mara          |
| 6.  | Financial Reporting Updates   | Michael Lamb         |
|     | a. Update on fiscal year 2025 External Audit                            |                      |
|     | b. Financial Statements for Fiscal Year Ended June 30, 2025 (unaudited) |                      |
| 7.  | Legal Updates   |                      |
|     | a. Information Disclosure Incidents                                     | Nathan Goodrich      |
|     | b. Anonymous Tips   | Stephanie Hold       |
| 8.  | KPPA Audit Committee Administrative Updates                             |                      |
|     | a. Internal Audit Budget as of June 30, 2025                            | Will Prince          |
|     | b. Status of Current Internal Audit Projects                            | Kristen Coffey       |
|     | c. <b>Issued Reports and/or Memorandums*</b>                            | Madeline Evans       |
|     | i. 2025-9 Review of the Accounts Payable Process                        |                      |
|     | ii. 2025-11 Review of the Accrual Process                               |                      |
| 9.  | Professional Article  | Zach Curtis          |
| 10. | Adjourn   | Bill O'Mara          |

**\*Action may be taken by the KPPA Audit Committee**

**MINUTES OF MEETING  
KENTUCKY PUBLIC PENSIONS AUTHORITY  
AUDIT COMMITTEE  
MAY 29, 2025, 10:00 A.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the May 29, 2025, Regular Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), Mary Eaves, J. T. Fulkerson, Lynn Hampton, and William Summers V. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Rebecca Adkins, Erin Surratt, Mike Lamb, Michael Board, Victoria Hale, Carrie Bass, Beth Camic, Stephanie Hold, Liza Welch, Kristen Coffey, Madeline Evans, William Prince, Elizabeth Smith, Connie Davis, Zachary Curtis, James Westbay, Ashley Gabbard, Shaun Case, Sherry Rankin, and Sandy Hardin.

1. Mr. O'Mara called the meeting to order.
2. Mr. Board read the Opening Video Teleconference Statement.
3. Ms. Rankin called roll.
4. Ms. Rankin noted no ***Public Comments*** were received.
5. Mr. O'Mara introduced the agenda item ***Election of KPPA Audit Committee Vice Chair*** (*Video 00:03:53 to 00:04:53*). Mr. O'Mara opened the floor for the election of the KPPA Audit Committee Vice Chair. Mr. Summers V nominated Ms. Lynn Hampton for the position. With no further nominations received, Mr. O'Mara closed the nominations and called for a motion to approve Ms. Hampton as Vice Chair. Ms. Eaves moved to approve the motion. Mr. Summers V seconded the motion. With no further discussion, the motion passed unanimously. Mr. O'Mara welcomed Ms. Hampton as Vice Chair of the KPPA Audit Committee for the current year and expressed appreciation for her willingness to serve.

6. Mr. O'Mara introduced the agenda item ***Approval of February 25, 2025, KPPA Audit Committee Minutes.*** (Video 00:04:53 to 00:17:07). A motion was made by Ms. Eaves and seconded by Mr. Summers V to approve the minutes. During discussion, Ms. Hampton raised concerns about language in the minutes referring to investment policy review by "the CEO," suggesting it should reflect either "CEOs" or the "Executive Director" for accuracy. Due to ongoing concerns, Ms. Eaves made a motion to amend the original motion to table the minutes for further review. Ms. Hampton seconded the motion. The motion passed unanimously.
7. Mr. O'Mara introduced agenda item ***Approval of External Audit Request for Proposal (RFP)*** (Video 00:17:07 to 00:19:26). Mr. Lamb provided an update on the external auditor RFP process, noting that the procurement remains under confidentiality status. A contract has been drafted with the highest-scoring vendor and is currently awaiting final approval from the Finance Cabinet. While the timeline is tighter than preferred, Mr. Lamb expressed confidence in both KPPA staff and the vendor's capabilities to begin work by July 1, 2025. He also noted potential additional review by the Government Contract Review Committee. No action was taken at this time. This was for informational purposes only.
8. Mr. O'Mara introduced agenda item ***Legal Updates*** (Video 00:19:26 to 00:22:41).
  - a. ***Information Disclosure Incidents:*** Ms. Beth Camic, on behalf of Nathan Goodrich, presented the report on Information Disclosure Incidents. She reported that four (4) potential information disclosures were reviewed in the third quarter of FY 2025. Three (3) incidents met the criteria of the internal disclosure policy, involving one (1) mail mix-up and two (2) email misdeliveries due to auto-populated addresses. Affected members were notified promptly, and affidavits were secured from recipients. Following the incidents, KPPA issued a reminder to staff to carefully review email recipients.
  - b. ***Anonymous Tips:*** Ms. Stephanie Hold presented an update on anonymous fraud tips. Since the last Audit Committee meeting in February, seven (7) new tips were received – five (5) of which have been closed and two (2) remain under review. Currently, seven (7) cases remain open involving employer reporting issues,

disability retirement fraud, prearranged agreements, and potential violations of service break requirements. Of the seven (7) cases closed since the last meeting, one (1) involved alleged prearranged agreement and was closed due to lack of evidence. Two (2) tips involved employer reporting, and both were closed and referred to ERCE for possible audits. Two (2) tips related to disability fraud were closed once it was determined the people being reported were not receiving any type of KPPA benefit. Another tip was closed once it was confirmed it related solely to FERPA, and another tip involving alleged insurance fraud was closed because it did not involve KPPA benefits.

9. Mr. O'Mara introduced the agenda item ***KPPA Audit Committee Administrative Updates*** (Video 00:22:41 to 01:38:06).

- a. ***Update on Internal Audit Staffing:*** Ms. Coffey provided an update on internal audit staffing, announcing that Ms. Madeline Evans has been appointed as Internal Audit Supervisor through April of the following year under a special detail arrangement. Additionally, effective June 1, Mr. James Westbay transitioned from an interim to a full-time position. With these updates, the Internal Audit team is now fully staffed, consisting of the Chief Auditor and four staff members.
- b. ***Internal Audit Budget as of March 31, 2025:*** Ms. Evans presented the Internal Audit Budget as of March 31, 2025. She reported that the FY 2025 budget remains generally on track. The only overage noted was in the dues and subscriptions category, which was underestimated. Conference expenses were higher than in previous years due to a return to in-person participation, which provides greater value and networking opportunities. Ms. Coffey clarified that employee training costs are reflected under conference expenses rather than in a separate training line item. Regarding computer software expenses, Ms. Coffey noted that the invoice remains pending but is expected soon. The committee acknowledged the update, and no further questions were raised.
- c. ***Approval of Internal Audit Budget for Upcoming Fiscal Year:*** Ms. Evans presented the proposed Internal Audit Budget for the upcoming fiscal year, noting slight increases in salary-related line items due to anticipated reclassifications and potential state raises.

The dues and subscriptions lines were also increased by 50 percent to better reflect actual needs. Employee training was removed as a separate line item, as those expenses are now captured under conference costs. Ms. Coffey added that full staffing this year contributed to increases in various categories.

Following discussion, Ms. Hampton made a motion to approve the Internal Audit Budget for the upcoming Fiscal Year as presented. Mr. Fulkerson seconded the motion. The motion passed unanimously.

- d. ***Status of Current Internal Audit Reports:*** Ms. Coffey provided an overview of the Internal Audit team's current and completed projects for FY 2025. She noted that six audits exceeded their time budgets by more than 10 percent, largely due to extended process understanding, staffing transitions, or other unexpected delays. The audit status report included estimated versus actual hours and showed the involvement of non-audit staff, with completed projects highlighted for clarity.

Of the FY 2025 audits, three remain open:

- Accounts Payable Audit: Testing is complete, and final questions are being addressed with expected issuance before fiscal year-end.
- Accrual Process Audit: Originally approved for FY 2026 but initiated early; the draft report is currently under review.
- Inventory Audit: Delayed due to shifting non-audit staff priorities, with expected completion in the next fiscal year.

Ms. Hampton commended the inclusion of non-audit staff hours and emphasized the importance of tracking workload capacity, noting the equivalent of an additional half-time staff member's involvement in current projects. Ms. Coffey agreed and highlighted that sharing hour estimates helps both internal staff and management plan and collaborate more effectively.

- e. ***Risk Assessment and Audit Plan for Fiscal Year 2026 and 2027:*** Ms. Coffey presented the Risk Assessment and Audit Plan for Fiscal Years 2026 and 2027,

designed to ensure balanced coverage across divisions by selecting one high-risk item per area. Accounting was excluded from the FY 2026 plan due to recent audits and current workload demands.

Two audits—investment fees and office space utilization—were reconsidered following committee input, with streamlined alternatives proposed:

- Office Space Utilization review will be conducted by KPPA Executive staff, and Internal Audit will perform an independent review of that work to ensure it is reasonable.
- The Office of Investments will complete the review regarding performance as it relates to the benchmark and other similar agencies. Internal Audit will replace that project on the audit plan with a review of the GANIR calculation.

Ms. Coffey emphasized continued coordination between audit and investment teams to refine oversight efforts.

Following discussion, Mr. Fulkerson made a motion to adopt the Risk Assessment and Audit Plan for Fiscal Years 2026 and 2027 as amended. Ms. Hampton seconded the motion. The motion passed unanimously.

- f. **2025-2 Review of Office Investment Policies:** Ms. Bass provided an overview of the internal audit findings from the 2025-2 Review of Office Investment Policies. The audit identified 22 Board-level investment and administrative policies across the CERS and KRS Boards, noting gaps in monitoring practices and documentation of compliance activities. KPPA management concurred with the findings and tasked the newly appointed Compliance Officer with developing procedures to address the deficiencies.

Particular attention was given to the Securities Trading Policy, which had not been properly followed. Mr. Owens III clarified that the policy applies specifically to KPPA staff and not to the CERS or KRS Boards individually. He emphasized the importance of clearly defined responsibilities and mechanisms for future compliance.

Ms. Bass reviewed all relevant investment policies and recommended a series of updates, including:

- Clarification of policy responsibilities
- Defined compliance reporting structures
- Addition of policy revision histories

She outlined a proposed plan to update these policies in collaboration with KPPA management and the CEOs, followed by development of a formal compliance program.

In closing, Ms. Bass noted that work has already begun to review proxy policies for alignment with Senate Bill 183, and revisions to the Securities Trading Policy are expected to begin later this summer. An official progress report will be presented at the August KPPA Committee meeting.

g. ***Issued Reports and/or Memoranda:*** The next item under the KPPA Audit Committee updates focused on issued internal audit reports and memoranda.

- i. Ms. Coffey opened her remarks with an update on item 2025-7, addressing the status of open internal audit findings and related recommendations. As part of the annual review, Audit ran a report in January identifying 23 outstanding recommendations with target implementation dates of December 31, 2024, or earlier. Of these, 17 have been verified as implemented and marked “closed” (highlighted in green). The remaining six (highlighted in red) remain open; staff has requested additional time to complete them.
- ii. Ms. Evans reported on the 2025-5 Disability Appeal Process audit, noting the review focused on the Disability Commission hearing process - including timely document submission, procedural clarity, accommodation support, and secure sharing of hearing materials. No reportable findings were identified, though two management-level recommendations were issued:

- 1) Updating procedural documentation (completed)

- 2) Enhancing public guidance on request accommodations, including possible social media or printed outreach (in progress)

The audit also examined a two-year case backlog. To address delays, the Office of Legal Services is implementing an informal settlement process for members nearing normal retirement age, reducing unnecessary hearings. Staff also noted that improved quality control during initial disability reviews has led to fewer discontinuance recommendations and hearing appeals.

- iii. Mr. Prince shared results of the 2025-6 Hiring Process audit, which reviewed KPPA's hiring procedures and Human Resources support. No findings or observations were reported. The average time to hire was 47 days, significantly faster than the standard range of 60–90 days observed among other employers. Staff were commended for their efficiency and coordination.
- iv. Ms. Coffey presented the results of Audit 2025-10 concerning the travel process. One repeat finding was identified regarding meal reimbursements for non-overnight travel, which, per IRS guidelines, must be treated as a taxable fringe benefit. This issue has since been corrected. Additionally, two opportunities for improvement were noted:
  - Updating procedural documentation
  - Ensuring proper supervisor signatures on travel reimbursement forms.

No errors were found in the calculation of travel expenses.

Following the presentation, Ms. Eaves made a motion to accept the three Issued Reports as presented. Ms. Hampton seconded the motion. The motion passed unanimously.

10. Mr. O'Mara introduced the agenda item ***Professional Article*** (Video 01:38:06 to 01:37:10). Mr. Curtis presented a summary of the article, *Artificial Intelligence in Government Auditing – Benefits and Challenges* authored by Symone Thompson, Senior Auditor. The summary emphasized AI's potential to streamline audit functions, enhance



data analysis, and mitigate fraud risk, while noting implementation hurdles such as training, oversight, and ethics.

11. Mr. O'Mara introduced the agenda item ***Closed Session*** (*Video 01:37:10 to 01:38:06*). Ms. Hampton made a motion to enter closed session pursuant to 61.8101(1)(f) for the purpose of conducting discussions that might lead to the appointment of an employee. Ms. Eaves seconded the motion. The motion passed unanimously.

Mr. Board read the following closed session statement: A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Committee shall now enter closed session for discussions that may lead to an appointment of an employee pursuant to KRS 61.810(1)(f).

All other attendees exited the meeting.

***Closed Session.*** (*Video: 00:00:10 to 00:02:40*) Mr. O'Mara called the meeting back to open session.

Mr. O'Mara stated that no reportable actions were taken during the closed session discussion.

Subsequently, Ms. Hampton made a motion to approve the contract for Ms. Kristen Coffey, Chief Auditor, for a term of two years at an annual salary of \$103,000, including any salary increases legislated over the next two years. Additionally, Ms. Hampton proposed incorporating a provision for a notice of non-renewal, consistent with the language currently found in the Executive Director's contract. Ms. Eaves seconded the motion. A vote was taken on the motion, which passed with all members in favor except Mr. Fulkerson, who voted in opposition.

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

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## **CERTIFICATION**

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

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Recording Secretary

I, as Chair of the Audit Committee of the Kentucky Public Pensions Authority, do certify that the Minutes of the meeting held on May 29, 2025, were approved by the Audit Committee on August 26, 2025.

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Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on May 29, 2025, for form, content, and legality.

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Executive Director  
Office of Legal Services



July 21, 2025

Mr. Ryan Barrow  
Executive Director  
Kentucky Public Pension Authority  
1260 Louisville Rd  
Frankfort, Kentucky 40601

The following represents our understanding of the services we will provide to the Kentucky Public Pensions Authority (KPPA).

You have requested that we audit the financial statements of Kentucky Retirement System (KRS) and County Employees Retirement System (CERS) (hereby referred to as the "Systems"), as of June 30, 2025, and for the year then ended, and the related notes, which collectively comprise the Systems' basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with *Government Auditing Standards*, will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Accounting principles generally accepted in the United States of America (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB) require that certain information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. This RSI will be subjected to certain limited procedures but will not be audited:

- Management's Discussion and Analysis
- Schedule of Employers' Net Pension Liability
- Schedule of Employers' Changes in the System's Total Pension Liability
- Schedule of Employers' Contributions
- Schedule of Employers' Net OPEB Liability

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- Schedule of Employers' Changes in Net OPEB Liability
- Schedule of Employers' OPEB Contributions
- Money Weighted Rates of Return

Supplementary information other than RSI will accompany the Systems' basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with U.S. GAAS. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

- Schedule of Administrative Expenses
- Schedule of Direct Investment Activity Expenses
- Schedule of Professional Consultant Fees

Also, the document we submit to you will include the following other additional information that will not be subjected to the auditing procedures applied in our audit of the basic financial statements:

- Introduction Section
- Investment Section
- Actuarial Section
- Statistical Section

### **Auditor Responsibilities**

We will conduct our audit in accordance with GAAS and in accordance with *Government Auditing Standards*. As part of an audit in accordance with GAAS and in accordance with *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of controls.
- Obtain an understanding of the system of internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kentucky Retirement the Systems' ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and, in accordance with *Government Auditing Standards*. Please note that the determination of abuse is subjective, and *Government Auditing Standards* does not require auditors to detect abuse.

### **Compliance with Laws and Regulations**

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the Systems' compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

### **Management Responsibilities**

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For the design, implementation, and maintenance of the system of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
  - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
  - ii. Additional information that we may request from management for the purpose of the audit;
  - iii. Unrestricted access to persons within the entity and others from whom we determine it necessary to obtain audit evidence.
- d. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
- e. For adjusting the basic financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current period under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
- f. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
- g. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets.
- h. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in the system of internal control and others where fraud could have a material effect on the financials; and
- j. For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding supplementary information, (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information, and (d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

### **Reporting**

We will issue written reports upon completion of our audit of the Systems' basic financial statements. Our reports will be addressed to the board of trustees of the Systems. Circumstances may arise in which our reports may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), to our auditor's report, or if necessary, withdraw from the engagement. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

### **Other**

We understand that your employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

Except for responses required by the Kentucky Open Records Act, If you intend to publish or otherwise reproduce the basic financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

Regarding the electronic dissemination of audited financial statements, including financial statements published electronically on your website or elsewhere, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional standards prohibit us from being the sole host and/or the sole storage for your financial and non-financial data. As such, it is your responsibility to maintain your original data and records and we cannot be responsible to maintain such original information. By signing this engagement letter, you affirm that you have all the data and records required to make your books and records complete.

**Provisions of Engagement Administration, Timing and Fees**

During the course of the engagement, we will only provide confidential engagement documentation to you via Eide Bailly's secure portal or other secure methods, and request that you use the same or similar tools in providing information to us. Should you choose not to utilize secure communication applications, you acknowledge that such communication contains a risk of the information being made available to unintended third parties. Similarly, we may communicate with you or your personnel via e-mail or other electronic methods, and you acknowledge that communication in those mediums contains a risk of misdirected or intercepted communications.

Should you provide us with remote access to your information technology environment, including but not limited to your financial reporting system, you agree to (1) assign unique usernames and passwords for use by our personnel in accessing the system and to provide this information in a secure manner; (2) limit access to "read only" to prevent any unintentional deletion or alteration of your data; (3) limit access to the areas of your technology environment necessary to perform the procedures agreed upon; and (4) disable all usernames and passwords provided to us upon the completion of procedures for which access was provided. We agree to only access your technology environment to the extent necessary to perform the identified procedures.

Lealan Miller is the engagement partner for the audit services specified in this letter. The engagement partner's responsibilities include supervising services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses, administrative charges and a technology fee. Invoices are payable, within 30 days, upon proper invoice presentation. Our fees, including any out-of-pocket expenses, administrative charges and technology fees, for the audits of the Systems will not exceed \$156,000.

The ability to perform and complete our engagement consistent with the estimated fee included above depends upon the quality of your underlying accounting records and the timeliness of your personnel in providing information and responding to our requests. To assist with this process, we will provide you with an itemized request list that identifies the information you will need to prepare and provide in preparation for our engagement, as well as the requested delivery date for those items. A lack of preparation, including not providing this information in an accurate and timely manner, unanticipated audit adjustments, and/or untimely assistance by your personnel may result in a delay in the completion of our engagement.

We may be requested to make certain audit documentation available to outside parties, including regulators, pursuant to authority provided by law or regulation or applicable professional standards. If requested, access to such audit documentation will be provided under the supervision of Eide Bailly LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the outside party, who may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. If the request initiates with KPPA or the Systems, we will be compensated for any time and expenses, including time and expenses of legal counsel, we may incur in making such audit documentation available or in conducting or responding to discovery requests or participating as a witness or otherwise in any legal, regulatory, or other proceedings as a result of our Firm's performance of these services. You and your attorney will receive, if lawful, a copy of every subpoena we are asked to respond to on your behalf and will have the ability to control the extent of the discovery process to control the costs you may incur.

Should our relationship terminate before our audit procedures are completed and a report issued, you will be billed for services to the date of termination. All bills are payable upon receipt, within 30 days of proper vendor invoice presentation. An interest penalty of 1% per month, which is an annual rate of 12%, will be added to all

accounts unpaid 30 days after billing date in accordance with KRS 45.454. If collection action is necessary, if ordered by Franklin Circuit Court, expenses and reasonable attorney's fees will be added to the amount due.

We may use third party service providers and/or affiliated entities (including Eide Bailly Shared Services Private Limited) (collectively, "service providers") in order to facilitate delivering our services to you. Our use of service providers may require access to client information by the service provider. We will take reasonable precautions to determine that they have the appropriate procedures in place to prevent the unauthorized release of confidential information to others. We will remain responsible for the confidentiality of client information accessed by such service provider and any work performed by such service provider.

Neither of us may use or disclose the other's confidential information for any purpose except as permitted under this engagement letter or as otherwise necessary for Eide Bailly to provide the services or as otherwise required by law. Your confidential information is defined as any information you provide to us that is not available to the public. Eide Bailly's confidential information includes our audit documentation for this engagement. Our audit documentation shall at all times remain the property of Eide Bailly LLP. To the extent that any of the confidentiality obligations described in this paragraph conflict with the PON2 100 2500003213, those provisions shall supersede and replace any and all prior confidentiality and/or nondisclosure agreements (NDAs) between us.

You agree to share all facts that may affect your financial statements, even if you first become aware of those facts after the date of the auditor's report but before the date your financial statements are issued.

We agree to retain our audit documentation or work papers for a period of at least eight years from the date of our report.

At the conclusion of our audit engagement, we will communicate to management and board of trustees the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

*Government Auditing Standards* require that we provide, upon request, a copy of our most recent external peer review report and any subsequent review reports to the party contracting for the audit. Accordingly, we will provide a copy of our most recent peer review report at your request.

## **MEDIATION**

Any disagreement, controversy or claim arising out of or related to any aspect of our services or relationship with you (hereafter a "Dispute") shall, as a precondition to litigation in court, first be submitted to mediation. In



mediation, the parties attempt to reach an amicable resolution of the Dispute with the aid of an impartial mediator. Mediation shall begin by service of a written demand. The mediator will be selected by mutual agreement. If we cannot agree on a mediator, one shall be designated by the American Arbitration Association ("AAA"). Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally by the parties.

#### **LIMITED INDEMNITY**

Eide Bailly LLP and its partners, affiliates, officers and employees (collectively "Eide Bailly") shall not be responsible for any misstatements in your financial statements that we may fail to detect as a result of misrepresentations or concealment of information by any of your owners, directors, officers or employees.

#### **LIMITATION OF LIABILITY**

The exclusive remedy available to you for any alleged loss or damages arising from or related to Eide Bailly's services or relationship with you shall be the right to pursue claims for actual damages, to the extent allowable by Kentucky State Law, that are directly caused by Eide Bailly's breach of this agreement or Eide Bailly's violation of applicable professional standards. To the extent applicable law does not prevent or restrict KPPA from accepting limitations on liability, Eide Bailly's aggregate liability will be capped at two times the fees paid under this agreement. Furthermore, Eide Bailly will not be responsible for any incidental, consequential, punitive, exemplary damages, or attorney's fees.

#### **TIME LIMITATION**

You may not bring any legal proceeding against Eide Bailly unless it is commenced within twenty-four (24) months ("Limitation Period") after the date when we delivered our report, return, or other deliverable under this agreement to you, regardless of whether we do other services for you or that may relate to the audit. The Limitation Period applies and begins to run even if you have not suffered any damage or loss, or have not become aware of a possible Dispute.

#### **GOVERNING LAW AND VENUE**

Any Dispute between us, including any Dispute related to the engagement contemplated by this agreement, shall be governed by Kentucky law. Any unresolved Dispute shall be submitted to the Franklin Circuit Court in Frankfort, Kentucky.

#### **ASSIGNMENTS PROHIBITED**

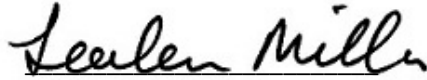
You shall not assign, sell, barter or transfer any legal rights, causes of actions, claims or Disputes you may have against Eide Bailly to any person.

Eide Bailly LLP, shall not assign, sell, barter or transfer any legal rights, causes of actions, claims or disputes against KPPA or the Systems to any person.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

We appreciate the opportunity to be your certified public accountants and look forward to working with you and your staff.

Respectfully,



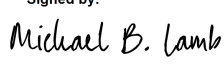
Lealan Miller  
Partner

\*\*\*\*\*

RESPONSE:

This letter correctly sets forth our understanding.

Acknowledged and agreed on behalf of Kentucky Public Pensions Authority by:

Signed by:  
Name:   
E1A28036AE374A8...

Title: CFO

Date: 7/21/2025

## Basic Financial Statements

Combining Statement of Fiduciary Net Position						
As of June 30, 2025 (\$ in Thousands)						
	Pension		Insurance		CERS	CERS
	CERS	CERS	CERS	CERS	Total	Total
ASSETS	Nonhazardous	Hazardous	Nonhazardous	Hazardous	2025	2024
<b>CASH AND SHORT-TERM INVESTMENTS</b>						
Cash Deposits	\$347	\$27	\$102	\$14	\$490	\$427
Short-term Investments	456,987	199,753	130,051	50,742	837,533	549,100
<b>Total Cash and Short-term Investments</b>	<b>457,334</b>	<b>199,780</b>	<b>130,153</b>	<b>50,756</b>	<b>838,023</b>	<b>549,527</b>
<b>RECEIVABLES</b>						
Accounts Receivable	82,169	24,683	4,848	1,866	\$113,567	132,694
Accounts Receivable - Investments	109,279	40,795	38,699	17,025	\$205,798	83,651
<b>Total Receivables</b>	<b>191,448</b>	<b>65,478</b>	<b>43,547</b>	<b>18,891</b>	<b>319,365</b>	<b>216,345</b>
<b>INVESTMENTS, AT FAIR VALUE</b>						
Core Fixed Income	1,308,686	477,687	487,232	11,756	\$2,495,361	1,810,070
Public Equities	5,038,728	1,806,652	1,856,841	872,931	\$9,574,452	9,514,789
Private Equities	598,233	212,752	227,007	26,036	\$1,164,022	1,219,303
Specialty Credit	2,059,130	734,922	776,100	362,406	\$3,932,647	3,638,528
Derivatives	(5)	(10)	9	16	\$9	219
Real Return	575,879	205,995	109,500	99,364	\$1,090,759	726,051
Real Estate	543,195	172,873	196,756	107,976	\$1,020,800	954,047
Securities Lending Collateral	272,127	97,816	82,942	39,382	\$492,267	445,653
<b>Total Investments, at Fair Value</b>	<b>10,395,972</b>	<b>3,708,687</b>	<b>3,835,407</b>	<b>1,829,252</b>	<b>19,770,319</b>	<b>18,308,660</b>
<b>Total Assets</b>	<b>11,044,754</b>	<b>3,973,915</b>	<b>4,010,108</b>	<b>1,898,900</b>	<b>20,927,706</b>	<b>19,074,532</b>
<b>LIABILITIES</b>						
Accounts Payable	6,699	1,110	15	—	\$8,025	8,604
Accounts Payable - Investments	140,354	52,766	51,302	23,076	\$267,500	147,492
Securities Lending Collateral	272,127	97,816	82,942	39,382	\$492,267	445,653
<b>Total Liabilities</b>	<b>419,180</b>	<b>151,692</b>	<b>134,259</b>	<b>62,459</b>	<b>767,792</b>	<b>601,749</b>
<b>Total Fiduciary Net Position</b>						
<b>Restricted for Benefits</b>	<b>\$10,625,573</b>	<b>\$3,822,051</b>	<b>\$3,875,849</b>	<b>\$1,836,441</b>	<b>\$20,159,914</b>	<b>\$18,472,783</b>
See accompanying notes which are an integral part of these combining financial statements.						
Note: The displayed fair values include investable assets held by each Plan and its associated contributions, payables, equipment and intangible assets; unlike those found in the Investment Section which include only those investable assets held by each Plan.						

**Combining Statement of Changes In Fiduciary Net Position**

For the fiscal year ended June 30, 2025 (\$ in Thousands)

	Pension		Insurance		CERS Total 2025	CERS Total 2024
	CERS Nonhazardous	CERS Hazardous	CERS Nonhazardous	CERS Hazardous		
<b>ADDITIONS</b>						
Member Contributions	\$167,083	\$65,788	\$22,847	\$5,495	\$261,213	\$248,354
Employer Contributions	677,429	306,031	12,842	19,950	\$1,016,252	1,118,858
Other Additions	—	—	—	—	—	12,082
<b>Total Contributions &amp; Other Additions</b>	<b>844,512</b>	<b>371,819</b>	<b>35,689</b>	<b>25,445</b>	<b>1,277,465</b>	<b>1,379,294</b>
<b>INVESTMENT INCOME</b>						
Net Appreciation (Depreciation) in FV of Investments	\$872,213	\$311,368	\$310,970	\$148,062	\$1,642,613	\$1,507,635
Interest/Dividends	321,416	115,259	118,334	55,730	610,739	566,984
Securities Lending Income	12,932	4,839	4,298	1,749	23,818	20,244
Less: Investment Expense	64,089	22,005	23,941	12,226	122,261	117,831
Less: Performance Fees	23,797	8,108	8,520	—	44,930	36,302
Less: Securities Lending Fees, Expenses, and Rebates	11,663	4,366	3,875	1,573	21,477	18,313
<b>Net Investment Income (loss)</b>	<b>1,107,012</b>	<b>396,987</b>	<b>397,266</b>	<b>18,837</b>	<b>2,088,502</b>	<b>1,922,417</b>
<b>Total Additions</b>	<b>1,951,524</b>	<b>768,806</b>	<b>432,955</b>	<b>212,682</b>	<b>3,365,967</b>	<b>3,301,711</b>
<b>DEDUCTIONS</b>						
Benefit Payments	993,357	376,348	—	—	1,369,705	1,284,097
Refunds	24,377	8,005	—	—	32,382	33,807
Administrative Expenses	25,841	2,262	911	524	29,544	30,350
Healthcare Expenses	—	—	142,084	105,121	247,205	221,030
<b>Total Deductions</b>	<b>1,043,575</b>	<b>386,615</b>	<b>142,995</b>	<b>105,645</b>	<b>1,678,836</b>	<b>1,569,284</b>
Net Increase Decrease in Fiduciary Net Position Restricted for Pension Benefits	907,949	382,191	289,954	107,037	1,687,131	1,732,427
<b>Total Fiduciary Net Position Restricted for Benefits</b>						
<b>Beginning of Period</b>	<b>9,717,626</b>	<b>439,860</b>	<b>3,585,894</b>	<b>1,729,403</b>	<b>18,472,783</b>	<b>16,740,356</b>
<b>End of Period</b>	<b>10,625,575</b>	<b>3,821,981</b>	<b>3,875,848</b>	<b>1,836,440</b>	<b>20,159,914</b>	<b>18,472,783</b>
See accompanying notes, which are an integral part of these combining financial statements.						

## Basic Financial Statements

Combining Statement of Fiduciary Net Position								
As of June 30, 2025 (\$ in Thousands)								
	Pension			Insurance			KRS	KRS
	KERS	KERS	SPRS	KERS	KERS	SPRS	Total	Total
ASSETS	Nonhazardous	Hazardous		Nonhazardous	Hazardous		2025	2024
<b>CASH AND SHORT-TERM INVESTMENTS</b>								
Cash Deposits	\$263	\$28	\$26	\$101	\$16	\$12	\$445	\$465
Short-term Investments	221,007	59,712	38,383	71,358	28,082	8,904	427,447	441,430
<b>Total Cash and Short-term Investments</b>	<b>221,270</b>	<b>59,740</b>	<b>38,409</b>	<b>71,459</b>	<b>28,098</b>	<b>8,916</b>	<b>427,892</b>	<b>441,895</b>
<b>RECEIVABLES</b>								
Accounts Receivable	89,217	4,019	2,995	5,631	444	220	102,526	116,626
Accounts Receivable - Investments	100,502	15,366	15,179	22,680	8,027	2,972	164,726	56,377
<b>Total Receivables</b>	<b>189,720</b>	<b>19,385</b>	<b>18,174</b>	<b>28,311</b>	<b>8,471</b>	<b>3,192</b>	<b>267,252</b>	<b>173,003</b>
<b>INVESTMENTS, AT FAIR VALUE</b>								
Core Fixed Income	1,321,111	108,938	192,126	185,737	71,714	26,046	1,905,672	1,672,118
Public Equities	1,634,223	488,519	239,772	778,997	30,751	24,098	3,574,360	3,092,032
Private Equities	204,983	64,641	28,351	110,263	44,500	19,915	472,777	474,267
Specialty Credit	1,007,415	279,612	141,502	450,550	173,745	72,263	2,125,075	1,726,445
Derivatives	17	(2)	1	—	11	(2)	25	(63)
Real Return	468,629	85,420	69,012	109,103	53,375	21,664	837,203	684,912
Real Estate	234,554	63,267	35,441	102,888	45,389	17,333	498,472	466,474
Securities Lending Collateral	129,611	29,538	19,073	39,152	15,518	6,208	239,101	205,574
<b>Total Investments, at Fair Value</b>	<b>5,000,542</b>	<b>1,119,932</b>	<b>729,278</b>	<b>2,066,315</b>	<b>713,091</b>	<b>287,524</b>	<b>9,652,685</b>	<b>8,321,759</b>
<b>Total Assets</b>	<b>5,411,532</b>	<b>1,199,057</b>	<b>81,861</b>	<b>1,966,085</b>	<b>749,660</b>	<b>299,632</b>	<b>10,347,829</b>	<b>8,936,656</b>
<b>LIABILITIES</b>								
Accounts Payable	4,661	1,276	36	3	—	—	6,176	5,691
Accounts Payable - Investments	133,975	19,574	9,693	33,058	10,039	3,953	220,298	112,582
Securities Lending Collateral	129,612	29,538	19,073	39,152	15,518	6,208	239,101	205,574
<b>Total Liabilities</b>	<b>268,249</b>	<b>50,388</b>	<b>29,008</b>	<b>72,213</b>	<b>25,557</b>	<b>10,161</b>	<b>465,575</b>	<b>323,847</b>
<b>Total Fiduciary Net Position Restricted for Benefits</b>	<b>\$5,143,283</b>	<b>\$1,148,669</b>	<b>\$742,853</b>	<b>\$1,833,873</b>	<b>\$724,103</b>	<b>\$289,471</b>	<b>\$9,882,254</b>	<b>\$8,612,809</b>
See accompanying notes which are an integral part of these combining financial statements.								
Note: The displayed fair values include investable assets held by each Plan and its associated contributions, payables, equipment and intangible assets; unlike those found in the Investment Section, which include only those investable assets held by each Plan.								

**Combining Statement of Changes In Fiduciary Net Position**

For the fiscal year ended June 30, 2025 (\$ in Thousands)

	Pension			Insurance			KRS	KRS
	KERS	KERS		KERS	KERS		Total	Total
	Nonhazardous	Hazardous	SPRS	Nonhazardous	Hazardous	SPRS	2025	2024
<b>ADDITIONS</b>								
Member Contributions	\$104,830	\$22,096	\$6,006	\$12,295	\$2,176	\$418	\$147,821	\$136,995
Employer Contributions	154,409	70,768	52,975	38,863	2,159	1,888	321,062	368,848
Actuarially Accrued Liability Contributions	864,522	—	—	1,860	—	—	866,382	987,445
General Fund Appropriations	300,000	—	25,000	—	—	—	325,000	240,000
Other Additions	—	—	—	4	—	—	4	9,485
<b>Total Contributions &amp; Other Additions</b>	<b>1,423,761</b>	<b>92,864</b>	<b>83,981</b>	<b>53,022</b>	<b>4,335</b>	<b>2,306</b>	<b>1,660,269</b>	<b>1,742,773</b>
<b>INVESTMENT INCOME</b>								
Net Appreciation (Depreciation) in FV of Investments	\$363,949	\$92,561	\$52,053	\$147,310	\$56,744	\$22,884	\$735,501	\$553,411
Interest/Dividends	161,500	37,396	24,259	61,373	23,281	9,436	317,248	278,989
Securities Lending Income	6,775	1,655	1,119	2,535	766	345	13,195	8,524
Less: Investment Expense	23,822	6,541	3,341	10,280	681	878	50,543	43,491
Less: Performance Fees	9,022	2,232	1,076	3,575	1,500	695	18,410	13,592
Less: Securities Lending Fees, Expenses, and Rebates	6,093	1,495	1,008	2,243	690	312	11,891	7,641
<b>Net Investment Income (loss)</b>	<b>493,287</b>	<b>121,344</b>	<b>72,006</b>	<b>95,070</b>	<b>73,113</b>	<b>29,780</b>	<b>985,100</b>	<b>776,200</b>
<b>Total Additions</b>	<b>1,917,048</b>	<b>214,208</b>	<b>155,987</b>	<b>148,092</b>	<b>117,948</b>	<b>32,086</b>	<b>2,645,369</b>	<b>2,518,973</b>
<b>DEDUCTIONS</b>								
Benefit Payments	1,046,018	87,620	65,696	—	—	—	1,199,334	1,176,475
Refunds	11,154	6,212	—	—	—	—	17,712	16,046
Administrative Expenses	14,163	1,627	308	687	116	71	16,972	16,947
Healthcare Expenses	—	—	—	105,627	21,645	14,635	141,907	127,902
<b>Total Deductions</b>	<b>1,071,335</b>	<b>95,459</b>	<b>66,004</b>	<b>106,314</b>	<b>21,761</b>	<b>14,706</b>	<b>1,375,925</b>	<b>1,337,370</b>
Fiduciary Net Position Restricted for Pension Benefits	845,713	103,749	80,637	141,778	56,187	17,380	1,269,444	1,181,603
<b>Total Fiduciary Net Position Restricted for Benefits</b>								
<b>Beginning of Period</b>	<b>4,297,571</b>	<b>1,000,081</b>	<b>653,216</b>	<b>1,692,094</b>	<b>667,917</b>	<b>272,090</b>	<b>8,612,809</b>	<b>7,431,207</b>
<b>End of Period</b>	<b>\$5,143,214</b>	<b>\$1,148,670</b>	<b>\$742,853</b>	<b>\$1,833,872</b>	<b>\$724,104</b>	<b>\$289,470</b>	<b>\$9,882,253</b>	<b>\$8,612,810</b>
<i>See accompanying notes, which are an integral part of these combining financial statements.</i>								



# KENTUCKY PUBLIC PENSIONS AUTHORITY

Ryan Barrow, Executive Director

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



## MEMORANDUM

**TO:** Kristen Coffey, Chief Auditor

**FROM:** Jillian Hall, Staff Attorney, Office of Legal Services  
Beth Camic, Staff Assistant, Office of Legal Services

**DATE:** August 8, 2025

**SUBJECT:** Potential Information Disclosures/Breaches Affecting the Kentucky Public Pensions Authority (“KPPA”), Fiscal Year 2025 Quarter 4

### DATA ON POTENTIAL DISCLOSURES/BREACHES FY 2025 4TH QUARTER

#### Total Disclosures/Breaches Reports Investigated: 11

<u>Total Number Investigated</u>	<u>Type</u>
1	Implicated HIPAA/HITECH
0	Implicated state law
7	Implicated KPPA Data Disclosure Notification Policy
3	Found not to be a disclosure/breach

#### Total Members Affected by Potential Disclosures/Breaches: 1498

#### Total Potential Disclosures/Breaches by Source of Disclosure/Breach

<u>Total Number of Disclosures/Breaches</u>	<u>Source</u>
7	KPPA, KRS, or CERS
1491	External (e.g., vendor, business associate)

#### Total Potential Disclosures/Breaches by Method of Disclosure/Breach

<u>Total Number of Disclosures/Breaches</u>	<u>Method</u>
2	Email
2	Mail
3	Self-Service
0	Phone
0	Fax
1	Other

## **SYNOPSES ON POTENTIAL DISCLOSURES/BREACHES FY 2025 2<sup>nd</sup> Quarter**

### **KPPA, KRS, and CERS Disclosures/Breaches**

- **Federal law (HIPAA/HITECH):** There were **no** potential breaches of protected health information by the KPPA.
- **State law (KRS 61.931, et seq.):** There was **no** potential “security breach” of “personal information” as defined by state law by the KPPA.
- **KPPA Internal Data Disclosure Notification Policy:** The following disclosures occurred under the KPPA’s Data Disclosure Notification Policy.

**Background:** Non-KPPA member called to report receiving mail for a KPPA member for a while. Caller stated the KPPA member has not lived at that address for 20+ years.

**Root Cause:** Lack of Change of Contact Information

**Follow Up:** Deactivated member’s address and attempted to find current address. KPPA sought an affidavit from the member who received the disclosed information attesting they did not copy or otherwise retain the information of the compromised member.

**Background:** Two instances of a KPPA staff member inadvertently including an outside party on an internal email outlining a member’s health insurance premiums.

**Root Cause:** Human Error. Email auto populated an outside email address.

**Follow Up:** KPPA immediately contacted the recipient and instructed them on proper destruction of the email. A disclosure notification letter was sent to the affected member. KPPA is seeking an affidavit from the member who received the disclosed information attesting they did not copy or otherwise retain the information of the compromised member.

**Background:** KPPA staff flagged an account for suspicious activity regarding a direct deposit change request. Staff contacted member and confirmed changes were not authorized. The account was reverted to previous banking information and no benefit payment was missed. The unauthorized party was also able to view documents in the member’s self-service which included personal information regarding a beneficiary.

**Root Cause:** An unknown bad actor changed the member’s banking information by using information obtained outside of KPPA including the member’s banking information.

**Follow Up:** KPPA sent out required notices under internal policy and sent documentation to the member and beneficiary regarding the incident along with identity theft guidance. The member's self-service account was locked down. Future



account changes are restricted to management only and must be notarized or dropped off in person with a valid ID.

**Background:** One instance of a Member calling to report receiving within their own mail from KPPA documents for another member.

**Root Cause:** Mailing issue – likely automatic mailer issue.

**Follow Up:** KPPA sent out required notices to the affected member and recipient. Disclosure notification letters were sent to the affected members. KPPA obtained an affidavit from the member who received disclosed information attesting they did not copy or otherwise retain the information of the compromised member.

**Background:** A KPPA member called to report unauthorized contact information changes to their account. Due to security measures in place by KPPA, the member promptly received an email notification stating their information had been updated.

**Root Cause:** An unknown bad actor changed the member's contact information by using information obtained outside of KPPA. The member also noted they recently experienced identity theft outside of KPPA.

**Follow Up:** KPPA sent out required notices under internal policy and sent documentation to the member. The member's self-service account was locked down. Future account changes are restricted to management only and must be notarized or dropped off in person with a valid ID.

**Background:** When submitting a Notice of Filing for an administrative hearing, KPPA inadvertently included two pages of another member's exhibit list.

**Root Cause:** Human error.

**Follow Up:** The disclosed documents were stricken from the Administrative Record. A disclosure notification letter was sent to the affected member. KPPA is seeking an affidavit from the member's counsel who received the disclosed information attesting they did not copy or otherwise retain the information of the compromised member.

### **External Disclosures/Breaches**

The KPPA received one notification from a KPPA vendor or business associate this quarter that a security breach or disclosure had occurred.

**Background:** On May 27, 2025, KPPA was notified by a vendor that a cybersecurity event involving a subcontractor's services had impacted 1,491 KPPA members.

**Root Cause:** Cybersecurity event.

**Follow Up:** The subcontractor immediately implemented emergency response protocols, contacted the FBI, and notified affected members and other required agencies. The contracted entity and its subcontractor are evaluating additional security enhancements to reduce the likelihood of a similar cybersecurity event in the future. The contractor notified affected members and offered 2-year free credit and identity theft monitoring service.

**RECOMMENDATION**

This memorandum is provided for informational purposes only.



# KENTUCKY PUBLIC PENSIONS AUTHORITY

**Ryan Barrow, Executive Director**

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



## MEMORANDUM

**TO:** Kristen Coffey, Chief Auditor

**FROM:** Stephanie Hold, Investigator, Office of Legal Services

**DATE:** August 26, 2025

**SUBJECT:** Tips Received Regarding Fraud, Waste, and Abuse

The information contained in this memo concerns tips regarding potential fraud, waste and abuse received by the Kentucky Public Pensions Authority (KPPA), including updates on all open cases and cases closed since the last meeting of the Kentucky Public Pensions Authority Audit Committee (Audit Committee).

### OPEN FRAUD TIP CASES

Since the Audit Committee met on May 29, 2025, the KPPA received one (1) new fraud tip, which is currently being investigated by the Office of Legal Services.

As of the date of this memo, the KPPA has six (6) cases in open status. The following chart provides current information for all open cases as of the date of this Memorandum:

Date Reported	Allegation(s)	Current Action
12/13/2022	Failure of an employer to report all employees in regular fulltime positions	The Office of Legal Services is investigating.
01/22/2024	Disability retirement fraud.	The Office of Legal Services is investigating.
06/12/2024	Employer not making the required retirement contributions for employees.	The Office of Legal Services is working with ERCE and obtaining additional information.
06/16/2024	Prearranged agreement to return to work for the same employer and failure to have the required break in service.	The allegation related to the member was substantiated and the Office of Benefits has taken action; however, the Office of Legal Services is investigating employer reporting issues uncovered as a result of the investigation.

<b>Date Reported</b>	<b>Allegation(s)</b>	<b>Current Action</b>
02/18/2025	Pearranged agreement to return to work for the same employer.	The Office of Legal Services is investigating.
07/25/2025	Pearranged agreement to return to work for another participating agency.	The Office of Legal Services is investigating.

### **FRAUD TIPS CLOSED SINCE LAST MEETING**

As of the date of this memo, two (2) cases have been closed since the last meeting of the KPPA Audit Committee. The following case(s) were closed since the last meeting:

<b>Date Reported</b>	<b>Allegation(s)</b>	<b>Disposition</b>
11/02/2023	Employer not making the required retirement contributions for employees since January 2021.	The Office of Legal Services initially assisted ERCE in obtaining documents. Currently, there is no need for additional investigative work, so closing the tip and ERCE is taking the lead to resolve any outstanding employer contribution issues.
05/02/2025	Member failed to adhere to the required break in service.	After reviewing employer payroll data, there was no evidence to indicate the member worked past his retirement date.

### **RECOMMENDATION**

This memorandum is provided for informational purposes only.



# Kentucky Public Pensions Authority

## Division of Internal Audit



To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA  
Chief Auditor

Date: August 26, 2025

Subject: Fiscal Year 2025 Internal Audit Budget as of June 30, 2025

Account Number	Account Name	FYE 2025 Budget	FY 2025 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries	\$ 350,000.00	\$ 314,008.17	\$ 35,991.83	10.28%
121	Employer Paid FICA	26,775.00	23,148.66	3,626.34	13.54%
122	Employer Paid Retirement	166,481.25	130,530.99	35,950.26	21.59%
123	Employer Paid Health Insurance	50,000.00	37,661.20	12,338.80	24.68%
124	Employer Paid Life Insurance	60.00	45.00	15.00	25.00%
133T	Employee Training	2,500.00	-	2,500.00	100.00%
259T	Conference Expenses	2,500.00	1,999.08	500.92	20.04%
361T	Travel - In State	1,000.00	-	1,000.00	100.00%
362T	Travel - Out State	3,000.00	943.40	2,056.60	68.55%
381T	Dues & Subscriptions	1,000.00	1,120.00	(120.00)	-12.00%
399T	Miscellaneous	200.00	-	200.00	100.00%
847T	Computer Equipment***	15,000.00	-	15,000.00	100.00%
	<b>Total</b>	<b>\$ 618,516.25</b>	<b>\$ 509,456.50</b>	<b>\$ 109,059.75</b>	<b>17.63%</b>

\*\*\*Beginning in May 2025, the KPPA IT team was in (at least) weekly communication with the third-party vendor, to obtain this renewal invoice. It was received in mid-June. However, the invoice did not properly reflect the actual services utilized by KPPA. The third-party vendor reached out to the software company for a corrected invoice. That invoice was not received until July. The payment of \$14,469.10 was made in the first quarter of fiscal year 2026. If this charge was included in 2025, the result would be actual expenses being 15.29% under budget.

### **259T Conference Expenses**

1. 3rd Quarter - \$114.08 AGA Winter PDT (All audit staff)
2. 3rd Quarter - \$530 Association of Certified Fraud Examiners Conference Internal Fraud Conference - Virtual (Kristen)\*\*
3. 3rd Quarter - \$680 Association of Certified Fraud Examiners Government Fraud Conference - Virtual (Madeline)\*\*
4. 3rd Quarter - \$575 Association of Public Pension Fund Auditors Conference - In-person (James) *Associated travel fees of approximately \$950 will be paid in 4th quarter*
5. 4th Quarter - \$100 AGA Spring PDT (all staff, Kristen's registration was free)

*\*\*These were two separate conferences*

### **362T Out of State Travel**

- 4th Quarter - Travel associated to APPFA conference attended by James in 3rd quarter

**381T Dues and Subscriptions**

1. 3rd Quarter - \$500 APPFA Membership (KPPA)
2. 3rd Quarter - \$105 AGA membership through March 2026 (James)
3. 3rd Quarter - \$200 IIA membership (Madeline)
4. 3rd Quarter - \$315 AGA membership renewal through March 2026 (Kristen, Madeline, Will)

***Overage is the result of underestimating cost of membership dues***

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

Project Code	Project Name	Phase	Scheduled Start	Actual Start	Scheduled End	Actual End	Total Audit Hours	FY 2024 Hours	Total FY 2025 Hours to Date	Estimated Hours	Estimated Hours Variance	Percentage Variance Estimated vs. Actual
2024-3*	Review of Interest Applied to Member Accounts	Completion	7/3/2023	5/25/2023	6/14/2024	7/22/2024	596.75	576.75	20.00	83.00	(3.25)	-1%
2024-6*	Review of Employer Outstanding Invoices	Completion	3/18/2024	3/13/2024	7/15/2024	8/7/2024	393.75	369.00	24.75	75.00	(206.25)	-34%
2024-7*	Review of Employer Contributions	Completion	10/9/2023	10/6/2023	6/28/2024	8/19/2024	687.25	614.25	73.00	15.00	87.25	15%
2024-9*	Review of Refunds	Completion	3/21/2024	3/21/2024	8/23/2024	8/19/2024	569.25	398.25	171.00	154.00	(30.75)	-5%
2024-10	Review of Investment Administrative Fees	Completion	7/1/2024	6/20/2024	12/31/2024	1/15/2025	855.55	31.25	824.30	600.00	255.55	43%
2024-Other-6	Self-Assessment for Peer Review	Completion	7/5/2023	7/11/2023	6/30/2024	7/22/2024	330.00	328.25	1.75	20.00	(170.00)	-34%
2024-Other-9	FY 2025 Risk Assessment and Audit Plan	Completion	7/1/2023	7/17/2023	8/27/2024	7/22/2024	185.00	184.50	0.50	50.00	(115.00)	-38%
2025-1	1099-R Process (Follow-up to 2019-4)	Completion	7/1/2024	6/17/2024	10/25/2024	10/14/2024	224.50	2.00	222.50	400.00	(175.50)	-78%
2025-2	Review of Office of Investments Specific Policies	Completion	9/16/2024	7/30/2024	11/29/2024	1/13/2025	210.00	0.00	210.00	275.00	(90.00)	-43%
2025-3	Employer Reporting Process	Deferred	3/3/2025	3/3/2025	6/27/2025	4/1/2025	101.50	0.00	101.50	100.00	1.50	1%
2025-4	Procurement Card Process (Follow-up to 2018-1)	Completion	11/21/2024	11/21/2024	2/14/2025	2/13/2025	474.50	0.00	474.50	450.00	24.50	5%
2025-5	Disability Appeal Process	Completion	11/1/2024	11/22/2024	3/14/2025	3/31/2025	515.00	0.00	515.00	500.00	15.00	3%
2025-6	Hiring Process	Completion	2/3/2025	1/15/2025	4/15/2025	4/15/2025	495.75	0.00	495.75	280.00	215.75	44%
2025-7	Open Audit Recommendations	Completion	1/1/2025	1/13/2025	4/11/2025	2/28/2025	40.75	0.00	40.75	50.00	(9.25)	-23%
2025-8	Inventory Process	Fieldwork	1/6/2025	1/14/2025	3/31/2025	Carry over	206.25	0.00	206.25	300.00	(93.75)	-45%
2025-9	Accounts Payable Process (Follow-up to 2019-3)	Completion	3/3/2025	3/19/2025	6/30/2025	7/9/2025	542.75	0.00	542.75	575.00	(32.25)	-6%
2025-10	Travel Process (Follow-up to 2018-1)	Completion	3/3/2025	2/13/2025	6/6/2025	5/20/2025	337.75	0.00	337.75	309.00	28.75	9%
2025-11	Review of Accrual Process	Completion	4/9/2025	4/9/2025	6/30/2025	6/12/2025	201.25	0.00	201.25	475.00	(273.75)	-136%
2025-20	FY 2025 Board and Committee Meetings	Completion	7/1/2024	7/1/2024	6/30/2025	6/30/2025	238.45	0.00	238.45	300.00	(61.55)	-26%
2025-21	Internal Audit Key Performance Indicators	Completion	7/1/2024	7/16/2024	6/30/2025	6/30/2025	24.25	0.00	24.25	24.00	0.25	1%
2025-22	Charter and Policy Updates	Completion	7/1/2024	8/6/2024	6/30/2025	6/30/2025	15.25	0.00	15.25	20.00	(4.75)	-31%
2025-23	Review of ACFR and SAFR	Completion	8/12/2024	8/19/2024	11/29/2024	12/5/2024	44.00	0.00	44.00	75.00	(31.00)	-70%
2025-24	Risk Assessment and Audit Plan	Completion	7/1/2024	1/29/2025	6/30/2025	6/30/2025	119.00	0.00	119.00	150.00	(31.00)	-26%
2025-25	Security Access Reviews	Completion	7/1/2024	8/19/2024	6/30/2025	2/17/2025	1.00	0.00	1.00	2.00	(1.00)	-100%
2025-26	Internal Audit Evaluations	Completion	7/1/2024	7/8/2024	6/30/2025	6/30/2025	63.25	0.00	63.25	125.00	(61.75)	-98%
2025-27	Continuing Professional Education	Completion	7/1/2024	7/1/2024	6/30/2025	6/30/2025	479.75	0.00	479.75	300.00	179.75	37%
2025-28	Internal Audit Process Documentation and Updates	Completion	7/1/2024	7/29/2024	6/30/2025	6/30/2025	197.25	0.00	197.25	165.00	32.25	16%
2025-29	Miscellaneous KPPA Groups/Projects	Completion	7/1/2024	7/1/2024	6/30/2025	6/30/2025	659.75	0.00	659.75	200.00	459.75	70%
2025-30	CERS Trustee Election	Completion	7/1/2024	6/10/2024	4/30/2025	3/31/2025	146.00	4.75	141.25	100.00	46.00	32%
2025-31	Internal Audit Staff Hiring	Completion	7/1/2024	7/8/2024	6/30/2025	6/30/2025	87.50	2.75	84.75	177.00	(89.50)	-102%
2025-32	Internal Audit Meetings	Completion	7/1/2024	7/8/2024	6/30/2025	6/30/2025	298.00	0.00	298.00	290.00	8.00	3%
2025-33	KPPA Meetings	Completion	7/1/2024	7/8/2024	6/30/2025	6/30/2025	159.50	0.00	159.50	150.00	9.50	6%
2025-34	External Audit RFP	Completion	9/19/2024	9/19/2024	3/31/2025	6/30/2025	13.75	0.00	13.75	40.00	(26.25)	-191%
2025-35	Response to APA	Completion	9/23/2024	9/23/2024	10/31/2024	10/4/2024	3.25	0.00	3.25	20.00	(16.75)	-515%
2025-36	KPPA Leadership Academy	Completion	2/1/2025	2/27/2025	6/30/2025	6/30/2025	17.25	0.00	17.25	25.00	(7.75)	-45%
	Administrative Hours	Completion	7/1/2024	7/1/2024	6/30/2025	6/30/2025	576.75	0.00	576.75	590.00	(13.25)	-2%
	Non-Working Hours	Completion	7/1/2024	7/1/2024	6/30/2025	6/30/2025	910.00	0.00	910.00	800.00	110.00	12%
	Holiday Hours	Completion	7/1/2024	7/4/2024	6/30/2025	6/30/2025	483.75	0.00	483.75	521.00	(37.25)	-8%

# KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

\*Budget variance takes into account the full budget for the audit, not just the FY 25 budget hours.

<b>Total Hours Worked</b>	<b>11,505.25</b>	<b>2,511.75</b>	<b>8,993.50</b>
<b>Total Hours Scheduled</b>			<b>8,785.00</b>
<b>Total Overtime Hours</b>			<b>208.50</b>
<b>Average OT by Employee</b>			<b>41.70</b>

## Explanation of Overages 10% or greater

2024-7: Additional time needed to get a full understanding of the process.

2024-10: Audit was started by former auditor. Work had to be redone and expanded when it was picked up by a new auditor.

2025-6: There are various reasons for this audit going overbudget. Discussions have been held internally to address the overage of this audit.

2025-27: Since audit plan was completed prior to end of fiscal year, staff attended additional training classes.

2025-28: Since audit plan was completed prior to end of the fiscal year, staff was able to dedicate additional time to updating process documentation and standard audit templates.

2025-29: This project was used to account for time that audit staff spent researching FY 2026 assigned audits. Time could not be charged to the FY 2026 audits until July 1.

2025-30: There have been various issues with this election that did not occur during the previous three election cycles. As a result, additional hours have been spent on this project.

Non-working Hours: Actual annual/com/sick leave was taken than estimated. Actual 2025 hours were used to help create the FY 2026 estimated non-working hours.



## FY 2025 Audit Plan

Carry-Over from FY 2024 Plan										Over Budget				
Fiscal Year 2025 Audits/Projects					398.50	1,957.50	1,290.00	1,223.50	1,957.50	1,957.50	FY 2025 Hours Available			
	Division	Audit Number	Audit Name	Estimated Audit Hours	Former Employee	Auditor I	Auditor II	Internal Auditor	Retirement Investment Specialist	Chief Auditor	Total Audit Staff Hours	Difference in Actual vs Estimate for Completed Projects	Other KPPA Staff Audit Hours Spent on Project (estimated)	Non-audit staff time as a percent of audit staff time
1	DETS/Investments	2024-3	Review of Interest Applied to Member Accounts	83	11.25	0.00	0.00	0.00	0.00	8.75	20.00	63.00	115.75	19%
2	ERCE	2024-6	Review of Employer Outstanding Invoices	75	3.00	2.00	0.00	0.00	0.00	19.75	24.75	50.25	464.00	118%
3	ERCE	2024-7	Review of Employer Contributions	15	52.50	1.00	0.00	0.00	1.00	18.50	73.00	(58.00)	350.00	51%
4	Office of Benefits	2024-9	Review of Refunds	154	23.00	136.00	0.00	0.00	0.00	12.00	171.00	(17.00)	16.00	3%
5	Investments	2024-10	Review of Investment Manager Fees (focus on administrative fees) - this was approved on FY 2024 Plan and needs to be completed	600	113.50	435.50	19.50	12.00	195.80	48.00	824.30	(224.30)	100.50	12%
6	Internal Audit	2024-Other-6	Self-Assessment for Peer Review	20	0.00	0.00	0.00	0.00	0.00	1.75	1.75	18.25	-	-
7	All KPPA	2024-Other-9	FY 2025 Risk Assessment and Audit Plan	50	0.00	0.00	0.00	0.00	0.00	0.50	0.50	49.50	-	-
8	Retiree Services	2025-1	1099-R Process (Follow-up on 2019-4 1099-R Process issued 3/16/2020)	400	113.50	24.50	0.00	0.00	6.00	78.50	222.50	177.50	8.00	4%
9	Investments	2025-2	Review of Policies Specific to Office of Investments	275	0.00	3.00	0.00	0.00	131.00	76.00	210.00	65.00	11.50	5%
10	ERCE	2025-3	Employer Reporting Process	100	0.00	0.00	0.00	0.00	97.00	4.50	101.50	(1.50)	0.00	0%
11	Accounting	2025-4	Procurement Card (ProCard) Process (Follow-up to 2018-1 ProCard Expenditures issued 10/2/2018), (reduced reserve, increased budget to use audit as training audit for new auditors)	450	0.00	63.50	183.50	162.50	1.50	63.50	474.50	(24.50)	46.25	10%
12	DSB/Legal	2025-5	Disability Appeal Process (reduced reserve, increased budget to add assistant auditor)	500	0.00	1.00	1.50	184.50	298.00	30.00	515.00	(15.00)	78.25	15%
13	HR	2025-6	Hiring Process	280	0.00	412.00	2.50	46.50	4.50	30.25	495.75	(215.75)	22.00	4%
14	Various	2025-7	Open Audit Recommendation Review	50	0.00	25.50	0.00	0.00	0.00	15.25	40.75	9.25	12.75	31%
15	Office Services	2025-8	Inventory Process	300	0.00	0.00	113.00	30.50	1.50	61.25	206.25	93.75	-	0%
16	Accounting	2025-9	Accounts Payable Process (Follow-up on 2019-3 AP Invoice Audit issued 6/28/2019)	575	0.00	12.00	0.00	402.00	85.75	43.00	542.75	32.25	24.00	4%
17	Accounting	2025-10	Travel Process (Follow-up on 2018-1 Travel Expenditures issued 10/2/2018)	309	0.00	1.00	284.50	14.50	1.50	36.25	337.75	(28.75)	25.50	8%
18	Accounting	2025-11	Review of Accrual Process	475	0.00	73.25	61.25	0.00	53.25	13.50	201.25	273.75	12.50	6%
19	Internal Audit	2025-20	Board/Committee Meetings	300	9.50	70.75	21.50	0.00	33.20	103.50	238.45	61.55	-	-
20	Internal Audit	2025-21	Internal Audit Key Performance Indicators	24	0.00	0.00	0.00	0.00	2.50	21.75	24.25	(0.25)	-	-
21	Internal Audit	2025-22	Charter and Policy Updates	20	0.00	0.00	0.00	0.00	0.00	15.25	15.25	4.75	-	-
22	Internal Audit	2025-23	Annual Comprehensive Financial Report/Summary Annual Financial Report Review	75	0.00	0.00	0.00	0.00	0.00	44.00	44.00	31.00	-	-
23	Internal Audit	2025-24	FY 2026 Risk Assessment and Audit Plan	150	0.00	0.00	0.00	0.00	1.00	118.00	119.00	31.00	-	-
24	Internal Audit	2025-25	Security Access Reviews	2	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.00	-	-
25	Internal Audit	2025-26	Evaluations	125	0.50	17.00	1.00	0.50	5.00	39.25	63.25	61.75	-	-
26	Internal Audit	2025-27	Training	300	4.00	205.75	56.00	59.00	107.75	47.25	479.75	(179.75)	-	-
27	Internal Audit	2025-28	Internal Audit Process Documentation and Updates	165	0.00	0.00	0.00	9.00	100.25	88.00	197.25	(32.25)	-	-
28	Internal Audit	2025-29	Miscellaneous KPPA Group Participation/Projects	200	1.00	86.50	230.00	73.75	154.50	114.00	659.75	(459.75)	-	-
29	Internal Audit	2025-30	CERS Election	100	1.50	0.00	17.00	0.00	8.50	114.25	141.25	(41.25)	-	-
30	Internal Audit	2025-31	Internal Audit Staff Hiring	177	0.00	12.50	18.00	0.00	21.50	32.75	84.75	92.25	-	-
31	Internal Audit	2025-32 2025-33	Non-Board Meetings	440	14.50	85.50	28.50	26.00	72.50	230.50	457.50	(17.50)	-	-
32	Internal Audit	2025-34	External Audit RFP - Added after initial plan approved (hours reduced reserve)	40	0.00	0.00	0.00	0.00	0.00	13.75	13.75	26.25	-	-
33	Internal Audit	2025-35	Response to APA - Added after initial plan approved (hours reduced reserve)	20	0.00	0.00	0.00	0.00	0.00	3.25	3.25	16.75	-	-
34	Internal Audit	2025-36	KPPA Leadership Program- Added after initial plan approved (hours reduced reserve)	25	0.00	0.00	0.00	0.00	13.00	4.25	17.25	7.75	-	-
35	Internal Audit		Other Administration	590	38.50	99.00	169.00	75.50	70.00	124.75	576.75	13.25	-	-
36	Internal Audit		Holiday	521	15.00	101.25	86.25	78.75	101.25	101.25	483.75	37.25	-	-
37	Internal Audit		Other Leave	800	41.75	92.00	8.00	64.50	413.00	290.75	910.00	(110.00)	-	-
Scheduled hours for FY 2025					8,785	443	1,961	1,301	1,240	1,981	2,069	8,993.50	1,287.00	
Overtime Hours Worked per Employee					0.00	-44.50	-3.00	-11.00	-16.00	-23.25	-111.25			



**KPPA**  
Kentucky Public Pensions Authority

## **2025-9 Accounts Payable Process**

*Lead Auditor: James Westbay*

*Issue Date: July 9, 2025*

**Acronyms**

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KERS - Kentucky Employees Retirement System
4. SPRS - State Police Retirement System
5. KRS - Kentucky Retirement Systems
6. Board(s) – Board of Trustees
7. CEO - Chief Executive Officer
8. CFO - Chief Financial Officer
9. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
10. Accounting – KPPA Division of Accounting
11. Procurement – KPPA Division of Procurement and Office Services
12. DETS – KPPA Division of Enterprise and Technology Services
13. Internal Audit – KPPA Division of Internal Audit
14. WHD – Web Help Desk
15. eMARS - enhanced Management Administrative Reporting System

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**Overall Opinion**

The process generally complies with relevant laws, regulations, policies and procedures. Internal controls are established but steps could be taken to strengthen controls or make more the process effective and/or efficient.

**Strategic Risk Addressed (Objective)**

Review the accounts payable process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.

**Audit Scope**

The Accounts Payable Process audit was conducted from March 19, 2025 to June 10, 2025. The scope of the audit was invoices paid between July 2024 and February 2025.

### **Summary of Findings and Observations**

A finding is defined as a breakdown, or partial breakdown of a process or major non-compliance with statutes and/or regulations. Development of a corrective action plan is recommended in the next three months with full implementation recommended within one year.

An observation is defined as a minor deviation from an otherwise well-implemented process or a minor oversight by staff. Corrective action is recommended, but timing is more flexible based on staffing needs and availability.

The following Observations were noted during our review. Additional details related to the findings, including the corresponding recommendations can be found in Appendix A.

1. Invoices not paid timely.

We noted other Opportunities for Improvement that we communicated to the KPPA Executive Management team in a separate letter dated July 9, 2025.

### **Commendations**

We would like to thank Accounting and Procurement staff for their assistance during this audit. They worked with Internal Audit staff to help provided detailed explanations related to sampled invoices and the related eMARS payment process. Additionally, staff worked with Internal Audit staff to ensure audit recommendations were feasible and would correct the root cause of the findings.

### **Recommendations for Future Audits**

Based on work conducted during this audit, the following items have been recommended for review during future audits:

1. Review the procurement process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure services match the contract, are properly procured, monitored, and best value for the agency. This audit is scheduled to be conducted in during fiscal year 2026.
2. Review the process for monitoring outstanding check balances and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure outstanding checks are monitored and proper follow-up is taken. A risk was noted on the fiscal year 2026 risk assessment regarding reconciliation of bank accounts. Monitoring of outstanding check balances will be incorporated into that review.

### **Audit Standards**

The engagement was conducted in conformance with the Global Internal Audit Standards.

### **Use of Report**

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; and the Divisions of Accounting and Procurement and Office Services. 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.

## Appendix A – Audit Results

Observation

<b>1. Invoices not paid timely</b>	
<b>Recurring Issue:</b>	Yes
<b>Condition:</b>	<p>Controls have not been established to ensure the following:</p> <ol style="list-style-type: none"> <li>1. Invoices are remitted to Accounting so they can be paid by the due date.</li> <li>2. Invoices are paid within the statutorily required deadline.</li> </ol> <p>Note: A compensating control does exist - if a vendor is not paid timely, they will contact KPPA staff and inquire about payment. This compensating control reduces the risk to the agency.</p>
<b>Criteria:</b>	Kentucky Revised Statutes 45.453 and 45.454 state, "All bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor" (45.453) and "An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of the goods or services or vendor's invoice by a purchasing agency" (45.454).
<b>Cause:</b>	Some, but not all, divisions in KPPA track when invoices are received, approved, and paid. For the divisions that are tracking this information, there is no mechanism in place to ensure invoices are paid prior to the due date.
<b>Effect:</b>	Invoices could be paid late, resulting in late charges being incurred.
<b>Recommendations:</b>	<p>The CFO is currently reviewing this process to determine what additional steps, if any, need to be established.</p> <p>Recommendation previously made regarding this situation</p> <p>The KPPA Executive Management team should review invoice procedures throughout the agency and determine if it would be cost beneficial to KPPA to establish controls that ensure the following:</p> <ol style="list-style-type: none"> <li>1. Invoices are remitted to Accounting in a sufficient time so that invoices can be paid by the due date. For example, when invoices are remitted, there could be a requirement that a copy of the invoice also be electronically provided to Accounting to ensure Accounting staff are aware that an invoice has been received.</li> <li>2. An automatic notification to Accounting staff when unpaid invoices are approaching their due date. For example, an email or other reminder could be sent from SharePoint when invoices are approaching the due date.</li> </ol>
<b>Management Response:</b>	<p>KPPA management concurs.</p> <p>As noted above, the CFO is currently reviewing this process</p> <p>The estimated completion date needs to be moved to June 30, 2026, but the intent is for accounting to:</p> <ul style="list-style-type: none"> <li>• Establish a policy requiring invoice owners (Divisions/Branches) to implement a control, (like what Investment Operations and Legal Services have in place), to ensure invoices are provided to accounting in time to be paid within the statutorily required deadline.</li> <li>• Review internal processes and procedures to determine if and where enhancements can be made to help ensure payments are made timely.</li> </ul>
<b>Implementation Date:</b>	June 30, 2026

## Appendix B – Control Matrix

Judgmental sampling was used to select one invoice per vendor (65 total vendors). Invoice values starting with four, eight or nine were selected when available due to the Benford's analysis results showing that invoices starting with these numbers deviated from predicted results. The highest four, eight or nine were selected. When an invoice starting with four, eight or nine was not available, the highest valued invoice was selected. The total testing population consisted of 418 invoices totaling \$5,468,084. The sampled invoices totaled \$1,490,778, which represented 14.55% by count and 27.63% by value of the testing population.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Trustees may not receive complete accounts payable information in a timely manner	Accounts payable are reconciled monthly	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	Quarterly, the CFO presents a budget to actual comparison to the Trustees, which allows them the opportunity to review expenditures. Additionally, the quarterly financial statements are presented for review, which shows a comparison to the same time period for the prior year as well as an analysis of percentage change. The Trustees also review and accept the Annual Comprehensive Financial Report.	To ensure accounts payable information is presented to Trustees, auditor reviewed meeting materials and ensured the budget to actual comparison was presented.	Budget to actual comparison was presented to trustees on a quarterly basis.
2.	Accounts payable procedures/internal controls may not be established, documented, effective or efficient	Accounts payable procedures reviewed annually and updated as needed	<b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. <b>Control Activity:</b> Management implements control activities through policies. <b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.	Graduate Accountant II reviews procedures on SharePoint annually and makes necessary updates. If a process changes, the procedures are updated at the time of the change for the accounts payable process. Graduate Accountant Branch Manager ensures all procedures are included on SharePoint.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are up-to-date.
3.	Prior approval may not be received before purchase is made	Purchase request is not routed to Procurement and Office Services until approved by the Deputy Executive Director	<b>Control Activity:</b> Management designs the entity's information system and control activities.	When a KPPA employee determines a good or service needs to be purchased, the employee discusses the need with their director and the director enters a request for the good or service through the Web Help Desk ticket system. The ticket is routed to the Deputy Executive Director for approval. Deputy Executive Director reviews all WHD ticket procurement requests. If the request is approved, the ticket is forwarded to the Division of Procurement and Office Services, who will process the purchase following required statutes and state policies. If additional information is needed, the Deputy Executive Director will ask that the requestor update the ticket with the additional information. If the request is denied, the Deputy Executive Director leaves a note explaining why it was denied.  Note, the purchasing process will be tested in a future audit. For purposes of this audit, we will ensure the initial purchase request was approved by the Deputy Executive Director and will ensure proper payment after the purchase is completed.	Compared initial purchase approval date to the date the purchase was made to ensure approval was received prior to the purchase being made.	Of the 65 invoices sampled, 5 purchases were made before the WHD ticket was approved for annual expenses that should have been launched at the beginning of the fiscal year.  <b>See Management Letter item #2</b>
4.	Expenditure may not be for a legitimate business purpose	Deputy Executive Director reviews request	<b>Control Environment:</b> Not Applicable <b>Risk Assessment:</b> Not Applicable <b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. <b>Information and Communication:</b> Not Applicable <b>Monitoring:</b> Not Applicable	When a KPPA employee determines a good or service needs to be purchased, the employee discusses the need with their director and the director enters a request for the good or service through the Web Help Desk ticket system. The ticket is routed to the Deputy Executive Director for approval. Deputy Executive Director reviews all WHD ticket procurement requests. If the purchase is a valid business expense, it will be approved, and the ticket is forwarded to the Division of Procurement and Office Services, who will process the purchase following required statutes and state policies. If the purchase is not a valid business expense, the request is denied. Prior to entering payment in eMARS, the Graduate Accountant I compares the purchase request, bill of lading (or invoice for services), and invoice to ensure all documents match regarding item and quantity. Prior to approving the payment in eMARS, the Graduate Accountant II ensures that supporting documentation is uploaded to eMARS.	Reviewed the good/service purchased and ensured the purchase was for a legitimate business purpose and documented.	All 65 sampled invoices were for legitimate business purposes.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Good or service may not be actually received by KPPA	Purchasing director approves the invoice	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	When an invoice is received, the purchasing director reviews the invoice and verifies that the service has been rendered or good was received. Purchasing director emails the approved invoice to Accounting. For the purchase of goods, when an item is received, Mailroom staff compare actual items received to the Bill of Lading. Staff sign the Bill of Lading to confirm the items listed on the Bill of Lading were actually received. Document Imaging staff scan the signed Bill of Lading to the Accounting SharePoint site.	For services, ensured invoice was signed to indicate that service was provided. For goods, compared invoice to bill of lading to ensure invoiced item was actually received.	Of the 65 sampled invoices, 2 invoices for goods were missing a bill of lading to show that good were received.  This issue was only observed with DETS and not with other divisions receiving goods/services which indicates this division may not be clear on what is required to pay an invoice.  <b>See Management Letter item #1</b>
6.	Invoice may not be calculated properly	Reviewer recalculates invoice amount	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	The approver of the invoice is instructed to recalculate the invoice and ensure that the correct rate is used according to the contract.	Recalculated invoice total, based on contract or purchase order, and ensured invoice was accurate.	Of the 65 sampled invoice, 63 were mathematically accurate and used the correct rate. Of the remaining two, one charged a rate lower than the contracted rate and the other had a typo in the invoice but charged KPPA correctly overall.
7.	Sales tax may be paid on purchases	Graduate Accountant I performs secondary review	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	The reviewer of the invoice and procurement staff member who enters the payment into eMARS ensures that sales tax is not included in what was charged.	Reviewed each sampled invoice to ensure that sales tax was not charged.	None of the 65 sampled invoices included sales tax.
8.	Payment may not be properly approved	Two levels of approval required	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	After a purchase is made the invoice is received by the division who requested the good/service. The director reviews the invoice to ensure the following items. If everything is accurate, the invoice is forwarded to Accounting with instructions that the invoice is ready for payment. The invoice may also be attached to the original WHD ticket with a note indicating the item is approved for payment. 1. Ordered item was received or service was provided. 2. Billed rate matches contract or PO. 3. Sales tax not charged.  Once an invoice is received by Accounting, the Graduate Accountant I enters the payment in eMARS. The Graduate Account II compares the payment in eMARS to the invoice and the total requested in the original WHD ticket to ensure the amounts agree.	Ensured purchasing director indicated approval to pay invoice either through signing the invoice, adding an approval note to the original WHD ticket, or by noting approval in the email sent to Accounting.	All 65 sampled invoices were approved by the purchasing director.
9.	Payment may not be properly approved	Two levels of approval required	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	After a purchase is made the invoice is received by the division who requested the good/service. The director reviews the invoice to ensure the following items. If everything is accurate, the invoice is forwarded to Accounting with instructions that the invoice is ready for payment. The invoice may also be attached to the original WHD ticket with a note indicating the item is approved for payment. 1. Ordered item was received or service was provided. 2. Billed rate matches contract or PO. 3. Sales tax not charged.  Once an invoice is received by Accounting, the Graduate Accountant I enters the payment in eMARS. The Graduate Account II compares the payment in eMARS to the invoice and the total requested in the original WHD ticket to ensure the amounts agree.	Reviewed invoice payment document in eMARS and ensured payment was entered and approved by different individuals.	All 65 samples invoice were entered and approved by different individuals in eMARS.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
10.	Invoice payment may not be properly supported	Staff perform three-way match	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	Prior to entering payment in eMARS, the Graduate Accountant I compares the purchase request, bill of lading (or invoice for services), and invoice to ensure all documents match regarding item and quantity. Prior to approving the payment in eMARS, the Graduate Accountant II ensures that supporting documentation is uploaded to eMARS.	Ensured that the original invoice, bill of lading (if applicable), and WHD ticket (purchase request) reflected the same good/service - item and quantity.	Other than two invoices missing bills of lading ( <b>see Management Letter item #1</b> ), all WHD ticket purchase requests, invoiced service or goods and bill of lading matched.
11.	Expenditures may be coded incorrectly	Graduate Accountant II confirms accuracy of expense object code	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	When entering payments in eMARS, the Graduate Accounting I enters the proper object code for the expense if the payment type is GAX or TP. Prior to approving the payment, the Graduate Accountant II reviews the object code and ensure it is accurate.  If the payment type is something other than GAX or TP, then the procurement staff member who sends the payment to accounting will enter in the object code and the Graduate accountant I and II will ensure it is correct.	Ensured the expense object code properly reflected the good/service purchased.	Of the 65 invoices sampled, auditor found potentially more appropriate codes for five invoices. However, these codes cannot currently be used by Procurement or Accounting staff because the codes have not been established for use by KPPA. The use of these accounts would be infrequent, so it does not seem like a good use of staff resources to pursue establishing these codes at this time.
12.	Actual amount paid does not match invoice amount	Staff compare payment amount to invoice amount	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	Prior to approving the payment in eMARS, the Graduate Accountant II ensures the commodity line item, vendor name, object code and amount total match the invoice.	Ensured the invoice amount agreed to payment amount entered in eMARS.	Of the 65 sampled invoice, 63 payments matched the invoiced amount exactly. The remaining two were off by \$0.01 and \$0.32 due to how the contract is keyed into eMARS.  As a compensating control, eMARS will not allow total payments to exceed the total contract amount.
13.	Invoices may be paid more than once	Graduate Accountant II ensures the item has not been previously paid	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	Graduate Accountant II has created an expenditure tracking spreadsheet. When a transaction is added to the spreadsheet after it's been approved into eMARS, the Graduate Accountant II ensures the item has not been previously paid. eMARS keeps track of paid invoices and does not allow an invoice with a duplicate number to be paid.	Ran a report of all invoices paid between July 1, 2024 - February 28, 2025. Performed analysis to ensure invoices were not paid more than once.	No duplicate payments were found for invoices paid between July 1, 2024 - February 28, 2025.
14.	Invoices may not be paid timely	Compensating Control: Vendor contacts KPPA if payment is past due	Control not established by KPPA. Compensating control is in place.	Administrative expense procedures state that process owners must submit invoices with in 5-10 business days of receipt. <ul style="list-style-type: none"> <li>For vendors such as utilities that have expected monthly billings, accounting knows to ask the process owner about outstanding invoices if they haven't gotten an invoice by a certain time in the month.</li> <li>For vendors with a history of having issues with their invoices, the graduate accountant II will reach out to the process owner periodically to see if any outstanding invoices need to be paid.</li> </ul> <p>If an invoice is submitted late to Accounting, the process owner documents the reason for the late submission. Once an invoice is received by Accounting, there is no official control to ensure that the invoice is paid on time. However, as compensating control, a vendor will contact KPPA if they have not received payment.</p>	Compared eMARS payment date to the invoice due date. Additionally, created a timeline showing number of days between when invoice was received by KPPA and when it was approved for payment in eMARS.	Of the 65 sampled invoices, four were paid outside of the statutory required due date. Of the four late payments, three were late because the invoices were not provided to Accounting staff until after the due date. One payment was paid late because the web help desk ticket for the purchase was not created until after the invoice was received.  <b>See Observation item #1.</b>
15.	Expenditures may not reconcile between eMARS and Great Plains	A reconciliation of eMARS to Great Plains is performed monthly	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.	The day after payments post in eMARS, the Graduate Accountant Branch Manager posts the transactions to Great Plains account number 13-AD-010. At the end of each month, the Graduate Accountant II compares the 13-AD-010 balance to the total on the Administrative Expense Tracking Spreadsheet to ensure that all expenses are recorded in Great Plains.	Compared expense recorded in Great Plains to the expense recorded in eMARS and ensured the two matched.	All 65 transactions entered in the Great Plains Admin Expense account matched the corresponding eMARS entry. However, one transaction was incorrectly entered into eMARS and, therefore; entered incorrectly into Great Plains.



Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
16.	The process to send payments to vendors may include unnecessary steps	No Control Established: A review has not been conducted to ensure the check payment process is efficient	No Control Established: A review has not been conducted to ensure the check payment process is efficient	<p>All checks written from KPPA accounts are printed by Treasury and placed in an unsealed envelope. These are picked up by mailroom staff and distributed among the divisions responsible for each check. For example, checks to retirees go to Retiree Payroll and checks to vendors go to Accounting. Retiree Payroll checks will be reviewed in a separate audit.</p> <p>Each vendor sets themselves up in eMARS and the vendor dictates if they will be paid by ACH or by check. The vendor sets the banking information and mailing address and they are responsible for updating this information should anything change. Accounting staff have requested that vendors who are paid by check update their payment preference to ACH, but ultimately, this is the responsibility (and choice) of the vendor.</p> <ul style="list-style-type: none"> <li>For vendors paid by ACH, the payment is sent as soon as the payment is approved.</li> <li>For vendors paid by check, Treasury prints the checks and places them in unsealed envelopes for KPPA mailroom staff to pick up and deliver to the Accounting Clerk, who works in the office daily.</li> <li>For vendors paid by check, the original invoice is attached because Accounting staff indicated that there have been times when vendors did not understand why they were receiving a payment from KPPA. Additionally, providing the invoice helps reduce the risk that the vendor applies the payment to the wrong account.</li> </ul>	Created a timeline to determine the amount of time between Treasury generating checks and KPPA mailing checks to vendor.	<p>Audit staff interviewed several KPPA employees about this process and determined a review had not been conducted to determine if the current process of returning all checks to KPPA for processing is the most efficient. For example, checks that do not require correspondence could be mailed by the State Treasurer after the checks are printed. Alternatively, vendors who receive payment by check could be contacted and asked to update their payment to ACH, rather than paper check.</p> <p><b>See Appendix C and Management Letter item #3</b></p>

## Appendix C – Comparison of Payments by Check vs ACH

Of the 65 sampled invoices, 31 were paid by check (47.69%). The average value of checks reviewed was \$18,131. It took Accounting staff an average of 3 days to mail the checks after they were returned to KPPA. The checks cleared an average of 11 days after being mailed.

Factor	Paper Checks	ACH Payments
Speed	Slow 3-10 days including mailing and clearing	Fast 1-2 business days
Cost	Higher Printing, ink, envelopes, postage, handling. Expensive and slow.	Lower Typically, \$0-\$1 per transaction
Security	Lower Checks can be lost, stolen or altered in transit.	Higher Transmittals are encrypted, resulting in less fraud.
Labor/Process	Manual Print, sign, stuff, mail, reconcile.	Automated Set up once, schedule payments
Recordkeeping	Manual Filing physical copies or scanned images	Automatic Digital record and audit trail.
Control	High Can hold or delay mailing checks manually	Moderate Can schedule or delay payments
Vendor Acceptance	Universal	Some vendors may not be set up for ACH.
Fraud Risk	High Bank routing and account information listed on check, can lead to forgery.	Low Requires bank authorization by Originating Depository Financial Institution (ODFI) and Receiving Depository Financial Institution (RDFI).
Reconciliation	Slower and manual	Fast Automated with software integration.
Environment Impact	Uses paper and resources	Paperless and ecofriendly.

Transitioning to paying vendors by EFT is becoming a national topic due to Executive Order (EO) 14247 ([Federal Register :: Modernizing Payments To and From America's Bank Account](#)) which is requiring the US Treasury department to cease issuing paper checks for all federal disbursements inclusive of intragovernmental payments, benefits payments, vendor payments, and tax refunds,' with exceptions, including people who do not have access to banking services and national security or law enforcement activities effective September 30, 2025. The US Treasury website explains that this executive order is in place because paper checks are increasingly the front door for fraud.

Similarly, KPPA should consider requiring vendors to utilize electronic remittance to receive payment for invoices when available as our checks have the same potential for what the US Treasury calls “front door fraud.” This transition will mitigate check fraud risk and streamline the accounts payable process.



**KPPA**  
Kentucky Public Pensions Authority

**2025-9**  
**Accounts Payable Process**

*Lead Auditor: James Westbay*

*Issue Date: July 9, 2025*

### **Acronyms**

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
8. Accounting – KPPA Division of Accounting
9. Internal Audit – KPPA Division of Internal Audit
10. eMARS - enhanced Management Administrative Reporting System

### **Strategic Risk Addressed**

Review the accounts payable process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.

### **Audit Scope**

The Accounts Payable Process audit was conducted from March 19, 2025 to June 10, 2025. The scope of the audit was invoices paid between July 2024 and February 2025. In addition to the items included in that report, we noted three opportunities for improvement that we wanted to communicate to management.

### **Audit Standards**

The engagement was conducted in conformance with the Global Internal Audit Standards.

### **Use of Report**

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; and the Divisions of Accounting and Procurement and Office Services. 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.

### **Opportunities for Improvement**

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. No management response is required for these items; however, management has elected to provide a response:

1. Invoices paid without confirming item actually received.

**Finding:** Two of 65 invoices were paid without confirmation that the item purchased was actually received. Both invoices were for purchases made by one KPPA division, indicating this is not a wide-spread agency concern. Administrative Expenses Payment Procedures state, “Authorized personnel should verify receipt of merchandise or verify service is completed and provide an initialed and dated packing slip and send to SharePoint immediately upon receiving goods or service. If packing slip is not received in SharePoint once the invoice has been received, accounting staff emails mailroom department to request the packing slip.” *Note: Auditor was able to confirm that items listed on these invoices were actually received.*

**Recommendations:**

- a. KPPA Executive Management should remind all staff about the supporting documentation that is required to be submitted when requesting payment of an invoice.
- b. KPPA Executive Management should remind Accounting staff about the documentation required to be provided prior to approving an item for payment.
- c. KPPA Executive Management should determine if it would be beneficial to have a centralized storage location for invoice related documents. A few options for the centralized storage include the Web Help Desk ticket, SharePoint, or eMARS.

**Management Response:** KPPA management concurs. Accounting staff have since been instructed that if an approved payment does not have confirmation via bill of lading or other supporting documentation that item(s) was received, then Accounting staff are to obtain such documentation prior to processing payment to the vendor. Furthermore, the policy that is to be implemented, will incorporate a requirement to include a bill of lading or other evidence that product has been received. The use of a centralized storage location is still being reviewed. While research is being conducted, staff have been instructed to utilize the Web Help Desk ticket as the repository for all payment related documentation.

2. Approval not requested timely for annual expenses.

**Finding:** Invoices were received for five of 65 purchases before a Web Help Desk ticket was approved by the Deputy Executive Director. Each of these instances were for recurring annual expenses. The approval ticket for annual items is typically created and approved around July 1 of the fiscal year. However, for various reasons, these five requests were not entered until after the first invoice was received for the fiscal year. While some divisions maintain a listing of their annual expenses, a centralized list of all annual expenses is not maintained. Therefore, Procurement staff cannot easily ensure approval has been requested for all annual expenses. *Note: None of the invoice were paid until after the purchase was approved.*

**Recommendation:** KPPA Executive Management should consider establishing a way to track recurring expenses. Possible options include:

- a. Developing a way to track recurring expenses in the Web Help Desk system so that a report of recurring expenses can be generated each year.
- b. Creating a centralized list of annual expenses, accessible to Executive Management and Procurement staff. Procurement staff could then ensure a web help desk ticket requesting approval for these expenses is submitted at the beginning of each fiscal year.

**Management Response:** KPPA management concurs. The CFO will look to define what an annual expense is and incorporate an entity wide centralized list of annual expenses as part of the admin budget

preparation process. Full implementation will occur with the next Admin Budget cycle (Fiscal Year 2027) however, by July 1, 2025, the CFO will ask divisions to initiate web help desk tickets for known annual items that are applicable for fiscal year 2026.

3. A review has not been conducted on the efficiency of the vendor payment process.

**Finding:** Of the 65 sampled invoices, 31 were paid by check (47.69%). The average value of the paper checks was \$18,131. After the check was printed, it took an average of three days for KPPA to mail the checks to the vendor. The checks cleared the bank an average of 11 days after the checks were mailed.

*Note: Although not included as an official finding, in a 2019 audit a suggestion was made to Executive Management to review the process of checks being returned to the agency.*

**Recommendation:**

- a. Action already taken by KPPA: Beginning with the new fiscal year, vendors awarded a KPPA contract will be required to use the ACH payment type.
- b. KPPA Executive Management should determine if all checks must be returned to KPPA for processing or if some can be mailed by the State Treasurer.
- c. KPPA Executive Management should consider contacting vendors who receive payment by check and recommend they update their payment type to ACH.
- d. KPPA Executive Management should consider the feasibility of updating the member travel reimbursement form (8846) to include an option for electronic reimbursement, rather than receiving a paper check.

**Management Response:** KPPA management concurs that enhancements and efficiencies can be implemented regarding payments to vendors via checks. The Accounting Division will lead a review of the items recommended above by Internal Audit, as well as other paper check related items, and provide feedback to executive management for improvements. This review will occur during fiscal year 2026 with recommendations to be provided by 6/30/2026.



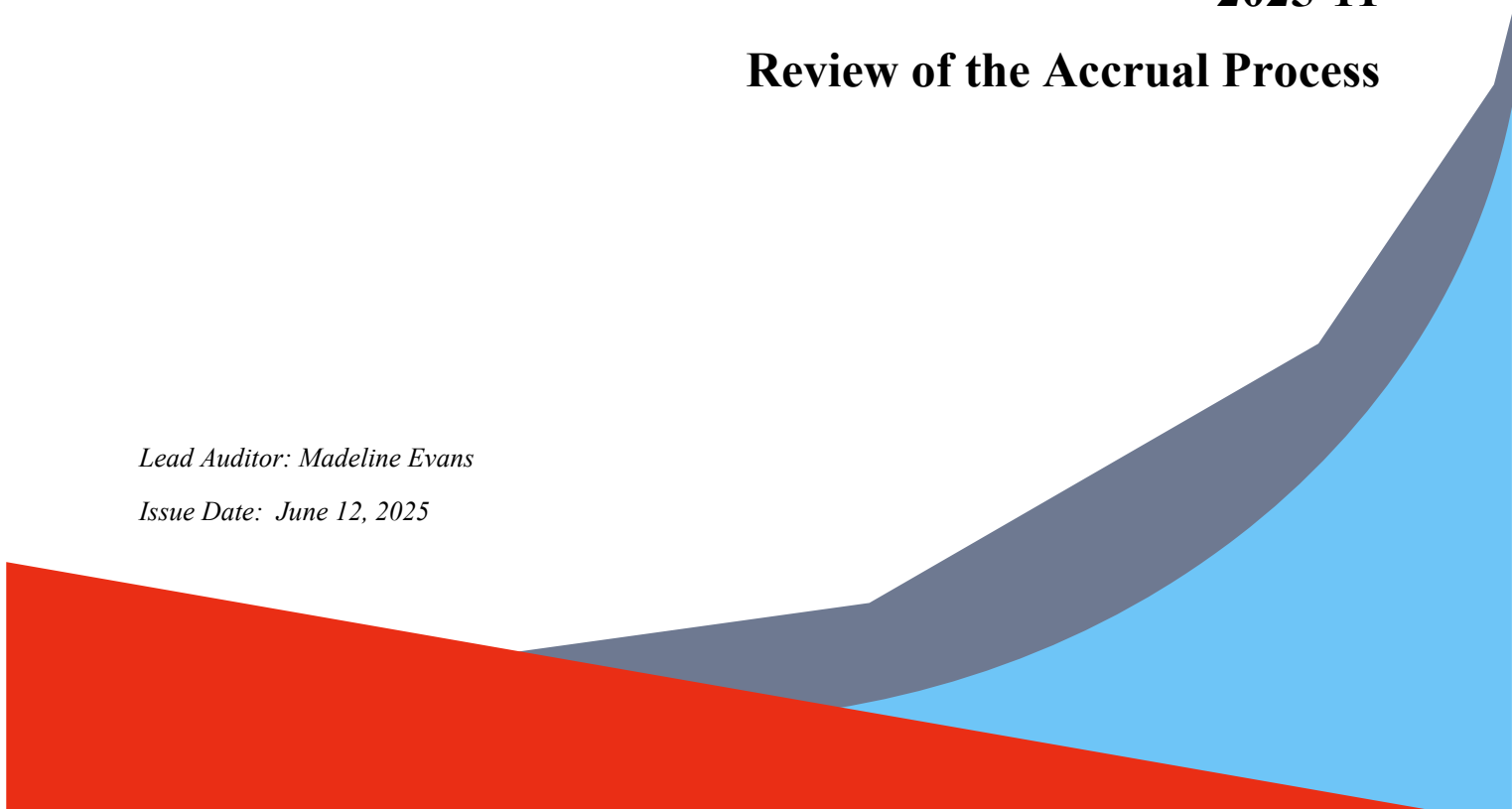
**KPPA**  
Kentucky Public Pensions Authority

**2025-11**

## **Review of the Accrual Process**

*Lead Auditor: Madeline Evans*

*Issue Date: June 12, 2025*



The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KERS - Kentucky Employees Retirement System (non-hazardous)
4. KHAZ - Kentucky Employees Retirement System (hazardous)
5. SPRS - State Police Retirement System
6. KRS - Kentucky Retirement Systems
7. Board(s) – Board of Trustees
8. CEO - Chief Executive Officer
9. CFO - Chief Financial Officer
10. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
11. Accounting – KPPA Division of Accounting
12. DETS – Division of Enterprise and Technology Services
13. eMARS - enhanced Management Administrative Reporting System
14. IPS – Installment Purchase of Service
15. LOB – Line of Business
16. PC001 – Personnel Cabinet related report

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## **Overall Opinion**

Process generally complies with relevant statutes, regulations, policies, and procedures. Internal controls are established and working effectively and efficiently.

## **Strategic Risk Addressed (Objective)**

Review the accrual process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accruals are properly supported, reversed, and approved.

## **Audit Scope**

The Review of the Accrual Process audit was conducted from April 9, 2025 to May 20, 2025. The scope of the audit was accruals completed fiscal year 2025 as of March 2025.

## **Summary of Findings and Observations**

No findings or observations were noted as a result of this audit. We noted two opportunities for improvement that we communicated to the Division of Accounting in a separate letter dated June 12, 2025.



**Commendations**

Auditors would like to commend the Division of Accounting for their assistance and prompt responses to questions related to this project.

**Audit Standards**

The engagement was conducted in conformance with the Global Internal Audit Standards.

**Use of Report**

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; and the 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.

## Appendix A – Control Matrix

Auditor tested one of each type of accrual. The month for the test was randomly selected using a random number generator.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Policies/procedures/internal controls related to accruals are not established, documented, effective or efficient.	Procedures are reviewed and updated as needed.	<b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. <b>Control Activity:</b> Management implements control activities through policies. <b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.	The Graduate Accountant Manager updates procedures as needed. Procedures for accruals have not changed since these were written.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are straightforward and accurately present the process. However, there are some opportunities for improvement related to the documentation of the approval process.  <b>See management letter opportunity for improvement #1.</b>

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
2.	Accruals may be entered into and/or reversed from the wrong account.	The approver reviews accrual accounts and ensures they are accurate; system automatically reverses entry.	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities.	Seven accruals are performed monthly around the 15th of each month. Accruals that are not already allocated across the plans are allocated using the hybrid percentage approved by the KPPA Board at the beginning of each fiscal year. Each debit and credit must be entered for each plan associated with each accrual type. All seven accrual types are prepared by the Graduate Accountant Manager and checked by the Accounting Division Director. <ol style="list-style-type: none"> <li>1. Member and employer contributions               <ol style="list-style-type: none"> <li>a. Contributions submitted by the 10th of each month are contributions from the prior month (15th-30th pay period) and these need to be moved back to the previous month.</li> <li>b. This accrual is already allocated across the 10 plans based on statutorily required member and employer contributions rates for Pension and Insurance funds.</li> <li>c. Credits are posted in Great Plains to account numbers ending in 407 and 419 for Pension and account numbers ending in 411 and 420 for Insurance and debited to account 105 for both pension and insurance.</li> </ol> </li> <li>2. Employee payroll               <ol style="list-style-type: none"> <li>a. The monthly cash detail report is generated from eMARS for the 15th or 30th depending on the current pay period.</li> <li>b. The hybrid percentage rates are used to allocate the total across the 10 plans.</li> <li>c. Debit 505 and credit 202.</li> </ol> </li> <li>3. Leave liability               <ol style="list-style-type: none"> <li>a. Division of Human Resources emails to several Accounting staff with the total accrued sick leave and comp leave saved up by KPPA employees.</li> <li>b. These are added together, and the total is allocated using the hybrid percentage.</li> <li>c. Debit 505 and credit 202.</li> </ol> </li> <li>4. IPS               <ol style="list-style-type: none"> <li>a. The LOB data warehouse automatically sends an email to a variety of DETS and accounting staff showing a chart of the total IPS unpaid principal amounts for each pension plan. IPS contracts are recognized in total when they are entered into by the member. The unpaid portion after partial monthly payments are made is being accrued.</li> </ol> </li> </ol>	Confirmed that accruals and reversals in Great Plains were posted to the appropriate accounts.	All sampled accruals were debited and credited to the correct accounts.  There were two accruals entered incorrectly initially but the error was corrected as soon as the preparer noticed the error.

				<ul style="list-style-type: none"> <li>b. This is pre-allocated across the 10 plans.</li> <li>c. Debit 105 and credit 405.</li> </ul> <p>5. Monthly end qualification money</p> <ul style="list-style-type: none"> <li>a. At the end of the month some contributions are not qualified in the month they were received. The Graduate Accountant Manager pulls up the daily qualification wire worksheets to see when the first few days of the prior month's contributions were qualified. Each plan specific amount is copy and pasted to accrual worksheet and summed to find the plan specific accrual total.</li> <li>b. This is pre-allocated across the 10 plans.</li> <li>c. Debit 105 and credit 115.</li> </ul> <p>6. PC001 Accrual</p> <ul style="list-style-type: none"> <li>a. Contributions submitted by the Personnel Cabinet can be difficult to balance in a timely manner, so the first half of each month's contributions are qualified for the pension accounts KERS, KHAZ and SPRS without being fully verified in order to have the money at the investment bank. At the end of the month this qualification is backed out and the total true qualification is sent.</li> <li>b. This is pre-allocated across the 10 plans.</li> <li>c. Debit 115 and credit 105.</li> </ul> <p>7. Unused cash</p> <ul style="list-style-type: none"> <li>a. The total administrative budget is divided by 24 and pulled down twice a month from the custodial bank. The monthly ending balance of unused cash is accrued to ensure that the administrative expense account reflects the accurate balance of spent cash for quarterly financial statements.</li> <li>b. This is allocated using the hybrid percentage.</li> <li>c. Credit 505 and debit 105.</li> </ul> <p>Reversing entries of accruals is an automatic process executed by Great Plains.</p> <p>Great Plains account descriptions:</p> <ul style="list-style-type: none"> <li>1. 505 - Administrative expense transfer</li> <li>2. 202 - Accounts Payable</li> <li>3. 105 - Accounts Receivable</li> <li>4. 405 - Member contributions - Service Purchases</li> <li>5. 115 - Transfer out</li> <li>6. 407 - Member contributions from payrolls</li> <li>7. 419 - Employer contributions from payrolls</li> <li>8. 411 - Employer contributions</li> <li>9. 420 - Additional Healthcare contribution House Bill 1</li> </ul>		
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Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Accruals may be entered and/or reversed in the wrong amount.	The approver compares accrual amount to the source documentation; system automatically reverses entry.	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities.	See Item 2 - Staff Process to Mitigate Risk.	Compared initial accrual and reversal in Great Plains to the appropriate supporting documentation and ensured the entries were posted for the correct amount.	All sampled accruals were entered correctly into Great Plains.  There were two accruals that were initially incorrect, but the preparer corrected the error as soon as the error occurred.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
4.	Accruals may be entered and/or reversed in the wrong period.	The approver compares accrual amount to the source documentation; system automatically reverses entry.	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities.	See Item 2 - Staff Process to Mitigate Risk.	Reviewed initial accrual and reversal in Great Plains and ensured the entries were posted to the appropriate period.	All sampled accruals were entered at the end of the sampled month and reversed on the 1st of the following month.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Accruals and/or reversals may be improperly allocated.	The approver confirms the correct allocation is used; system automatically reversed entry.	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities.	See Item 2 - Staff Process to Mitigate Risk.	Compared the allocation rates used against the board approved rates for accrual types not already pre-allocated.	The KPPA Board approved hybrid percentage was used for the three accrual types that are not already pre-allocated based on contribution rates and membership.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
6.	Accrual entries and/or reversals may not be properly approved.	Division Director reviews accrual worksheets and documents approval in the excel document.	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities.	All accrual types are prepared by the Graduate Accountant Manager and reviewed by the Accounting Division Director.	Confirmed that sampled accrual worksheets were approved by the Accounting Division Director.	<p>All sampled accruals were checked by the Accounting Division Director. However, the form of approval is not reliable because it could easily be changed, removed from the worksheet, or signed by anyone with access to the worksheet. Additionally, the Accounting Division Director thought some accruals were approved by the Accounting Assistant Director-Cash Management, so those approvals were not completed throughout the year. Accounting Division Director performed all reviews once this was discovered during an Accounting team meeting.</p> <p>The approval format is a known issue, as it has been reported in past audits. The CFO is working with his staff to develop a solution that will work for all approvals that are currently in excel format.</p> <p><b>See management letter opportunity for improvement #2.</b></p>



**KPPA**  
Kentucky Public Pensions Authority

**2025-11**

## **Review of the Accrual Process**

*Lead Auditor: Madeline Evans*

*Issue Date: June 12, 2025*

### **Acronyms**

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO

### **Strategic Risk Addressed**

Review the accrual process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accruals are properly supported, reversed, and approved.

### **Audit Scope**

The Review of the Accrual Process audit was conducted from April 9, 2025 to May 20, 2025. The scope of the audit was accruals completed fiscal year 2025 as of March 2025. In addition to the items included in that report, we noted two opportunities for improvement that we wanted to communicate to management.

### **Audit Standards**

The engagement was conducted in conformance with the Global Internal Audit Standards.

### **Use of Report**

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; and the 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.

### **Opportunities for Improvement**

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. A management response is not required for these items; however, management has opted to provide a response.

1. No exceptions were noted during testing, which indicates the current process and controls are operating effectively and efficiently. However, we did note that written procedures related to accruals are not up-to-date and do not reflect current practices.
  - a. Accounting staff should update the procedures to include current screenshots from eMARS, specifically related to generating the report used in the employee pay accrual.
  - b. References to the “Admin Depreciation worksheet” should be updated to refer to the hybrid allocation approved by the KPPA Board at the beginning of each fiscal year.

- c. Procedures should state that approval for each accrual is needed, who performs the approval, and how that approval is documented. Note: During testing we found that the Accounting Division Director thought some reviews were being performed by the Accounting Assistant Director-Cash Management so these reviews had not been previously completed throughout the year. After it was determined that the Division Director should be conducting all reviews, these reviews were performed.

**Management Response:** We concur with the recommendation and have updated the procedures noted above as of May 14, 2025.



**Auditor Response:** On May 20, 2025, Internal Audit confirmed that procedures had been updated. This Opportunity for Improvement is considered closed for audit purposes.

2. Approvals for monthly accruals are documented in an unprotected worksheet. The approval format is a known issue, and the CFO is working with his staff to develop a solution that will work for all approvals that are currently in excel format.
  - a. The approver's initials and the approval date can be edited by all employees with access to the spreadsheet.
  - b. There is no way to verify that different individuals prepared and approved the accruals.
  - c. There is no way to ensure the review and approval were completed in a timely manner because there is no timestamp showing the approval date.

**Management Response:** We concur. As noted in the recommendation we are working on a formal solution to a formal approval process. We would like to implement a solution prior to December 31, 2025 for all approvals.



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# Improper Payments: A New 2025 Green Book Risk Category

June 13, 2025





## Improper Payments

Imagine this: A mom (we'll call her Sandra) proudly wires \$12,000 to her son Trevor for the spring semester at State U. Except Trevor's been academically disqualified since October. He's not in school. Instead, he's "finding himself" in a beach town, learning acoustic guitar and cultivating a man bun.

Poor Sandra just made an *improper payment*. She meant well, but she wanted to teach Trevor autonomy. She didn't ask for documentation, and, well, she trusted Trevor a little too much.

Improper payments in government programs might not involve Trevor, a surfboard, and a tragically misused 529 plan, but the principles are the same. And lucky for us, the [2025 GAO Green Book](https://www.gao.gov/products/gao-25-107721) (<https://www.gao.gov/products/gao-25-107721>) is here to help! Sections 8.11–8.13 ask government entities to actively prevent improper payments.

## What *is* an improper payment, anyway?

*According to Green Book 8.11: Improper payments are any payments that should not have been made or that were made in an incorrect amount. Payments are also considered improper when there is insufficient or lack of documentation.*

In other words, if you pay someone who wasn't supposed to get paid, pay too much, pay too little, or don't have the receipts to prove you were supposed to pay *anything*... Congratulations! You made an improper payment.

Improper payments can stem from:

- Fraud
- Mismanagement
- Errors
- Good, old-fashioned lack of oversight

## Types of improper payments

Let's break it down like a beachfront cafe menu.

### 1. Overpayments

*A little too generous, eh?*

These are payments where you handed out more money than you should have. Maybe you paid someone twice or you bought 300 ergonomic chairs for a department with 25 employees. Perhaps you reimbursed an employee for business-class airfare and “client entertainment” expenses from a weekend in Vegas. (Spoiler: The client was their cousin. The entertainment was Viva Elvis.)

This category also includes:

- Payments for goods/services not received
- Payments to ineligible recipients
- Payments for *imaginary* services
- Fraudulent shenanigans (naturally)

## 2. Underpayments

*Thanks for nothing. Literally.*

These occur when someone doesn't receive what they're owed. And yes, underpaying is *also* considered improper. So, before you start patting yourself on the back for "saving taxpayer money," remember shortchanging vendors, grantees, or citizens can lead to just as many headaches as overspending.

## Not just fraud

Although it tends to sound like it, keep in mind that improper payments are not just about fraud. Sometimes, it's just someone used the wrong spreadsheet tab or forgot the intern can't approve a \$2 million infrastructure project.

## Risk factors

According to *Green Book 8.12*, management should *consider improper payment risk factors, both internal and external*.

Here are a few red flags straight from the Green Book, plus a little commentary:

- **New programs:** If your agency just launched something shiny and new, chances are no one knows how it works yet. Mistakes are practically baked in.
- **Complexity:** If your grant program requires a PhD in intergovernmental funding formulas and a spirit medium to decipher eligibility rules, you're asking for payment trouble.
- **High volume:** The more payments flying out the door, the easier it is for one (or a hundred) to go rogue.
- **Third-party processors:** Outsourcing payment decisions to people who don't report to you? What could possibly go wrong? (Answer: A lot.)
- **Personnel inexperience:** When Brenda from Accounting is still figuring out where the "approve" button is, maybe don't assign her the emergency relief fund distribution.
- **Self-certification:** Letting applicants check a box saying, "Yes, I am totally eligible and honest." Bold strategy.

- **Lack of eligibility databases:** If you verify eligibility using sticky notes, vibes, or expired spreadsheets, go directly to improper payments jail.
- **Known fraud risk:** If the program sounds like a scam your aunt would post about on Facebook, tighten up those controls.

## What's an auditor to do?

The GAO's *Green Book* is primarily written for government entities creating and establishing controls over government programs. Auditors use the *Green Book* to evaluate payments and controls, and ask questions like:

- *Did we really get those supplies?*
- *Why was this invoice paid twice?*
- *Who approved a \$3,000 massage chair labeled as 'ergonomic support'?*

## What should we do with this guidance?

- Make sure the auditee includes improper payment risk in their risk assessment.
- Ask for documentation. Then *ask again* when you're handed a pizza receipt and told it's a training expense.
- Validate the eligibility of vendors and recipients like your reputation depends on it (because it does).
- Maintain a friendly relationship with finance staff to make your audits easier.

Remember: Not all improper payments involve bad intentions. But *all* of them can create problems for agencies, citizens, and public trust.

## Final thoughts: Trust but verify

Whether you monitor a federal stimulus program or trying to figure out why Trevor is still "in college" but posting concert selfies on a Tuesday afternoon, the classic 'trust but verify' rule for auditors always applies.

So audit on, professional skeptics. And remember: Before you approve a \$12,000 tuition reimbursement, maybe ask to see the transcript.

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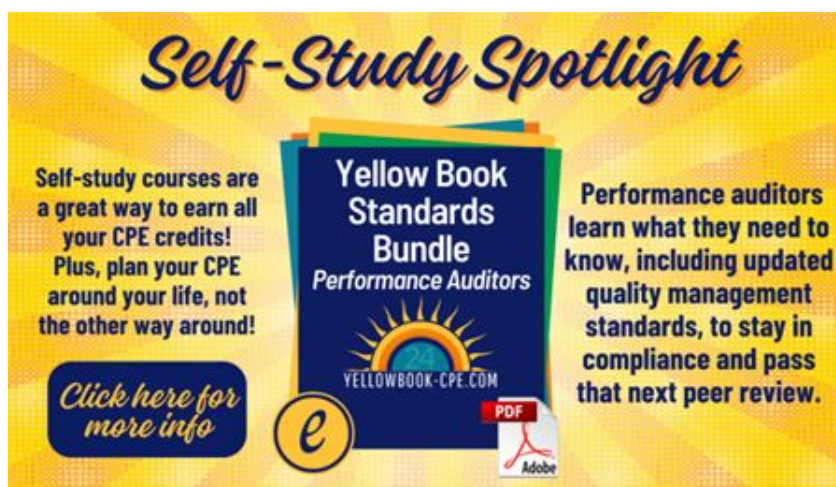
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