

**County Employees Retirement System
and Kentucky Retirement Systems
Joint Audit Committee
February 22, 2022 at 10:00 a.m. Eastern Time
Live Video Conference/Facebook Live**

AGENDA

- | | | |
|------|--|-------------------|
| 1. | Call to Order | Betty Pendergrass |
| 2. | Opening Video Teleconference Statement | Betty Pendergrass |
| 3. | Roll Call | Sherry Rankin |
| 4. | Public Comment | Sherry Rankin |
| 5. | Approval of November 30, 2021 Joint Audit Committee Minutes* | Betty Pendergrass |
| 6. | DRAFT GASB 68 and GASB 75 Proportionate Share Audits* | Blue and Co. |
| 7. | Review of Issued Audits: Plan Liquidity, Phase 1 – Daily Qualification Process | Kristen Coffey |
| 8. | KPPA Archives Policy* | Rebecca Adkins |
| 9. | Financial Reporting Updates | |
| a. | Quarterly Financial Statements for Quarter Ended 12/31/2021 | Rebecca Adkins |
| i. | Administrative Expenses | |
| ii. | Contribution Report | |
| iii. | Outstanding Invoices Report | |
| iv. | Employer Penalty Invoice Waiver Report | |
| b. | Follow-up on 2021 Annual Comprehensive Financial Report | Connie Davis |
| c. | Fiscal Year End June 30, 2021, End of Year Audit Requirements | Connie Davis |
| d. | APA Approval Request for External Audit | Connie Davis |
| 10. | Joint Audit Committee Administrative Updates | |
| a. | Information Disclosure Incidents | Carrie Bass |
| b. | Anonymous Tips | Carrie Bass |
| c. | Board Election Policies* | Kristen Coffey |
| i. | CERS Board Election Policy | |
| ii. | KRS Board Election Policy | |
| d. | Additions to the Current Audit Plan* | Kristen Coffey |
| e. | Internal Audit Budget as of December 31, 2021 | Kristen Coffey |
| f. | Status of Current Internal Audit Projects | Kristen Coffey |
| 11. | Professional Articles | Kristen Coffey |
| a. | AGA – <i>Auditors, Accountants, and ERM</i> | |
| b. | Gallup – <i>Five Ways Managers Can Stop Employee Turnover</i> | |
| 12. | Adjourn* | Betty Pendergrass |

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

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
AND KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES JOINT AUDIT COMMITTEE
NOVEMBER 30, 2021, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the November 30, 2021 meeting of the Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, the following Committee members were present: Betty Pendergrass, William O'Mara, Larry Totten, and Lynn Hampton. Staff members present were David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Vicki Hale, Connie Davis, Madeline Perry, Matthew Daugherty, Kristen Coffey, Steve Willer, Ashley Gabbard, Sherry Rankin, Shaun Case, Phillip Cook, and Glenna Frasher. Others present included Ed Owens, CERS CEO, John Chilton, KRS CEO, Ryan Graham and Alan Norvell with Blue & Company, and Danny White and Janie Shaw with GRS.

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

Ms. Rankin called roll.

Being no Public Comment, Ms. Pendergrass introduced the agenda item *Approval of November 4, 2021 Joint Audit Committee Meeting Minutes*. A motion was made by Ms. Hampton and seconded by Mr. Totten to approve the minutes as presented. The motion carried unanimously.

Ms. Pendergrass introduced the agenda item *External Audit*. Ms. Pendergrass introduced Alan Norvell and Ryan Graham of Blue and Company who conducted the audit. Mr. Graham reviewed the draft of the audit focusing on items that have changed from the previous years' audits. He indicated that they intend to issue a clean, unmodified opinion, which is the desired result. Mr. Graham reviewed and explained the contents of the Management Letter Comments and proceeded with the review of the contents of the remainder of the Audit documents.

Ms. Pendergrass suggested an introductory paragraph may be appropriate at the beginning of the Management's Discussion and Analysis section explaining the new governance structure since those are significant changes. Ms. Pendergrass asked about whether there was a missing page at the end of this section as there does not appear to be information on how to contact management nor a signature. Ms. Adkins answered that further review of this section will be conducted. Ms. Pendergrass also suggested that after paragraph number two in the Historical Trends section of the Management's Discussion and Analysis, it may be helpful to have a table inserted that outlines the unfunded liability by system, since the responsibility lies within each of the systems and not KPPA in general. Ms. Pendergrass commented that in the first paragraph of the Historical Trends, as well as any other notations throughout the report, the reference to "KPPA members" is incorrect due to the new governance structure. KPPA provides the administrative duties for the systems, but does not have members. Therefore, any reference to members should be tied to the systems, CERS, KERS and SPRS to avoid confusion.

Mr. Graham continued with reviewing the changes that had been made to portions of the report. One being the Financial Statements are now being listed by CERS, KERS, SPRS, Insurance, and KPPA Totals, and is further broken down to CERS and KERS, both hazardous and non-hazardous portions. Ms. Pendergrass suggested a revision to the Notes section of the reports, to correct Note A which erroneously states that KRS' name was changed, yet KRS still exists, as it is the combined KERS and SPRS. KPPA is a new entity, created to provide administrative services for the CERS and KRS Boards. Another comment was made regarding the Component Unit section that details the creation of the various Boards, suggesting that the dates of the formation of the Boards also be included. A suggestion was made to clarify the GASB Statement Number 96 paragraph. A comment was made regarding separating the systems in the Contributions paragraph, as each are funded differently and would be less confusing. The Committee discussed the first paragraph in the Investments section and agreed that additional wording to include that KPPA staff are responsible for implementing the policies established by the Investment Committees of the CERS and KRS Boards. A comment was made about Note G. Contingencies, in that clarification is needed as KPPA provides the legal counsel in litigation cases, but any losses would be realized by the individual Systems. Ms. Pendergrass asked about the Target Asset Allocation section

regarding the time frame used for the Long-Term Expected Real Rate of Return reference. Ms. Adkins indicated that once the time frame is determined, that this section will be updated to include that information. Ms. Pendergrass also suggested revisions to the Pension Legislation section to reword the title for Number 2, and in Number 4 indicate that the General Assembly froze the employer contribution rates for one year.

Mr. Graham indicated that the same breakdown of the systems is also referenced in the Required Supplementary Information Section, and that the same schedules are included here that have been included in the past reports. A comment was made regarding a chart that was included that needed a header. Ms. Hampton moved and Mr. Totten seconded to adopt the External Audit pending technical edits. Ms. Adkins indicated that once all of the edits are completed, a final version will be distributed to the Trustees for further review. The motion passed unanimously.

Mr. Graham reviewed in detail the sections included in the Auditor Communications with those Charged with Governance letter. A question was asked regarding whether the waived adjustment is a continuous issue in these audits. Mr. Graham indicated that due to the timing issues, it is often common to have this type of lag in reporting.

Ms. Pendergrass introduced the agenda item *Joint Audit Committee Administrative Updates*. Ms. Pendergrass introduced Kristen Coffey to present the Internal Audit report. Ms. Coffey indicated that one audit report has been since the last meeting and reviewed the findings of the audit of the Employer Penalty Invoice Waiver Process. The results of the audit included recommendations that the support for the waivers be kept in a location that is accessible by all staff involved in the waiver process and that the related procedures for processing the waivers be updated. Ms. Pendergrass suggested this item be brought before the CERS Board and wanted to get Mr. D’Juan Surratt to highlight the various efforts that have been taken to reduce the number of invoices issued over the past 10 years. Ms. Coffey indicated that this report was given for informational purposes only and does not require action from the Board.

Ms. Pendergrass introduced the agenda item *Joint Audit Committee Governance*. Ms. Pendergrass indicated that an issue arose with regard to having a joint committee report

presented at a KPPA meeting and it warrants discussion about reporting lines. During the formation of the various committees of the Boards, it was determined that the Boards could jointly form committees for Audit and Retiree Health Plan. With this issue arising, it is not clear how a joint committee is to recommend KPPA to adopt this External Audit Report if the joint committee is not reporting to KPPA. A suggestion was made that possibly the committee members would take their recommendations back to their respective boards and take that route. It was stated that this would not get the recommendations to KPPA, but just to the CERS and KRS Boards. There was another suggestion that it would be a better route for the joint audit committee to report directly to KPPA. A suggestion was made for Mr. Board, Executive Director of Legal Services, to provide his thoughts on this subject. Mr. Board indicated that with it being a joint committee of CERS and KRS, it creates a reporting structure that reports back to the CERS and KRS boards respectively, and not to KPPA directly. This complicates further in that the CERS and KRS boards will be the governing boards that will need to adopt and ratify recommendations given by the joint committee, instead of KPPA. Mr. Board indicated that there are no easy solutions, but suggested ways that this can be rectified. One is to form a KPPA Audit Committee, made up of those Trustees who serve on KPPA, and you can add additional committee members, in a non-voting status role, who are non-KPPA members to incorporate those with CPA expertise who may not already serve on KPPA. This would involve abolishing the current joint audit committee and forming a KPPA audit committee, setting it out in the KPPA Bylaws. A comment was made as to whether it would be appropriate for the CERS and KRS Boards to adopt Bylaws that direct the members of the Joint Audit Committee to report their findings to KPPA. Mr. Board indicated that there are no current issues with the Joint Audit Committee reporting findings to the KPPA Board, just that it would be for informational purposes only, as the direct reporting for the Joint Audit Committee lies with the main CERS and KRS Boards. After discussion, the Committee agreed that Ms. Pendergrass and Ms. Hampton would go back to their respective Boards with the Joint Audit Committee recommendations and approvals and the Board will approve or ratify those in their normal fashion. Then as it comes to KPPA, Ms. Pendergrass and a sitting member from KRS, since Ms. Hampton does not serve on KPPA, would report that their respective boards have approved the recommendations of the joint committee. Then the Audit Report can be a direct submission to KPPA.

There being no further business, Mr. Totten moved and Ms. Hampton seconded to adjourn the meeting. The motion was approved unanimously. Copies of all documents presented are incorporated as part of the minutes of the Audit Committee meeting as of November 30, 2021.

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CERTIFICATION

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

Recording Secretary

I, as Chair of the Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on November 30, 2021 were approved by the Joint Audit Committee on February 22, 2022.

Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on November 30, 2021 for form, content, and legality.

Executive Director
Office of Legal Services



Kentucky Public Pensions Authority

Internal Audit Administration



To: Members of the Joint Audit Committee

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

Date: February 22, 2022

Subject: Final Audit Report Released

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

Summary of Audit Results

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

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

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

Attachment

No action is required of the Committee.



KPPA
Kentucky Public Pensions Authority

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

February 3, 2022

Executive Summary

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

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

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

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

Commendations

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

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

Overview

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

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

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

Background – Daily Qualification

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

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

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

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

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

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

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

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

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

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

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

Objective

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

Scope and Sampling

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

Methodology

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

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

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

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

Audit Results

Item #1	Compliance with state statutes
Condition	State statutes require the establishment of a retirement allowance account. It is unclear as to how this account has been set up by KPPA and whether it is being utilized as outlined in the state statutes.
Criteria	<p>Kentucky Revised Statutes 16.555 [SPRS], 61.570 [KRS], and 78.630 [CERS] state, "All the assets of the system shall be held and invested in the [State Police Retirement Fund] [Kentucky Employees Retirement Fund] [County Employees Retirement Fund] and credited, according to the purpose for which they are held, to one of three accounts, namely, the members' account, the retirement allowance account, and the accounts established pursuant to 26 U.S.C. sec 401(h) within the funds established in Kentucky Revised Statutes 16.510, 61.515, and 78.520, as prescribed by Kentucky Revised Statutes 61.702(3)(b)."</p> <p>Kentucky Revised Statutes 16.560(4)(a) [SPRS], 61.575(4)(a) [KRS], and 78.630(4)(a) [CERS] state, "Upon the retirement of a member who began participating in the system prior to January 1, 2014, his or her accumulated account balance shall be transferred from the member's account to the retirement allowance account."</p> <p>Kentucky Revised Statutes 16.565 [SPRS], 61.580 [KRS], and 78.650 [CERS] state, "The retirement allowance account shall be the account in which shall be accumulated all employer contributions, amounts transferred from the member account, and to which all income from the investment assets of the system shall be credited. From this account there shall be paid the expenses of the system and the board incurred in the administration of the system, retirement allowances, and any other benefits payable after the member's retirement...."</p>
Cause	The accounts utilized by KPPA were established prior to current personnel beginning employment. Since then, the number of accounts used for each system has increased significantly. As a result, it is possible the current utilization of accounts has changed from how the accounts were used when they were first set up.
Effect	If there is not a clear definition of the retirement allowance account, current or future employees may not account for and track the CERS, KERS, and SPRS assets as required by state statutes.
Recommendation	<ol style="list-style-type: none"> 1. KPPA Executive staff, including the Executive Director, Deputy Executive Director, Executive Director of Investments, the Executive Director of Legal Services as well as the CEOs of CERS and KRS, should work together to document a clear definition of how the retirement allowance account has been established. This includes describing, in detail, the steps taken to meet the statutes referenced in the criteria. 2. The Office of Legal Services should review the definition of the retirement allowance account prepared in the recommendation above and ensure KPPA is in compliance with all aspects of the referenced statutes, specifically, the meaning of the retirement allowance account and whether it is being utilized as intended. <ol style="list-style-type: none"> a. If during the review it is determined that KPPA is not in compliance with any aspect of the referenced statutes, the Office of Legal Services should work with Executive Management of KPPA, CERS, and KRS to determine action needed to achieve compliance.
Deputy Executive Director Response	<p>Recommendation 1 – Agree but would add this is bigger than just the offices of Legal, Investments and Operations. The Executive Director, CEOs and the Executive Director of Benefits should be a part of the recommendations and, if changes are defined, a project team needs to be assembled to make the changes.</p> <p>Recommendation 2 – Agree with the exception that legal definition of retirement allowance account (recommendation 2) should be implemented simultaneously with the executive decisions in recommendation #1 not after it.</p>
Implementation Date	Research is ongoing.
Office of Investments Response	These recommendations were identified independently with findings by Office of Investments and we are recommending the process be changed. These findings were reviewed by Office of Legal and Finance and Administration Cabinet. The steps needed to change the process have also been investigated and we are confident this can be accomplished given enough time. We therefore, recommend getting started with creating a retirement allowance account at BNY Mellon and going from there.
Implementation Date	While this process takes time, I recommend beginning the change in process immediately.

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

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

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

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

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

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

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

Item #6	Manual qualification process not documented
Condition	The manual qualification process is not documented.
Criteria	200 KAR 38:070 states, "Each fiscal officer shall develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets...An internal control plan shall include...Detailed procedures to be followed in the performance of job duties and functions to emphasize duties that comprise the overall framework of accountability and internal controls, and to help ensure the continuation of agency operations in the event of staffing changes...."
Cause	Accounting Cash Management staff who complete this task have worked with this process for a long time. Since no new staff have been assigned to the task, current staff have not taken the time to document the process.
Effect	New staff and staff serving as the backup for this process may not be aware that this process is supposed to occur. In addition, if this task is performed, it may be completed in a manner unintended by management.
Recommendation	If recommendation #2 from finding #2 is implemented, this process would change as all funds would be transferred upon receipt. We recommend that the new process be documented in detail. If this recommendation is not implemented, we recommend the following: Daily Qualification Wire Procedures should be updated to document the manual qualification process, including the back-out of the manual qualifications. The procedures should also explain how to access reports from the Finance and Administration Cabinet.
Deputy Executive Director Response	Agree - Procedures have been updated.
Implementation Date	2/1/2022
Office of Investments Response:	See Item #3 for my response.
Implementation Date	Immediately

Exhibit A: Clearing Account Liquidity Analysis

Purpose

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

Source

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

Methodology

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

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

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

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

Analysis

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

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

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

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

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

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

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

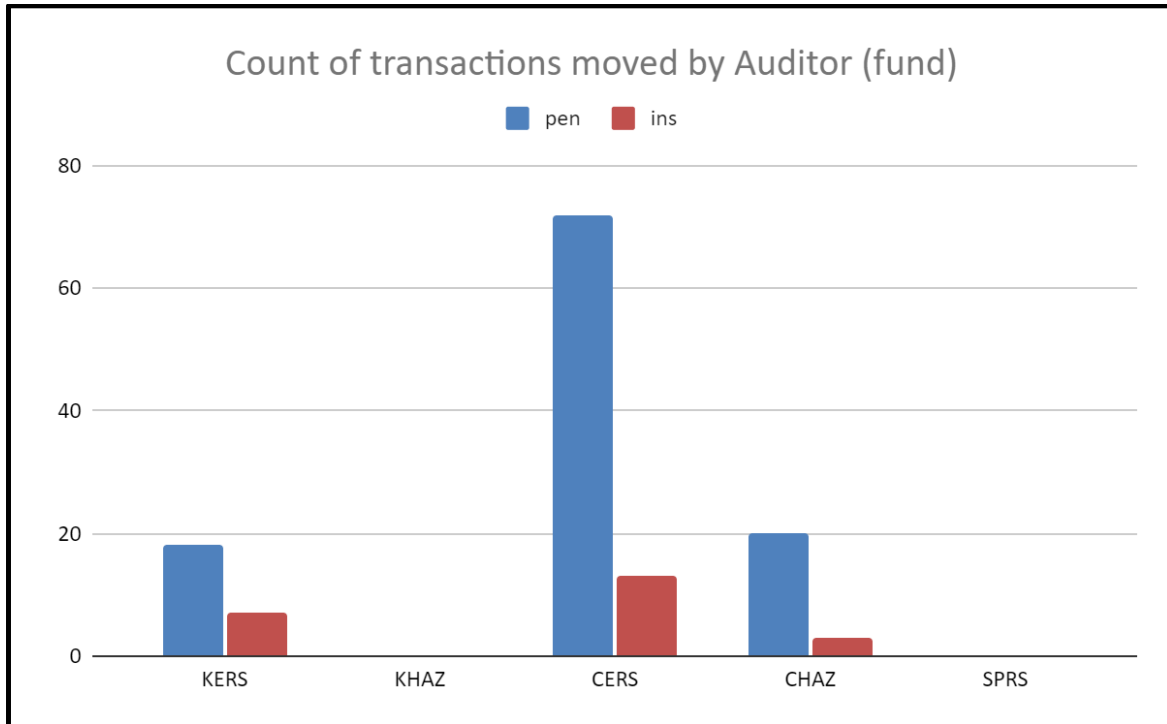
Table 3: Value of transactions moved in Scenario 3, by report				
Value by report type	Internal Audit Method		Accounting Method	
	PC	DQ	PC	DQ
CERS	\$1,399,972	\$340,045,403	\$1,462,813	\$205,880,985
CERS Hazardous	\$0	\$56,078,029	\$3,817	\$45,016,784
KERS	\$109,850,734	\$29,180,877	\$(40,955,438)	\$26,612,733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

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

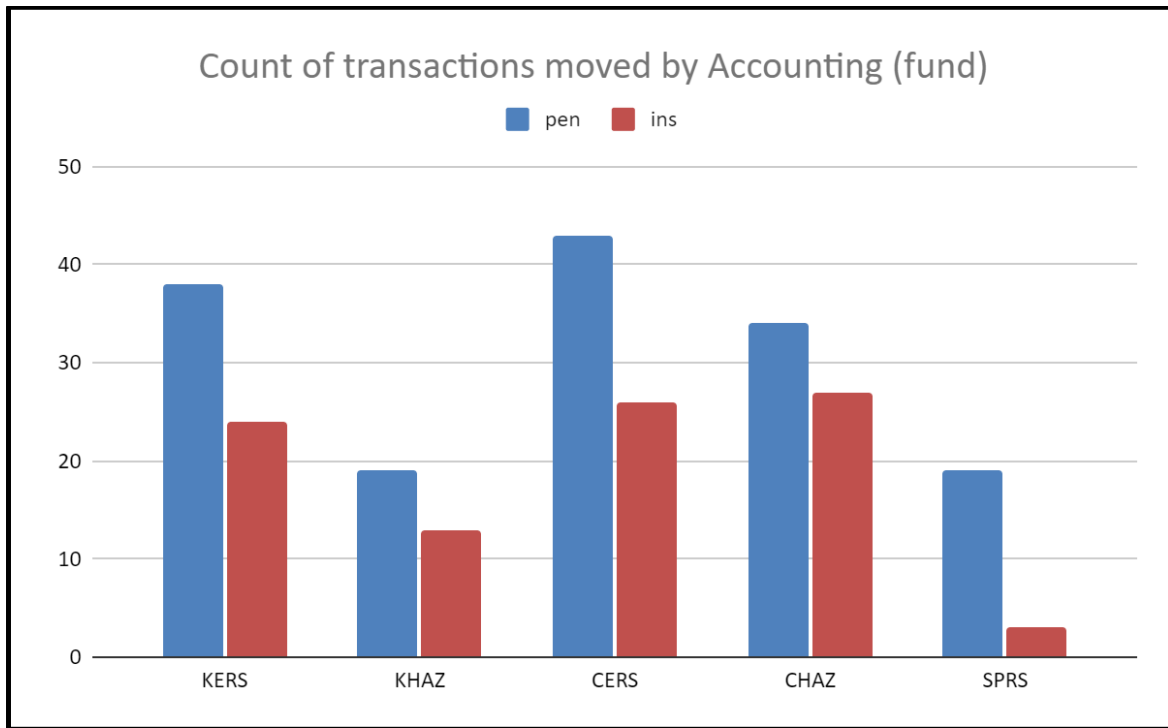
The IA method resulted in transferring fewer individual contributions, but did result in a greater value being transferred overall. The IA method never held a negative transaction because these were always added first (least amount). The Accounting method held these so that no individual fund showed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

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

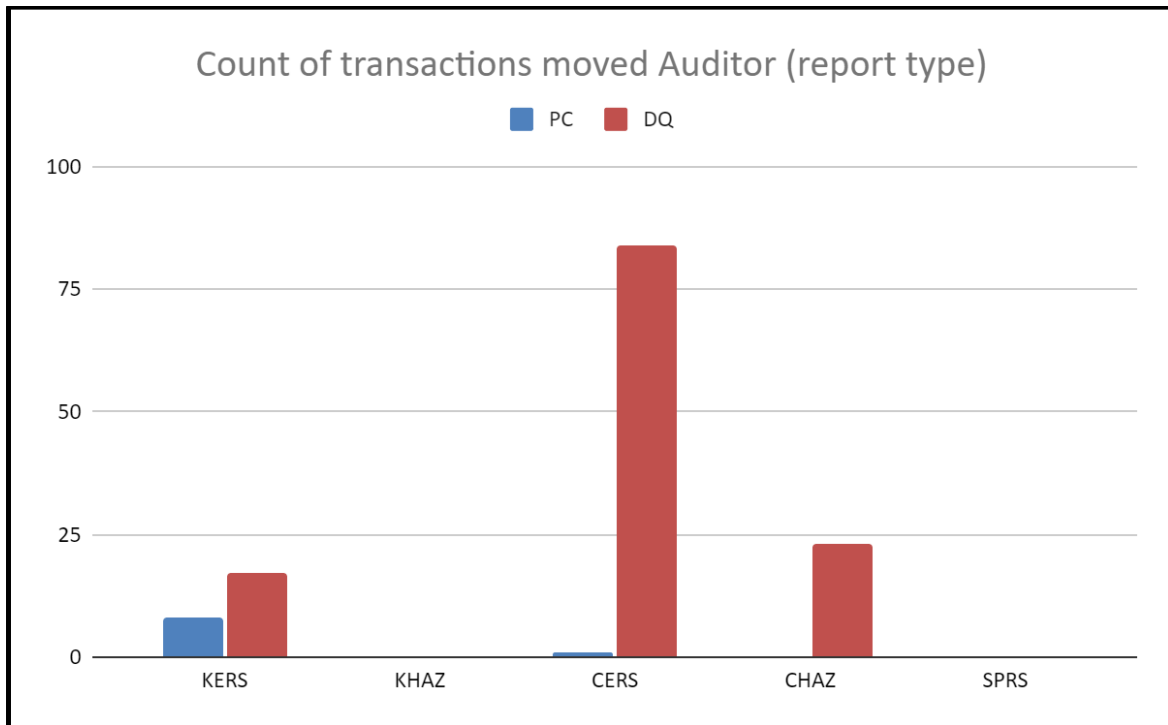
Graph 1:



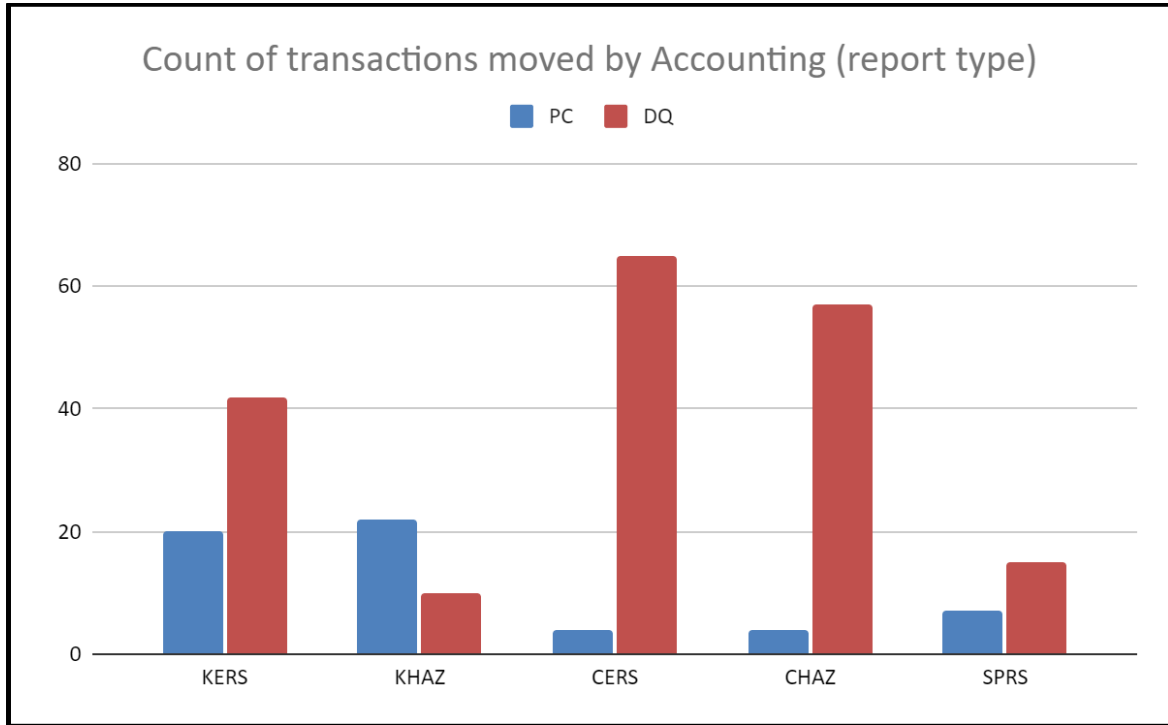
Graph 2:



Graph 3:



Graph 4:



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

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

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

Table 5 gives the full picture of the distribution overall:

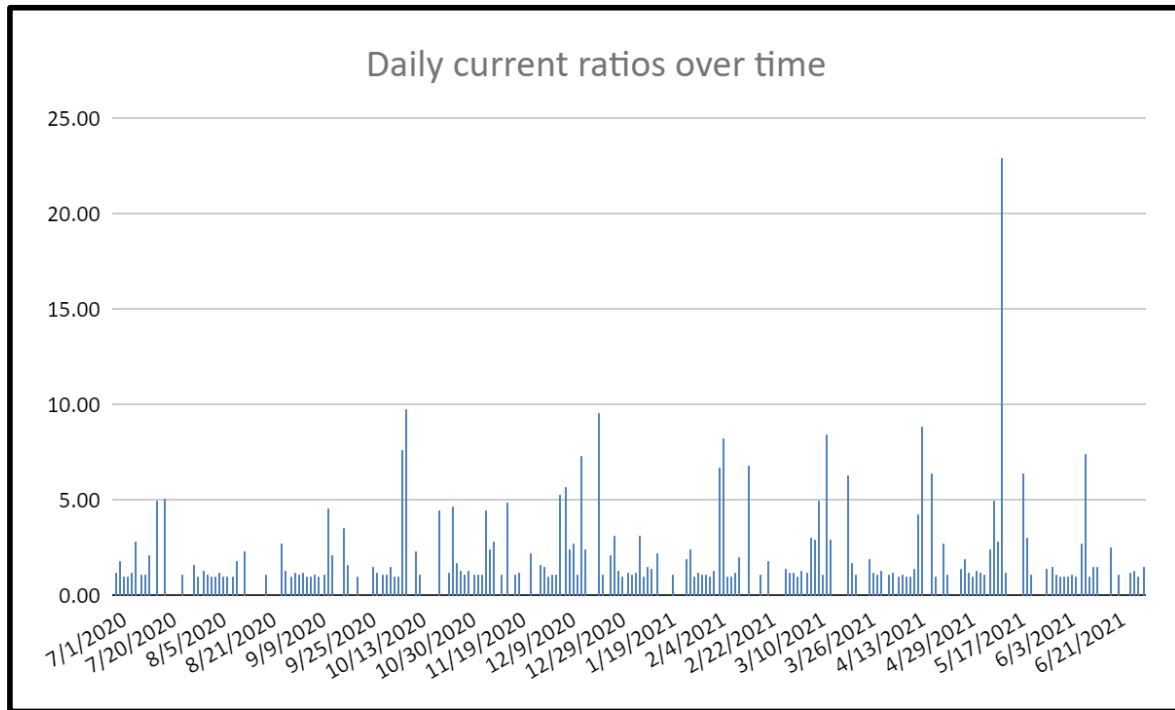
Table 5: Daily Current Ratios	
Current Ratios	% of Ratios
126 days < 2	70.00%
2 ≤ 23 days < 3	12.78%
3 ≤ 5 days < 4	2.78%
4 ≤ 12 days < 6	6.67%
6 ≤ 14 days ≤ max	7.78%

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

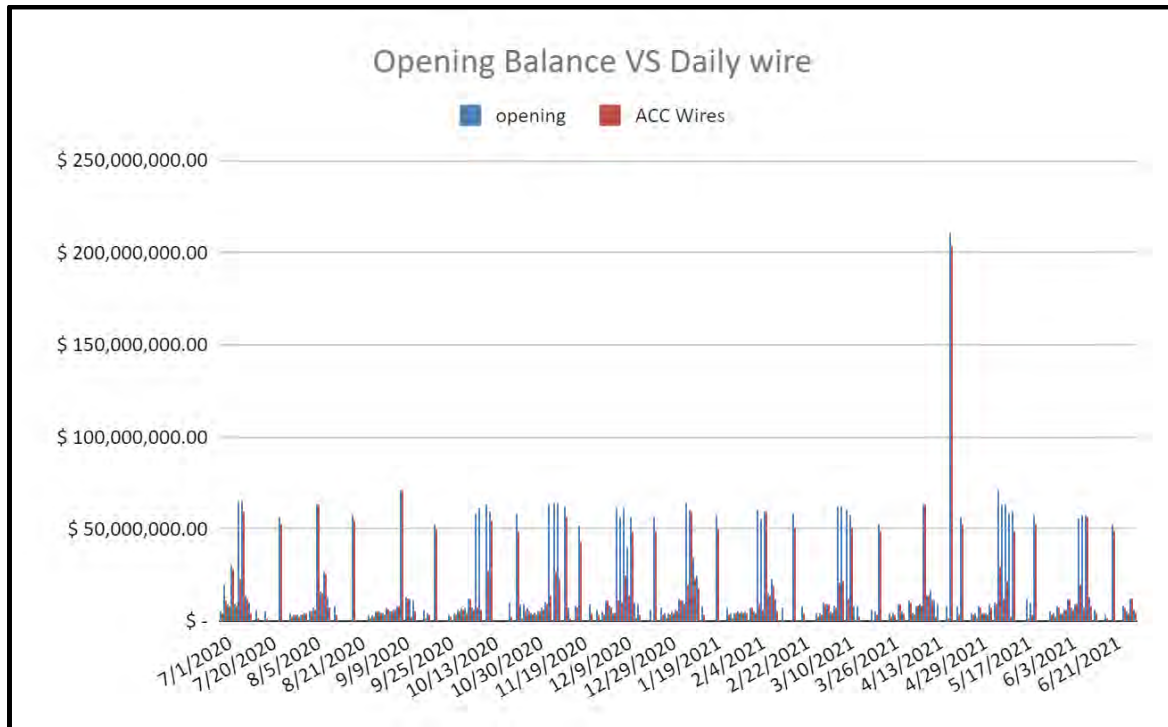
There is an Accounting policy that the cumulative sum of contributions received each day must be at least \$1,000,000 before a qualifying wire is created. The graphs below shows how the daily ratios change over time in a non-normal fashion. Ratios at the beginning of the month are low, hovering around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

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

Graph 5:



Graph 6:



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

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

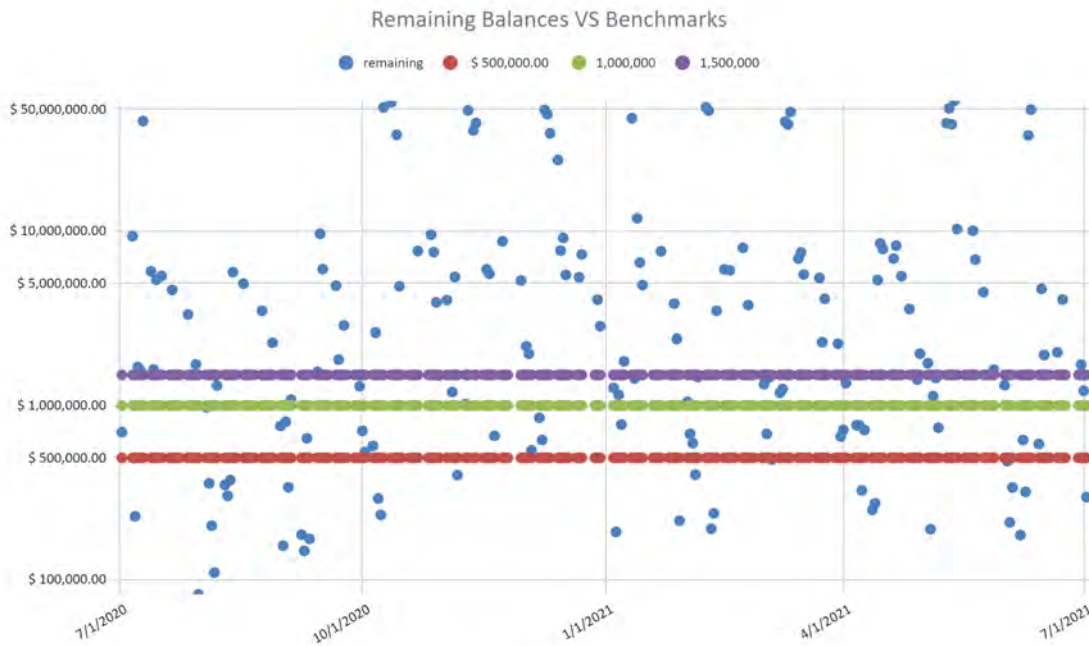
The average remaining balance was \$8,206,099, but this includes several extreme values including the maximum remaining balance or \$56,085,821. The median remaining balance of \$4,174,579 was a better metric for this population. Half of the remaining balances fell between the first and third quartiles,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

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

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

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

Graph 7:



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

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

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

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

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

Summary and Recommendations

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

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

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

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

Exhibit B: Example of DQ Report

Kentucky Public Pensions Authority DAILY QUALIFICATION SUMMARY Report

8/23/2021 2:26:05 PM

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

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

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

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

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

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

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

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

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

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

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

Employer: L756

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

Deposit Totals

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

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

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

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

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

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

8/19/2021 4:26:19 PM

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

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

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

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

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

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

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

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

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

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Pension Total:	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Insurance Total:	\$31,702.48	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$31,702.48
Employer Total:	\$31,702.48	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$31,702.48

Employer: 51531

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

Employer: 51530

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

Employer: 51540

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

Employer: 58676

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

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

Employer: 58680

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

Employer: 58681

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

Employer: 58685

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

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

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

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

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

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

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

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

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

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

Exhibit D: Example of Daily Qualification Worksheet

Joint Audit Committee Meeting - Review of Issued Audits: Plan Liquidity, Phase 1 - Daily Qualification Process

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

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

Exhibit E: Example of Finance and Administration Cabinet Report

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

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

Created: [REDACTED]
 Emailed to KRS: 8/5/2020



KPPA

Kentucky Public Pensions Authority

Record Retention Policies

KPPA Records Retention

All state government employees are responsible for maintaining records according to the retention schedule, whether those records are stored electronically or in paper. Information must be accessible to the appropriate parties until all legal, fiscal, and administrative retention periods are met, regardless of the records storage medium.

[Kentucky Public Pensions Authority
Record Retention Schedule](#)

State Agency Record Retention and Electronic Records Retention Schedule

Records Title and Description	Retention and Disposition
Purchase and Sale of Securities File	Retain permanently in agency
Active Member File	Transfer to Refunded Member File- 40 years from date of request Transfer to Retired Member File- 10 years from date of retirement
Refunded Member File	Retain in agency- 5 years; then transfer to State Records Center for 35 years; total retention 40 years Destroy after audit
Retired Member File	Retain in Agency and destroy paper records one year from date records are verified into Electronic Member File. Purge electronic records 10 years from date all benefits cease

Revision date: 7/2021

State Agency Record Retention and Electronic Records Retention Schedule (cont'd)

Records Title and Description	Retention and Disposition
Agency/Employer Monthly Pre-billing Report	Retain in Agency 3 years and destroy after audit
Contribution Report	Retain in Agency 6 months and destroy when information is verified in Active Member File
Agency/Employer Setup Documents	Retain permanently in Agency
Administrative Hearings for Disability Retirement	Retain in Agency and destroy 40 years after case closure

Revision date: 7/2021

Meeting Minutes

- KRS 171.640 require proper documentation of essential agency transactions and organizational functions:
 - One copy of each set of minutes should be retained permanently in the agency
 - One copy of each set of minutes should be forwarded to the State Archives after each meeting as specified in the *General Schedule for State Agencies- Misc Records*
 - Recordings (audio or visual) of meetings from minutes prepared are retained for 30 days after the minutes have been transcribed and approved

Meeting Minutes Cont'd.

- KRS 271B.16-010 (Corporate Records)
 - (1) A corporation shall keep as permanent records minutes of all meetings of its shareholders or board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directions on behalf of the corporation
 - (5) A corporation shall keep a copy of the following records at its principal office:
 - (d) The minutes of all shareholders' meetings, and records for all action taken by shareholders without a meeting, for the past three (3) years.

Record Retention Updates from KPPA

- Audio recordings since 2014
- Meeting minutes 2009 and forward digitized
- Video recordings since 2017; available on the KPPA website and Facebook page
- Agenda, minutes, video recordings on KPPA website since 2021

Meeting Minute Archive Project

KPPA is in the process of ensuring our record retention of board and committee meetings are compliant with KRS 178.640 and KRS 271B.16-010 (Corporate Records):

1. Send already digitized minutes from 2009 forward to KDLA
2. Digitize meeting minutes prior to 2009 and send to KDLA
3. Document the process to post all board minutes and materials that require adoption or ratification within 72 hours of a meeting in accordance with KRS 61.645 (19)(d) and forward to KDLA.



Kentucky Public Pensions Authority

Records Retention Schedule

Prepared by the State Records Branch
Archives and Records Management Division

Approved by the State Libraries, Archives, and Records Commission



This records retention schedule governs retention and disposal of records created, used and maintained by the Kentucky Public Pensions Authority. **Government records in Kentucky can only be disposed of with the approval of the State Libraries, Archives, and Records Commission (the Commission). If records do not appear on a Commission-approved records retention schedule, agencies should not destroy those records.** This agency-specific schedule was drafted by Kentucky Public Pensions Authority personnel and Archives and Records Management Division staff, and reviewed and approved by the Commission. This schedule provides the legal authority for the Kentucky Public Pensions Authority to destroy the records listed, after the appropriate retention periods have passed.

Kentucky Public Pensions Authority personnel should use this agency-specific schedule in combination with the *General Schedule for State Agencies (General Schedule)*, also approved by the Commission. The *General Schedule* applies to records that are created, used and maintained by staff at all or most state agencies. Agency-specific retention schedules are used only by specific agencies and apply to records that are created only by a particular state agency, or to records that a state agency is required to retain longer than the approved time period on the *General Schedule*. The *General Schedule* and agency-specific retention schedule should cover all records for Kentucky Public Pensions Authority.

This retention schedule applies to state agency records and information regardless of how it is created or stored. For example, information created and sent using e-mail is as much a public record as materials created or maintained in paper. Kentucky law defines public records, in part, as "documentary materials, *regardless of physical form or characteristics*, which are prepared, owned, used, in the possession of or retained by a public agency" (KRS 171.410[1]). This means that records management standards and principles apply to all forms of recorded information, from creation to final disposition, regardless of the medium. Records retention scheduling is important in developing, using, and managing computer systems and other electronic devices. Records management practices encourage cost-effective use of electronic media through accurate retention scheduling and legal destruction of records.

All state government employees are responsible for maintaining records according to the retention schedule, whether those records are stored electronically or in paper. Information must be accessible to the appropriate parties until all legal, fiscal, and administrative retention periods are met, regardless of the records storage medium.

This retention schedule covers the content of records created by the Kentucky Public Pensions Authority, including records created or stored using computers and computer systems. The *General Schedule for Electronic and Related Records* applies to records related to computers or a computer system. Examples of these include system documentation and use records, backup files, or website format and control records.

Audits and Legal Action

Agency records may be subject to fiscal, compliance or procedural audit. If an agency should maintain records longer than the approved retention period, as may be the case with some federal audits, then all affected records should be retained until the audit has been completed and the retention period met. In no case should records that are subject to audit be destroyed until the audit has been completed and retention periods met, or the records have been officially exempt from any audit requirements.

Records may also be involved in legal or investigative actions, such as lawsuits, administrative hearings or open records matters. These records must be retained at least until all legal or

investigative matters have concluded, regardless of retention period. This includes all appeals of lawsuits.

Vital Records

Vital records are essential to the continued functioning of an agency during and after an emergency. Vital records are also essential to the protection of the rights and interests of an agency and of the individuals for whose rights and interests it has a responsibility. Vital records are identified in the retention schedule with a (V).

Confidential Records

While all records created, used and maintained by government agency personnel are public records, not all of those records are open to public inspection. Whether a record is open to public inspection is determined by the state's Open Records laws and other relevant state or federal statutes and regulations. Restriction of public inspection of confidential records may apply to the whole record or only to certain information contained in the record.

Kentucky's public records are considered open for public inspection unless there is some specific law or regulation that exempts them. Agency personnel who believe certain records are confidential should submit a citation from Kentucky Revised Statutes, Administrative Regulations, Code of Federal Regulations, or similar authority. **State agency heads have the responsibility to know all the appropriate confidentiality laws, statutes and regulations that apply to the records maintained by their agency and to see that those laws are enforced.** Even though a record series may or may not be marked confidential on a retention schedule, contradictory laws or regulations that are passed after the schedule has been approved must be honored.

Copies of Records

Agency personnel often make copies of records for internal use or reference purposes. Agencies should designate one copy as the official copy and make sure it is retained according to the records retention schedule. Agencies can destroy all other copies when no longer useful.

Updating the Retention Schedule

Per 725 KAR 1:010, the head of each state government agency is required to designate a member of his or her staff to serve as a records officer. The agency records officer represent that agency in its records-related work with the Archives and Records Management Division. The agency records officer is responsible for assisting the Archives and Records Management Division in drafting a records retention schedule, and in finding any schedule updates to bring before the Commission. The retention schedule should be reviewed on a regular basis to suggest appropriate changes to the Commission.

Kentucky Public Pensions Authority

The Commonwealth of Kentucky provides retirement benefits for most state and county employees through Kentucky Public Pensions Authority (KPPA), which operates three separate retirement systems:

1. Kentucky Employees Retirement Systems (KERS) established July 1, 1956 for state employees.
2. County Employees Retirement Systems (CERS) established July 1, 1958 for local government and classified school board employees.
3. State Police Retirement Systems (SPRS) established July 1, 1958 for uniformed Kentucky State Police officers.

KERS, CERS and SPRS are qualified governmental defined benefit plans established under Section 401(a) of the Internal Revenue Code. CERS is governed by the CERS Board of Trustees established pursuant to Kentucky Revised Statute 78.782. KERS and SPRS are governed by the Kentucky Retirement Systems (KRS) Board of Trustees established pursuant to Kentucky Revised Statute 61.645.

The three systems are governed by the following state statutes:

- Kentucky Revised Statutes 61.510 through 61.705 applies to KERS
- Kentucky Revised Statutes 78.510 through 78.852 applies to CERS
- Kentucky Revised Statutes 16.505 through 16.652 applies to SPRS

The administrative regulations necessary to carry out the statutes, policies and procedures covering the systems operated by KPPA are found in Title 105 of the Kentucky Administrative Regulations.

RECORDS RETENTION SCHEDULE

Signature Page

Kentucky Retirement Systems
Agency

December 9, 2010
Schedule Date

Unit

Change Date

December 9, 2010
Date Approved By Commission

APPROVALS

The undersigned approve of the following Records Retention Schedule or Change:

[Signature]
Agency Head

12/15/10
Date of Approval

Rosemary Bebe
Agency Records Officer

12/15/2010
Date of Approval

Barbara Toomey
State Archivist and Records Administrator
Director, Public Records Division

12/9/2010
Date of Approval

Wayne Onhit
Chairman, State Archives and Records Commission

12/9/2010
Date of Approval

The undersigned Public Records Division staff have examined the record items and recommend the disposition as shown:

[Signature]
Records Analyst/Regional Administrator

12/09/10
Date of Approval

[Signature]
Appraisal Archivist

12/9/10
Date of Approval

[Signature]
State/Local Records/Branch Manager

12/9/10
Date of Approval

The determination as set forth meets with my approval.

[Signature]
Auditor of Public Accounts

12/9/10
Date of Approval

STATE LIBRARIES, ARCHIVES, AND RECORDS COMMISSION
Archives and Records Management Division
Kentucky Department for Libraries and Archives

STATE AGENCY RECORDS
RETENTION SCHEDULE

Finance and Administration Cabinet
 Kentucky Public Pensions Authority

Record Group
Number
2550

Series	Records Title and Description	Function and Use
01817	Purchase and Sale of Securities File (V)	This series documents the investment portfolio for retirement benefits of purchases and sales of securities by Kentucky Retirement Systems pursuant to the provisions established in KRS 61.510-61.705. Per KRS 61.650, the Kentucky Retirement Systems Board shall be the trustee of the several funds created by KRS 16.518 (Kentucky State Police); Kentucky Employee Retirement System (KRS 61.515 and 61.701), and County Employee Retirement System (KRS 78.520) and has the exclusive power to invest and reinvest the funds in accordance with federal law. Northern Trust Corporation is the investor contracted with Kentucky Retirement Systems and also stores the records electronically. Kentucky Retirement Systems has the ability to access and extract data as needed.
	Access Restrictions	Agencies should consult legal counsel regarding open records matters.
	Contents	Series contains: Account transactions; Broker information; Dividends paid; Income earned; Maturity date; Purchased at a discount or premium; Securities sales and purchases; Total cash outlay amount; Asset and Liability Information from Series 01837 - Investment Portfolio System
	Retention and Disposition	Retain permanently in agency
01819	Active Member File (V)	This series documents the records of active members who are currently contributing to a Kentucky Retirement Fund either in the Kentucky Employees Retirement System, County Employees Retirement System or State Police Retirement System. If an employee resigns from state or local government and requests a refund the records are transferred to Refunded Member File (Series 01822) and the retention period is forty (40) years from date of request. If the employee retires, the records are transferred to Retired Member File (Series 01825) and the paper copies are destroyed ten (10) years from date of retirement.
	Access Restrictions	KRS 61.661. Agencies should consult legal counsel regarding open records matters.
	Contents	Series contains: Annual account statements; Former Service verification; correspondence; Membership and beneficiary information; Personnel action forms; Retirement contribution information; Service purchase documents; Social Security documents; Wage and service information
	Retention and Disposition	Transfer to Refunded Member File (01822) and retention period is forty (40) years from date of request or Retired Member File (01825) and retention period is ten (10) years from date of retirement.
01822	Refunded Member File (V)	This series documents individuals who are no longer members of Kentucky Retirement Systems and have been refunded their retirement account of his accumulated contributions as set forth in KRS 61.625. A designated beneficiary shall have the right to request a refund if the contributing member is deceased. If the individual is rehired by a participating agency, the service and refund information is transferred back to the Active Member File (01819).
	Access Restrictions	KRS 61.661. Agencies should consult legal counsel regarding open records matters.
	Contents	Series may contain: Refund documentation; correspondence; retirement fund rollover documents; Annual account statements; former service verification; membership and beneficiary information; personnel action forms; retirement contribution information; service purchase documents; Social Security documents; wage and service information
	Retention and Disposition	Retain in Agency five (5) years; then transfer to State Records Center for thirty five (35) years; destroy after audit. Total retention is forty (40) years.

STATE LIBRARIES, ARCHIVES, AND RECORDS COMMISSION
Archives and Records Management Division
Kentucky Department for Libraries and Archives

STATE AGENCY RECORDS
RETENTION SCHEDULE

Finance and Administration Cabinet
 Kentucky Public Pensions Authority

Record Group
Number
2550

Series	Records Title and Description	Function and Use
01825	Retired Member File (V)	This series documents the retirement of a state or local government employee who is no longer contributing to a retirement fund, but instead is receiving retirement benefits pursuant to provisions stated in KRS 61.580. All of the information in the Retired Member File originates in the Active Member File (01819) except the retirement benefit calculations and the retirement plan election form. An employee must work five (5) years in state government in order to be vested (eligible to draw a retirement payment). When one decides to retire, a Notification of Retirement Form is completed, a retirement plan selected and calculations are computed. A member may change his retirement plan or beneficiary up to the time retirement becomes effective. Once benefits are received, the payment and beneficiary(s) cannot change. There may be address changes, or other administrative changes to the file following retirement. The files are maintained in-house with hard copy documents electronically imaged and accessible via the STARTLibrary Manager Kentucky Retirement System. IFiles referenced following retirement are largely due to legal activity, which generally happens in the early years following retirement.
	Access Restrictions	KRS 61.661. Agencies should consult legal counsel regarding open records matters.
	Contents	Series may contain: Active member records (Series 01819); Account audit documents; Benefit estimate calculations; Claim information (medical and pharmacy); Disability hearing transcription; Disability medical records; Disability retirement documents; Health insurance records; premiums, correspondence; Payroll documentation; Re-employment documents; Retirement notification; Tax and legal documents
	Retention and Disposition	Retain in Agency and destroy paper records one (1) year from the date records are verified into Electronic Member File. Purge electronic records ten (10) years from date all benefits cease.
01840	Agency/Employer Monthly Pre-billing Report (V)	This series documents monthly reports of retirement contributions from participating local government agencies as established in KRS 78.520. Pursuant to KRS 78.780, the government and control of the system is vested in the Kentucky Retirement Systems Board of Trustees. The county agency reporting official shall file the contribution report by the tenth day of each month to Kentucky Retirement Systems according to the provisions of KRS 78.625.
	Access Restrictions	(C) KRS 61.661. Agencies should consult legal counsel regarding open records matters.
	Contents	Series contains: Report/Summary of wages earned; Retirement contributions
	Retention and Disposition	Retain in Agency three (3) years and destroy after audit
03280	Contribution Report (V)	This series documents the employer and employee contribution records and reports to the Kentucky Retirement Systems pursuant to the requirements of KRS 61.515 to 61.705. Each retirement membership employee shall contribute each pay period a percentage of his creditable compensation. Each employer shall solely for the purpose of compliance with Section 414(h) of the United States Internal Revenue Code pick up the employee contributions and are treated as employer contributions. The employer contributions are not included as gross income of the employee until such time as the contributions are distributed or made available to the employee. The employee/employer contribution rate amount is set by statute.
	Access Restrictions	(C) KRS 61.661. Agencies should consult legal counsel regarding open records matters.
	Contents	Series contains: Member account adjustment documents; member service corrections; member wage and service information; payroll refund documents; reinstatement documents; Supplemental wage reports
	Retention and Disposition	Retain in Agency six (6) months and destroy when information is verified in Active Member Folder (01819)

STATE LIBRARIES, ARCHIVES, AND RECORDS COMMISSION
Archives and Records Management Division
Kentucky Department for Libraries and Archives

STATE AGENCY RECORDS
RETENTION SCHEDULE

Finance and Administration Cabinet
 Kentucky Public Pensions Authority

Record Group
Number
2550

Series	Records Title and Description	Function and Use
05880	Agency/Employer Setup Documents (V)	This series documents the agency/employer setup process for participation in one of the Kentucky Retirement Systems: (Kentucky Employees Retirement Systems - KERS; State Police Retirement Systems -SPRS; County Employees Retirement Systems - CERS) pursuant to KRS 61.510-61.705. The process includes the requirements for participation and benefits, a description of retirement formulas for normal, early and disability retirement and survivor benefits, and statutory requirements for an agency to participate in Kentucky Retirement Systems.
	Access Restrictions	KRS 61.661. Agencies should consult legal counsel regarding open records matters.
	Contents	Series contains: Kentucky Retirement Systems agency setup (Form 7070); Order for Kentucky Retirement Systems participation; Board minutes approving agency's participation; Correspondence relating to KRS 78.530(2); Kentucky Personnel Cabinet's contract for health insurance installment payment plan (IPS) certification letter (Form 7085); sick leave resolution (Form 7030); current agency/employer budget County Articles of Incorporation; County By-Laws; Agency contact information (Form 7075); List of employees including Social Security Numbers, position status, job titles; Probation period of agency; Documentation on existing retirement programs; Name of agency/employer reporting official; Certification of hazardous position coverage (Form 7011); Job descriptions (Form 7020); Hazardous duty questionnaires (Form 7025); Certification of hazardous duty coverage (Form 2011); Actuarial study
	Retention and Disposition	Retain permanently in Agency.

STATE LIBRARIES, ARCHIVES, AND RECORDS COMMISSION
Archives and Records Management Division
Kentucky Department for Libraries and Archives

STATE AGENCY RECORDS
RETENTION SCHEDULE

Finance and Administration Cabinet
 Kentucky Public Pensions Authority
 Disability

Record Group
Number
2550

Series	Records Title and Description	Function and Use
04492	Administrative Hearings for Disability Retirement (V)	This series documents the proceedings of an administrative hearing held to determine the disability retirement of a current employee. The proceedings are digitally recorded and a copy of the recording is available by request of the claimant employee. Pursuant to KRS 61.665, an employee requesting disability retirement must furnish the retirement office with names of at least two physicians who have the necessary information to report the employee's physical and mental condition, and a description of the job and duties from which he received his last pay. The employer also provides a description of the job and duties. Upon review of a medical examiner selected by the agency to evaluate the medical evidence, the examiner recommends that disability retirement be approved or denied. If the medical examiner(s) recommend approval, the General Manager makes retirement payments in accordance with the retirement plan selected by the employee. If denied, the General Manager notifies the employee, who has sixty (60) days to submit additional information or appeal by requesting a formal hearing. An appeal to Franklin Circuit Court may be filed within thirty (30) days of a Final Order by the Board of Trustees.
	Access Restrictions	KRS 61.878 (1)(a) (Medical); KRS 61.661 (Account). Agencies should consult legal counsel regarding open records matters.
	Contents	Digital recording of an Administrative Hearing proceeding consisting primarily of claimant's testimony and medical review; and if applicable, transcripts of hearing.
	Retention and Disposition	Retain in Agency and destroy forty (40) years after case closure

Electronic System With Included Records Series

General Government

Retirement Systems - Kentucky Employees

System Description: The Line of Business system (START) and the supporting applications of FileNet and Great Plains are used to administer Kentucky Employees Retirement. The system supports processes for active, inactive, and retired members. These members are part of five retirement systems which consist of state employees, state police officers, county and city employees, as well as non-teaching staff of local school boards and regional universities. The START system supports the processing of contributions, refund payments, and retirement payments to all systems.

System Contents: The general content of the START system consists of member, employer, and retiree data. This data consists of membership information, contribution details, employer details, and retiree benefit information. The system also consists of any data required to support business functions for Kentucky Retirement Systems. The data entered into the system is done by KRS Staff, employers, retirees, and members.

General Schedule Items:

System Title: Kentucky Retirement Systems Line of Business **Alternate Title:** START

<i>Series #:</i>	<i>Series Title:</i>	<i>Disposition Instructions:</i>
01817	Purchase and Sale of Securities File	Retain permanently in agency
01819	Active Member File	Transfer to Refunded Member File (01822) and retention period is forty (40) years from date of request or Retired Member File (01825) and retention period is ten (10) years from date of retirement.
01822	Refunded Member File	Retain in Agency five (5) years; then transfer to State Records Center for thirty five (35) years; destroy after audit. Total retention is forty (40) years.
01825	Retired Member File	Retain in Agency and destroy paper records one (1) year from the date records are verified into Electronic Member File. Purge electronic records ten (10) years from date all benefits cease.

System Title: **Kentucky Retirement Systems Line of Business** *Alternate Title:* **START**

<i>Series #:</i>	<i>Series Title:</i>	<i>Disposition Instructions:</i>
01840	Agency/Employer Monthly Pre-billing Report	Retain in Agency three (3) years and destroy after audit
03280	Contribution Report	Retain in Agency six (6) months and destroy when information is verified in Active Member Folder (01819)
04492	Administrative Hearings for Disability Retirement	Retain in Agency and destroy forty (40) years after case closure
05880	Agency/Employer Setup Documents	Retain permanently in Agency.



Combining Statement of Fiduciary Net Position - Pension Funds
 As of December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Thousands)
 (Unaudited)

ASSETS	CERS		KERS		SPRS	KPPA TOTAL		Percentage of Change	Note
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous		2022	2021		
CASH AND SHORT-TERM INVESTMENTS									
Cash Deposits	\$199	\$44	\$193	\$41	\$43	\$519	\$1,336	-61.16%	1
Short-term Investments	361,412	139,545	411,548	62,158	35,840	1,010,503	600,527	68.27%	2
Total Cash and Short-term Investments	361,611	139,589	411,741	62,199	35,882	1,011,022	601,863		
RECEIVABLES									
Accounts Receivable	67,028	30,215	13,339	3,409	8,711	122,701	145,933	-15.92%	3
Accounts Receivable - Investments	91,192	31,328	37,662	9,302	4,315	173,800	413,270	-57.95%	4
Total Receivables	158,220	61,544	51,001	12,711	13,026	296,501	559,204		
INVESTMENTS, AT FAIR VALUE									
Core Fixed Income	1,046,376	360,222	660,688	109,840	76,089	2,253,214	2,208,143	2.04%	
Public Equities	4,161,913	1,402,123	1,070,417	410,893	127,196	7,172,543	6,212,293	15.46%	5
Private Equities	730,453	244,872	200,360	67,307	19,548	1,262,540	1,139,237	10.82%	6
Specialty Credit	1,473,307	503,555	513,740	151,685	60,324	2,702,612	2,396,657	12.77%	7
Derivatives	(767)	(265)	(422)	(80)	(46)	(1,579)	4,031	-139.16%	8
Absolute Return	-	-	-	-	-	-	140,945	-100.00%	9
Real Return	535,104	180,738	178,271	51,325	20,862	966,300	869,771	11.10%	10
Opportunistic	255,392	84,429	74,680	23,153	9,224	446,879	370,906	20.48%	11
Real Estate	438,492	139,686	143,572	40,768	17,565	780,083	584,165	33.54%	12
Total Investments, at Fair Value	8,640,271	2,915,360	2,841,305	854,893	330,763	15,582,591	13,926,147		
Securities Lending Collateral Invested	261,773	88,859	94,671	26,483	10,536	482,322	389,842	23.72%	13
CAPITAL/INTANGIBLE ASSETS									
Capital Assets	1,701	153	929	91	11	2,885	2,885	0.00%	
Intangible Assets	9,961	827	5,920	494	100	17,301	17,301	0.00%	
Accumulated Depreciation	(1,701)	(153)	(929)	(91)	(11)	(2,885)	(2,866)	0.68%	
Accumulated Amortization	(9,612)	(819)	(5,611)	(482)	(100)	(16,624)	(16,183)	2.73%	
Total Capital Assets	349	8	309	11	-	677	1,138		
Total Assets	9,422,223	3,205,360	3,399,026	956,296	390,208	17,373,113	15,478,193		
LIABILITIES									
Accounts Payable	3,563	681	1,585	159	31	6,019	6,442	-6.57%	
Investment Accounts Payable	169,551	57,996	73,453	17,228	8,650	326,878	575,068	-43.16%	14
Securities Lending Collateral	261,773	88,859	94,671	26,483	10,536	482,322	389,842	23.72%	15
Total Liabilities	434,887	147,536	169,709	43,870	19,217	815,219	971,352		
Total Fiduciary Net Position Restricted for Pension Benefits	\$8,987,336	\$3,057,824	\$3,229,317	\$912,426	\$370,990	\$16,557,894	\$14,506,841		

NOTE - Variance Explanation **Differences due to rounding**

- 1) Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
- 2) Short Term Investments is primarily comprised of the cash on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow.
- 3) The decrease in Accounts Receivable is due to the decrease in the month end employer contributions accrual for KERS (normal cost ERCON for KERS--AALC invoices are created and paid prior to month end).
- 4) The variance in Accounts Receivable - Investments is due to pending trades.
- 5) The increase in Public Equities is due to additional funding and positive market conditions resulting in increased market values.

NOTE - Variance Explanation continued on next page.

- 6) *The increase in Private Equity is a result of positive market conditions resulting in increased market values.*
- 7) *The increase in Specialty Credit is due to additional funding and positive market conditions increasing market values.*
- 8) *Variance is a result of hedging and arbitration of risk within the portfolios.*
- 9) *The decline in Absolute Return is a result of the merging of the Absolute Return asset class with the Real Return asset class.*
- 10) *The increase in Real Return is a result of the merging of the Absolute Return asset class with the Real Return asset class and positive market conditions resulting in increased market values.*
- 11) *The increase in Opportunistic is due to additional funding and positive market conditions increasing market values.*
- 12) *The increase in Real Estate is due to additional funding and positive market conditions increasing market values.*
- 13) *Variance is a result of the demands of the Securities Lending Program.*
- 14) *The variance in Accounts Payable is due to pending trades.*
- 15) *Variance is a result of the demands of the Securities Lending Program.*



Combining Statement of Changes In Fiduciary Net Position - Pension Funds

For the fiscal year ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Thousands) (Unaudited)

	CERS	CERS	KERS	KERS	SPRS	KPPA Total			
	Non-Hazardous		Non-			2022	2021	Percentage of Change	Note
ADDITIONS									
Member Contributions	\$88,222	\$35,629	\$44,991	\$10,096	\$2,426	\$181,364	\$167,605	8.21%	
Employer Contributions	270,101	107,105	468,396	30,165	30,519	906,287	855,283	5.96%	
Pension Spiking Contributions	29	33	8	-	-	70	128	-45.51%	1
Health Insurance Contributions (HB1)	(1)	1	6	2	-	8	(4)	315.61%	2
Employer Cessation Contributions	-	-	50,464	-	-	50,464	-	100.00%	3
Total Contributions	358,351	142,769	563,865	40,263	32,945	1,138,193	1,023,012		
INVESTMENT INCOME									
From Investing Activities									
Net Appreciation (Depreciation) in FV of Investments	338,334	111,843	81,138	31,330	9,829	572,474	1,670,655	-65.73%	4
Interest/Dividends	124,563	42,108	35,791	12,291	4,298	219,050	167,321	30.92%	5
Total Investing Activities Income	462,897	153,951	116,929	43,621	14,126	791,524	1,837,976		
Less: Investment Expense	23,279	6,659	3,959	1,811	535	36,241	29,604	22.42%	6
Less: Performance Fees	35,221	11,541	8,531	3,187	967	59,447	26,305	125.99%	7
Net Income from Investing Activities	404,398	135,751	104,439	38,623	12,625	695,836	1,782,067		
From Securities Lending Activities									
Securities Lending Income	275	95	96	28	11	506	458		
Less: Securities Lending Borrower Rebates (Income)/Expense	(479)	(163)	(140)	(49)	(17)	(848)	(305)		
Less: Securities Lending Agent Fees	113	39	35	12	4	203	114		
Net Income from Securities Lending	641	219	201	65	24	1,151	649	77.35%	8
Net Investment Income	405,039	135,971	104,640	38,689	12,649	696,987	1,782,716		
Total Additions	763,390	278,739	668,505	78,952	45,594	1,835,179	2,805,728		
DEDUCTIONS									
Benefit Payments	425,838	151,804	512,550	38,190	32,039	1,160,422	1,125,717	3.08%	
Refunds	9,785	2,548	5,656	2,627	101	20,716	16,796	23.34%	9
Administrative Expenses	11,098	984	5,995	636	124	18,838	17,591	7.09%	
Total Deductions	446,721	155,336	524,201	41,454	32,264	1,199,976	1,160,105		
Net Increase (Decrease) in Fiduciary Net Position Restricted for Pension Benefits	316,668	123,403	144,303	37,498	13,330	635,203	1,645,624		
Total Fiduciary Net Position Restricted for Pension Benefits									
Beginning of Period	8,670,667	2,934,421	3,085,014	874,928	357,660	15,922,691	12,861,218		
End of Period	\$8,987,336	\$3,057,824	\$3,229,317	\$912,426	\$370,990	\$16,557,894	\$14,506,841		

NOTE - Variance Explanation

Differences due to rounding.

- 1) Pension Spiking contributions decreased due to a change in statute. Pension spiking is now the member's responsibility.
- 2) Health Insurance Contributions continue to fluctuate in the Pension accounts due to corrections being processed.
- 3) Employer Cessation payment received from Kentucky Housing Corporation.
- 4) The decrease in Net Appreciation in Fair Value of Investments is a result of less favorable market conditions resulting in unrealized losses in public equity for the first half of FY22 when compared to the first half of FY21.
- 5) The increase in Interest/Dividends is due to increased income from Private Equity, Real Estate, and Specialty Credit asset classes.

NOTE - Variance Explanation continued on next page.

- 6) *The increase in Investment Expense is a result of an increase in assets due to additional contributions and increase in market values.*
- 7) *The increase in Performance fees is due to realized and unrealized gains resulting in higher performance fees primarily within private equity.*
- 8) *Variance is a result of the demand of the Securities Lending Program.*
- 9) *The increase in Refunds is due to an increase in refunds taken by CERS, KERS and KERH members who terminated employment and were not eligible for a retirement benefit.*



Combining Statement of Fiduciary Net Position - Insurance Fund
 As of December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ In Thousands)
 (Unaudited)

ASSETS	CERS	CERS	KERS	KERS	SPRS	KPPA Total				
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous		2022	2021			
CASH AND SHORT-TERM INVESTMENTS										
Cash Deposits		\$48	\$57	\$46	\$56	\$49	\$257	\$380	-32.42%	1
Short-term Investments	270,552	96,577	150,018	23,134	13,271	553,551	249,770	121.62%	2	
Total Cash and Short-term Investments	270,600	96,634	150,064	23,190	13,321	553,808	250,151			
RECEIVABLES										
Accounts Receivable	18,592	7,859	5,150	426	807	32,835	37,444	-12.31%	3	
Investment Accounts Receivable	33,231	16,972	14,776	6,743	2,578	74,300	179,755	-58.67%	4	
Total Receivables	51,822	24,831	19,927	7,169	3,385	107,134	217,199			
INVESTMENTS, AT FAIR VALUE										
Core Fixed Income	371,036	195,341	168,107	73,644	28,899	837,027	845,726	-1.03%		
Public Equities	1,423,930	732,251	655,287	287,538	111,740	3,210,745	2,804,931	14.47%	5	
Specialty Credit	550,144	273,680	227,541	117,414	42,344	1,211,122	1,064,842	13.74%	6	
Private Equities	281,560	158,263	76,780	54,618	24,657	595,877	548,052	8.73%		
Derivatives	(202)	(106)	(91)	(40)	(16)	(455)	1,825	-124.95%	7	
Absolute Return	-	-	-	-	-	-	57,728	-100.00%	8	
Real Return	182,361	95,616	75,850	38,240	14,658	406,725	371,840	9.38%		
Opportunistic	103,122	56,180	36,869	22,920	8,463	227,553	188,868	20.48%	9	
Real Estate	151,537	83,047	47,602	34,888	13,340	330,413	246,753	33.90%	10	
Total Investments, at Fair Value	3,063,489	1,594,270	1,287,944	629,220	244,085	6,819,008	6,130,565			
Securities Lending Collateral Invested	88,366	44,868	38,094	17,324	6,833	195,485	148,525	31.62%	11	
Total Assets	3,474,277	1,760,603	1,496,029	676,904	267,624	7,675,436	6,746,440			
LIABILITIES										
Accounts Payable	221	68	98	9	2	398	444	-10.34%	12	
Investment Accounts Payable	60,550	31,283	27,280	12,333	4,737	136,183	249,204	-45.35%	13	
Securities Lending Collateral	88,366	44,868	38,094	17,324	6,833	195,485	148,525	31.62%	14	
Total Liabilities	149,137	76,218	65,472	29,667	11,572	332,066	398,173			
Total Fiduciary Net Position Restricted for OPEB	\$3,325,140	\$1,684,385	\$1,430,557	\$647,237	\$256,052	\$7,343,370	\$6,348,267			

NOTE - Variance Explanation **Differences due to rounding**

- 1) Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
- 2) Short Term Investments is primarily comprised of the cash on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow.
- 3) The decrease in Accounts Receivable is due to the decrease in the month end employer contributions accrual for KERS (normal cost ERCON for KERS--AALC invoices are created and paid prior to month end).
- 4) The variance in Investment Accounts Receivable is due to pending trades.
- 5) The increase in Public Equities is due to additional funding and positive market conditions resulting in increased market values.
- 6) The increase in Specialty Credit is due to additional funding and positive market conditions increasing market values.
- 7) Variance is a result of hedging and arbitration of risk within the portfolios.
- 8) The decline in Absolute Return is a result of the merging of the Absolute Return asset class with the Real Return asset class.
- 9) The increase in Opportunistic is due to additional funding and positive market conditions increasing market values.
- 10) The increase in Real Estate is due to additional funding and positive market conditions increasing market values.
- 11) Variance is a result of the demands of the Securities Lending Program.
- 12) The decrease In Accounts Payable is due to a fluctuation of outstanding credit employer invoices.
- 13) The variance In Investment Accounts Payable is due to pending trades.
- 14) Variance is a result of the demands of the Securities Lending Program.



Combining Statement of Changes In Fiduciary Net Position - Insurance

For the fiscal year ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ In Thousands)

	CERS	CERS	KERS	KERS	SPRS	KPPA Total		Percentage of Change	Note
	Non-Hazardous		Non-Hazardous			2022	2021		
ADDITIONS									
Employer Contributions	\$78,695	\$35,546	\$58,234	\$1	\$4,386	\$176,862	\$171,839	2.92%	
Medicare Drug Reimbursement	1	-	-	1	-	2	1	73.90%	1
Insurance Premiums	267	4	89	5	(2)	364	365	-0.31%	
Humana Gain Share Payment	8,912	1,259	7,321	548	342	18,381	42,896	-57.15%	2
Retired Re-employed Healthcare	2,409	711	2,471	630	-	6,221	6,193	0.44%	
Health Insurance Contributions (HB1)	7,530	1,827	3,202	611	110	13,281	11,805	12.50%	3
Employer Cessation Contributions	-	-	9,536	-	-	9,536	-	100.00%	4
Total Contributions	97,815	39,347	80,852	1,797	4,836	224,647	233,099		
INVESTMENT INCOME									
From Investing Activities									
Net Appreciation (Depreciation) in FV of Investments	130,326	70,607	45,727	26,472	10,844	283,977	745,512	-61.91%	5
Interest/Dividends	42,592	22,295	16,899	8,898	3,435	94,119	72,852	29.19%	6
Total Investing Activities Income	172,918	92,902	62,627	35,370	14,279	378,096	818,364		
Less: Investment Expense	7,563	4,007	2,959	1,581	621	16,731	14,595	14.63%	7
Less: Performance Fees	13,648	7,670	4,509	2,956	1,213	29,997	15,574	92.61%	8
Net Income from Investing Activities	151,707	81,224	55,159	30,832	12,445	331,368	788,195		
From Securities Lending Activities									
Securities Lending Income	96	48	42	19	7	212	190		
Less: Securities Lending Borrower Rebates (Income)/ Expense	(151)	(77)	(66)	(30)	(12)	(337)	(137)		
Less: Securities Lending Agent Fees	37	19	16	7	3	82	49		
Net Income from Securities Lending	210	106	92	42	16	466	278	67.80%	9
Net Investment Income	151,917	81,331	55,251	30,874	12,461	331,834	788,472		
Total Additions	249,732	120,678	136,103	32,671	17,298	556,481	1,021,571		
DEDUCTIONS									
Healthcare Premiums Subsidies	64,117	43,727	57,412	10,218	7,206	182,680	194,240	-5.95%	
Administrative Expenses	471	248	414	63	37	1,233	1,131	9.05%	
Self-Funded Healthcare Costs	1,785	129	840	42	6	2,802	2,600	7.76%	
Excise Tax Insurance	6	-	3	-	-	9	-		
Total Deductions	66,378	44,104	58,669	10,324	7,249	186,724	197,971		
Net Increase (Decrease) in Fiduciary Net Position Restricted for OPEB	183,354	76,574	77,434	22,347	10,048	369,757	823,601		
Total Fiduciary Net Position Restricted for OPEB									
Beginning of Period	3,141,786	1,607,811	1,353,123	624,889	246,004	6,973,613	5,524,666		
End of Period	\$3,325,140	\$1,684,385	\$1,430,557	\$647,237	\$256,052	\$7,343,370	\$6,348,267		
NOTE - Variance Explanation on next page. Differences due to rounding									

- 1) Medicare drug reimbursement payments fluctuate year to year based on claims reviewed.
- 2) Humana Gain Share payments will fluctuate based on timing and actual claims paid.
- 3) Health Insurance Contributions will continue to rise as Tier 3 members increase.
- 4) Employer Cessation payment received from Kentucky Housing Corporation.
- 5) The decrease in Net Appreciation in Fair Value of Investments is a result of less favorable market conditions resulting in unrealized losses in public equity for the first half of FY22 when compared to the first half of FY21.
- 6) The increase in Interest/Dividends is due to increased income from Private Equity, Core Fixed Income, and Specialty Credit asset classes.
- 7) The increase in Investment Expense is a result of an increase in assets due to additional contributions and increase in market values.
- 8) The increase in Performance fees is due to realized and unrealized gains resulting in higher performance fees primarily within private equity.
- 9) Variance is a result of the demand of the Securities Lending Program.

KPPA ADMINISTRATIVE BUDGET 2021-2022
SECOND QUARTER BUDGET-TO-ACTUAL ANALYSIS
FY 2022

Account Name	Budgeted	Actual Expense	Remaining	Percent Remaining	CERS	CHAZ	Total CERS
					NHZ Actual Expense	Actual Expense	Actual Expense
PERSONNEL					59.75%	5.29%	
Staff							
Salaries	\$16,900,000	\$8,048,638	\$8,851,362	52.37%	\$4,809,061	\$425,773	\$5,234,834
Wages (Overtime)	342,000	107,186	234,814	68.66%	64,044	5,670	69,714
Emp Paid Retirement	14,478,107	6,422,459	8,055,649	55.64%	3,837,419	339,748	4,177,167
Emp Paid Health Ins	2,500,000	1,296,865	1,203,135	48.13%	774,877	68,604	843,481
Emp Paid Sick Leave	115,650	800	114,850	99.31%	478	42	520
Workers Compensation	77,100	75,163	1,937	2.51%	44,910	3,976	48,886
Unemployment	3,600	-	3,600	100.00%	-	-	-
Other Personnel	1,130,250	573,531	556,719	49.26%	342,685	30,340	373,025
Employee Training	18,400	4,843	13,557	73.68%	2,894	256	3,150
Bonds	-	41	(41)	-	24	2	27
Staff Subtotal	35,565,107	16,529,526	19,035,582	53.52%	9,876,392	874,412	10,750,804
LEGAL & AUDITING SERVICES							
Legal Hearing Officers	84,600	32,314	52,286	61.80%	19,308	1,709	21,017
Legal (Stoll, Keenon)	180,000	60,445	119,556	66.42%	36,116	3,198	39,313
Frost Brown (Tax Advisor)	173,000	1,464	171,536	99.15%	875	77	952
Reinhart	24,000	-	24,000	100.00%	-	-	-
Ice Miller	336,000	21,533	314,467	93.59%	12,866	1,139	14,005
Johnson, Bowman, Branco LLC	150,000	43,225	106,775	71.18%	25,827	2,287	28,114
Denton	150,000	-	150,000	100.00%	-	-	-
Legal Expense	12,000	-	12,000	100.00%	-	-	-
Auditing	118,350	85,655	32,695	27.63%	51,179	4,531	55,710
CONSULTING SERVICES							
Medical Reviewers	1,200,000	625,666	574,334	47.86%	373,835	33,098	406,933
Escrow for Actuary Fees	12,000	-	12,000	100.00%	-	-	-
CONTRACTUAL SERVICES							
Miscellaneous Contracts	22,750	12,079	10,671	46.91%	7,217	639	7,856
Human Resources Consulting	6,600	5,794	806	12.21%	3,462	307	3,768
Actuarial Services	700,000	147,747	552,253	78.89%	88,279	7,816	96,095
Facility Security Charges	112,000	38,862	73,138	65.30%	23,220	2,056	25,276
PERSONNEL SUBTOTAL	\$38,846,407	\$17,604,310	\$21,242,099	54.68%	\$10,518,575	\$931,268	\$11,449,843
OPERATIONAL							
Natural Gas	\$25,200	\$7,144	\$18,056	71.65%	\$4,269	\$378	\$4,646
Electric	138,000	55,442	82,558	59.82%	33,127	2,933	36,059
Rent-NonState Building	52,000	25,321	26,679	51.31%	15,129	1,339	16,469
Building Rental - PPW	1,100,000	481,016	618,984	56.27%	287,407	25,446	312,853
Copier Rental	122,587	31,247	91,340	74.51%	18,670	1,653	20,323
Rental Carpool	4,800	1,940	2,860	59.58%	1,159	103	1,262
Vehicle/Equip. Mainten.	1,350	249	1,101	81.56%	149	13	162
Postage	610,000	150,771	459,229	75.28%	90,086	7,976	98,061
Freight	600	155	445	74.17%	93	8	101
Printing (State)	6,000	4,548	1,452	24.20%	2,717	241	2,958
Printing (non-state)	112,500	30,002	82,498	73.33%	17,926	1,587	19,513

Account Name	Budgeted	Actual Expense	Remaining	Percent Remaining	CERS NHz	CHAZ	Total CERS
					Actual Expense	Actual Expense	Actual Expense
Insurance	6,000	5,422	578	9.63%	3,240	287	3,526
Garbage Collection	6,000	2,647	3,353	55.88%	1,582	140	1,722
Conference Expense	25,750	9,052	16,699	64.85%	5,409	479	5,887
MARS Usage	52,800	13,550	39,250	74.34%	8,096	717	8,813
COVID-19 Expenses	168,000	6,171	161,829	96.33%	3,687	326	4,014
Office Supplies	42,600	25,767	16,833	39.51%	15,396	1,363	16,759
Furniture & Office Equipment	9,600	-	9,600	100.00%	-	-	-
Travel (In-State)	12,600	3,611	8,989	71.34%	2,158	191	2,349
Travel (Out of State)	45,150	382	44,768	99.15%	228	20	248
Dues & Subscriptions	61,600	32,839	28,761	46.69%	19,621	1,737	21,358
Miscellaneous	1,600	31,063	(29,463)	-1841.44%	18,560	1,643	20,203
COT Charges	24,000	9,850	14,150	58.96%	5,885	521	6,406
Telephone - Wireless	5,400	2,817	2,583	47.83%	1,683	149	1,832
Telephone - Other	120,000	62,180	57,820	48.18%	37,153	3,289	40,442
Computer Equip./Software	2,640,000	1,397,212	1,242,788	47.08%	834,834	73,913	908,747
OPERATIONAL SUBTOTAL	\$5,394,137	\$2,390,397	\$3,003,740	55.69%	\$1,428,263	\$126,452	\$1,554,715
SUBTOTAL	\$44,240,544	\$19,994,706	\$24,245,838	54.80%	\$11,946,838	\$1,057,720	\$13,004,558
Major Legislative Implementation	3,764,956	-	3,764,956	100.00%	-	-	-
TOTALS	\$48,005,500	\$19,994,706	\$28,010,794	58.35%	\$11,946,837	\$1,057,720	\$13,004,557

Differences due to rounding

Plan	Budgeted	Actual Expense	% of Total CERS Actual Expense
CERS	\$28,683,286	\$11,946,837	59.75%
CHAZ	\$2,539,491	\$1,057,720	5.29%
TOTAL	\$31,222,777	\$13,004,557	

Plan - Specific Expenses

	CERS	CHAZ	Amount
CERS Adjustment	\$-	\$-	\$57,097
CERS Actual	-	-	
KERS Adjustment	-	-	61,550
KERS Legal Actual	-	-	
Subtotal Plan Specific	-	-	118,647
Total Expenses	\$11,946,837	\$1,057,720	

Pension Fund Contribution Report

For the period ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Millions)



	County Employees Retirement System			
	Non-Hazardous		Hazardous	
	FY22	FY21	FY22	FY21
Member Contributions	\$ 88.2	\$ 79.0	\$ 35.6	\$ 31.8
Employer Contributions	270.1	226.9	107.1	88.9
Net Investment Income	66.7	61.3	24.1	20.6
Total Inflows	425.0	367.2	166.8	141.3
Benefit Payments/Refunds	435.6	417.2	154.4	146.1
Administrative Expenses	11.1	10.5	1.0	0.9
Total Outflows	446.7	427.7	155.4	147.0
NET Contributions	(21.7)	(60.5)	11.4	(5.7)
Realized Gain/(Loss)	282.7	100.0	95.4	34.2
Unrealized Gain/(Loss)	55.6	849.5	16.4	286.6
Change in Net Position	316.6	889.0	123.2	315.1
Beginning of Period	8,670.7	7,110.9	2,934.4	2,395.7
End of Period	\$ 8,987.3	\$ 7,999.9	\$ 3,057.6	\$ 2,710.8

Insurance Fund Contribution Report



For the period ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Millions)

	County Employees Retirement System			
	Non-Hazardous		Hazardous	
	FY22	FY21	FY22	FY21
Employer Contributions	\$78.7	\$59.8	\$35.5	\$30.2
Insurance Premiums	9.2	21.0	1.3	3.0
Retired Reemployed Healthcare	2.4	2.7	0.7	0.6
Health Insurance Contributions	7.5	6.4	1.8	1.6
Net Investment Income	21.6	19.3	10.7	9.5
Total Inflows	119.4	109.2	50.0	44.9
Healthcare Premiums	65.9	73.0	43.9	42.1
Administrative Expenses	0.5	0.4	0.2	0.2
Total Outflows	66.4	73.4	44.1	42.3
NET Contributions	53.0	35.8	5.9	2.6
Realized Gain/(Loss)	97.8	34.2	52.0	18.1
Unrealized Gain/(Loss)	32.6	300.6	18.6	156.4
Change in Net Position	183.4	370.6	76.5	177.1
Beginning of Period	3,141.7	2,498.1	1,607.8	1,305.1
End of Period	\$3,325.1	\$2,868.7	\$1,684.3	\$1,482.2

Pension Fund Contribution Report
 For the period ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Millions)

 	Kentucky Employees Retirement System				State Police Retirement System	
	Non-Hazardous		Hazardous			
	FY22	FY21	FY22	FY21	FY22	FY21
Member Contributions	\$45.0	\$44.2	\$10.1	\$10.2	\$2.4	\$2.4
Employer Contributions	518.9	478.9	30.2	31.3	30.5	29.5
Net Investment Income	23.5	21.2	7.4	6.3	2.8	2.7
Total Inflows	587.4	544.3	47.7	47.8	35.7	34.6
Benefit Payments/ Refund	518.2	508.8	40.8	38.8	32.1	31.7
Administrative Expenses	6.0	5.5	0.6	0.6	0.1	0.1
Total Outflows	524.2	514.3	41.4	39.4	32.2	31.8
NET Contributions	63.2	30.0	6.3	8.4	3.5	2.8
Realized Gain/(Loss)	74.4	31.0	27.6	9.8	9.1	3.6
Unrealized Gain/(Loss)	6.7	243.1	3.7	83.5	0.7	29.4
Change in Net Position	144.3	304.1	37.6	101.7	13.3	35.8
Beginning of Period	3,085.0	2,362.2	874.9	697.4	357.7	295.0
End of Period	\$3,229.3	\$2,666.3	\$912.5	\$799.1	\$371.0	\$330.8

Insurance Fund Contribution Report
 For the period ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Millions)

 	Kentucky Employees Retirement System				State Police Retirement System	
	Non-Hazardous		Hazardous			
	FY22	FY21	FY22	FY21	FY22	FY21
Employer Contributions	\$67.8	\$77.1	\$0.0	\$0.0	\$4.4	\$4.7
Insurance Premiums	7.4	17.3	0.6	1.3	0.3	0.8
Retired Reemployed Healthcare	2.5	2.2	0.6	0.6	0.0	0.0
Health Insurance Contributions	3.2	3.2	0.6	0.6	0.1	0.1
Net Investment Income	9.5	8.9	4.4	3.9	1.6	1.4
Total Inflows	90.4	108.7	6.2	6.4	6.4	7.0
Healthcare Premiums	58.3	64.2	10.3	10.1	7.2	7.4
Administrative Expenses	0.4	0.4	0.1	0.1	0.0	0.0
Total Outflows	58.7	64.6	10.4	10.2	7.2	7.4
NET Contributions	31.7	44.1	(4.2)	(3.8)	(0.8)	(0.4)
Realized Gain/(Loss)	30.6	13.2	18.9	6.7	8.0	2.7
Unrealized Gain/(Loss)	15.1	127.5	7.6	61.6	2.8	24.5
Change in Net Position	77.4	184.8	22.3	64.5	10.0	26.8
Beginning of Period	1,353.1	1,006.5	624.9	514.7	246.0	200.2
End of Period	\$1,430.5	\$1,191.3	\$647.2	\$579.2	\$256.0	\$227.0



KENTUCKY PUBLIC PENSIONS AUTHORITY

Outstanding Invoices by Type and Employer

Invoice Type	12/31/2021	9/30/2021	Change H/(L)
Averaging Refund to Employer	\$(404,226)	\$(431,762)	-6%
Employer Free Military and Decompression Service	241,111	280,778	-14%
Member Pension Spiking Refund	(28,852)	(28,486)	1%
Monthly Reporting Invoice	448,761	(50,017)	-997%
Penalty – Monthly Reporting	263,726	249,807	6%
Reinstatement	173,602	275,235	-37%
Actuarially Accrued Liability Contribution	\$785,053	\$428,570	83%
Total	\$1,479,175	\$724,125	
Health Insurance Reimbursement	1,425,649	1,484,849	-4%
Omitted Employer	1,666,624	1,658,929	0%
Employer Pension Spiking*	1,370,393	1,371,944	0%
Standard Sick Leave	8,427,680	8,578,095	-2%
Total	\$12,890,346	\$13,093,817	-2%
Grand Total	\$14,369,521	\$13,817,942	4%

Employer Name (Top Ten)	12/31/2021	9/30/2021	Change H/(L)
Kentucky State Police	\$7,719,865	\$7,398,671	4%
Kentucky River Regional Jail	979,925	979,925	0%
Kentucky River Community Care	724,328	361,582	100%
City of Covington	378,930	375,368	1%
Department for Community Based Services	336,126	370,767	-9%
Kenton County Airport Board	330,008	329,030	0%
City of Fort Thomas	228,635	224,422	2%
TARC - Transit Authority River City	213,106	209,713	2%
Henry County Fiscal Court	206,389	206,088	0%
Livingston County Fiscal Court	\$161,058	\$143	112528%

	Total Unpaid Balance	Number of Invoices
CERS	\$2,475,968	1,976
CERH	\$1,554,454	303
KERS	\$3,162,305	1,029
KERH	\$806,471	245
SPRS	\$6,364,310	139
Grand Total:	\$14,363,508	3,692

	Total Unpaid Balance	Number of Invoices
CERS/CERH	\$4,030,422	2,279
KERS/KERH	\$3,968,776	1,274
SPRS	\$6,364,310	139
Grand Total:	\$14,363,508	3,692

KENTUCKY PUBLIC PENSIONS AUTHORITY
Penalty Waivers Report
From: 10/1/2021 To: 12/31/2021
Note: Delinquent Interest amounts are included in the totals for the invoice

Invoice Amount	Invoice Remaining Balance	Delinquent Interest	Invoice Status Date	Invoice Due Date	Invoice Status	Employer Classification	Plan	Comments
\$1,000	\$-	\$-	11/18/2021	7/17/2014	CANC	Master Commissioner	KERS	Agency inactive - no master commissioner
1,000	-	-	10/21/2021	8/25/2021	CANC	Libraries	CERS	New Employer Reporting Official
1,000	-	-	10/26/2021	10/22/2021	CANC	Cities	CERS	New Employer Reporting Official
1,000	-	-	10/4/2021	10/30/2021	CANC	Cities	CERS	New Employer Reporting Official
1,000	-	-	10/4/2021	10/31/2021	CANC	Cities	CERS	New Employer Reporting Official
1,000	-	-	11/12/2021	11/26/2021	CANC	Conservation Districts	CERS	New Employer Reporting Official
1,000	-	-	11/12/2021	12/9/2021	CANC	Conservation Districts	CERS	New Employer Reporting Official
1,000	-	-	12/6/2021	12/17/2021	CANC	Parks and Recreation	CERS	Agency in good standing with KPPA
1,000	-	-	12/10/2021	1/2/2022	CANC	Airport Boards	CERS	New Employer Reporting Official
Total	\$9,000							
\$1,000	\$1,000	\$-	10/5/2021	11/4/2021	CRTD	Libraries	CERS	
1,000	1,000	-	10/8/2021	11/7/2021	CRTD	Fiscal Courts	CERS	
1,000	1,000	-	10/8/2021	11/7/2021	CRTD	Cities	CERS	
1,000	1,000	-	10/8/2021	11/7/2021	CRTD	Cities	CERS	
1,000	1,000	-	10/12/2021	11/11/2021	CRTD	Utility Boards	CERS	
1,000	1,000	-	10/15/2021	11/14/2021	CRTD	Non-P1 State Agencies	KERS	
1,000	1,000	-	10/18/2021	11/17/2021	CRTD	Boards of Education	CERS	
1,000	1,000	-	10/21/2021	11/20/2021	CRTD	County Attorneys	KERS	
1,000	1,000	-	10/26/2021	11/25/2021	CRTD	Non-P1 State Agencies	KERS	
1,000	1,000	-	11/2/2021	12/2/2021	CRTD	Other Retirement Systems	KERS	
1,000	1,000	-	11/4/2021	12/4/2021	CRTD	Conservation Districts	CERS	
1,000	1,000	-	11/15/2021	12/15/2021	CRTD	Conservation Districts	CERS	
1,000	1,000	-	11/15/2021	12/15/2021	CRTD	Conservation Districts	CERS	
1,000	1,000	-	11/17/2021	12/17/2021	CRTD	Libraries	CERS	
1,000	1,000	-	11/18/2021	12/18/2021	CRTD	Conservation Districts	CERS	
1,000	1,000	-	12/3/2021	1/2/2022	CRTD	County Attorneys	CERS	
1,000	1,000	-	12/3/2021	1/2/2022	CRTD	County Attorneys	CERS	

Joint Audit Committee Meeting - Financial Reporting Updates

Invoice Amount	Invoice Remaining Balance	Delinquent Interest	Invoice Status Date	Invoice Due Date	Invoice Status	Employer Classification	Plan	Comments
1,000	1,000	-	12/3/2021	1/2/2022	CRTD	County Attorneys	CERS	
1,000	1,000	-	12/3/2021	1/2/2022	CRTD	County Attorneys	CERS	
1,000	1,000	-	12/3/2021	1/2/2022	CRTD	County Attorneys	CERS	
1,000	1,000	-	12/8/2021	1/7/2022	CRTD	County Attorneys	KERS	
1,000	1,000	-	12/9/2021	1/8/2022	CRTD	Conservation Districts	CERS	
1,000	1,000	-	12/10/2021	1/9/2022	CRTD	Utility Boards	CERS	
1,000	1,000	-	12/16/2021	1/15/2022	CRTD	Utility Boards	CERS	
2,280	2,280	-	12/22/2021	1/21/2022	CRTD	Boards of Education	CERS	
1,000	1,000	-	12/28/2021	1/27/2022	CRTD	County Attorneys	CERS/KERS	
Total	\$27,280							
\$1,000	\$-	\$-	10/27/2021	10/8/2016	PAID	Libraries	CERS	
1,000	-	-	11/5/2021	2/22/2018	PAID	Housing Authorities	CERS	
1,000	-	-	10/21/2021	3/7/2018	PAID	Fiscal Courts	CERS	
1,000	-	-	10/21/2021	5/30/2018	PAID	Fiscal Courts	CERS	
1,000	-	-	10/21/2021	5/30/2018	PAID	Fiscal Courts	CERS	
1,000	-	-	10/7/2021	2/1/2020	PAID	Housing Authorities	CERS	
1,000	-	-	10/4/2021	1/3/2021	PAID	Libraries	CERS	
1,000	-	-	12/29/2021	4/15/2021	PAID	Cities	CERS	
1,000	-	-	12/29/2021	4/15/2021	PAID	Cities	CERS	
1,000	-	-	12/29/2021	4/15/2021	PAID	Cities	CERS	
1,360	-	-	11/11/2021	10/23/2021	PAID	Cities	CERS	
1,000	-	-	10/18/2021	10/24/2021	PAID	Community Action Agencies	CERS	
1,000	-	-	10/5/2021	11/3/2021	PAID	Fiscal Courts	CERS	
1,000	-	-	10/26/2021	11/10/2021	PAID	Cities	CERS	
1,000	-	-	10/20/2021	11/18/2021	PAID	Fiscal Courts	CERS	
1,000	-	-	11/2/2021	11/21/2021	PAID	Fiscal Courts	CERS	
1,000	-	-	11/2/2021	11/25/2021	PAID	Cities	CERS	
1,000	-	-	12/15/2021	12/11/2021	PAID	Cities	CERS	
1,000	-	-	12/1/2021	12/12/2021	PAID	Cities	CERS	
1,000	-	-	12/10/2021	12/16/2021	PAID	County Attorneys	KERS	
1,012	-	-	12/8/2021	12/23/2021	PAID	Fiscal Courts	CERS	

	Invoice Amount	Invoice Remaining Balance	Delinquent Interest	Invoice Status Date	Invoice Due Date	Invoice Status	Employer Classification	Plan	Comments
	1,000	-	-	12/28/2021	1/19/2022	PAID	Housing Authorities	KERS	
Total	\$22,372								

Notes:

Invoice Status:

CANC - Cancelled CRTD - Created PAID - Paid

Management's Discussion & Analysis (Unaudited)

Historical Trends

Accounting standards require that the Combining Statement of Fiduciary Net Position state asset value at fair value and include only benefits and refunds due plan members and beneficiaries; accrued investment income (loss); and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the Pension and Insurance Funds is provided in the Schedules of Net Pension Liability (NPL) on page 88-90 and Net OPEB Liability on pages 103-104. The asset values stated in the Schedules of Changes in Employers' Total Pension Liability (TPL) on pages 91-97 and Total OPEB Liability on pages 105-110 are the actuarial value of assets. The actuarial value of assets recognizes a portion of the difference between the fair value of assets and the expected fair value of assets based on the investment return assumption. The amount recognized each year is 20% of the difference between fair value and expected fair value. The actuarial accrued liability is calculated using the entry age normal cost funding method. This actuarial accrued liability is the measure of the cost of benefits that have been earned to date by **CERS, KERS and SPRS' members**, but not yet paid. The difference in value between the actuarial accrued liability and the actuarial value of assets is defined as the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability from the June 30, 2021, actuarial valuation in the Pension Plans decreased by \$722.4 million for a total unfunded amount of \$25,008.1 million in fiscal year 2021, compared to an unfunded amount of \$25,730.6 million in fiscal year 2020. The overall funding decrease is the result of maintaining a sound funding policy and paying the actuarially determined contribution rate for the KERS and SPRS plans. However, both CERS plans experienced a slight increase as a result of the phase in provisions from House Bill 362 passed during the 2018 legislative session.

The Insurance Plan's unfunded actuarial accrued liability from the June 30, 2021, actuarial valuation for fiscal year 2021, was \$1,960.0 million compared to \$2,536.4 million for fiscal year 2020. This is a decrease in the unfunded actuarial accrued liability of \$576.4 million. The decrease is due to the accrued liability being lower than expected due to the 2021 healthcare premium experience. Please see the charts on the following page for the unfunded actuarial accrued liability.

Annual required actuarially determined contributions of the employers and actual contributions made by employers and other contributing entities in relation to the required contributions, are provided in the Schedules of Employer Contributions - Pension on pages 99-102, and in the Schedules of Contributions - OPEB on pages 112-115. The difference in the annual required contributions and actual contributions made by employers and other contributing entities in the KERS and SPRS funds is attributable to the fact that the employer contribution rate set by the Kentucky General Assembly was less than the rate recommended by the KPPA actuary in prior years and adopted by the Board.

Information Requests

This financial report is designed to provide a general overview of the CERS, KERS, SPRS, and Insurance Fund finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to:

ATTN: Director of Accounting
Kentucky Public Pensions Authority
1260 Louisville Road
Frankfort, KY. 40601
(502) 696-8800

Management's Responsibility for Financial Reporting

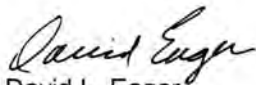
Management has prepared the combining financial statements of Kentucky Public Pensions Authority (KPPA) and is responsible for the integrity and fairness of the information presented.

December 8, 2021: Management has prepared the combining financial statements of KPPA and is responsible for the integrity and fairness of the information presented. Some amounts included in the combining financial statements may be based upon estimates and judgements. These estimates and judgements were made utilizing the best business practices available. The accounting policies followed in the preparation of these combining financial statements conform to U.S. Generally Accepted Accounting Principles (GAAP). Financial information presented throughout the annual report is consistent with the combining financial statements.

Responsibility: Ultimate responsibility for the combining financial statements and Annual Comprehensive Financial Report (ACFR) rests with the Board (Board). The Executive Director and KPPA staff assist the Board in its responsibilities.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained. These controls include standards in hiring and training employees, the establishment of an organizational structure, and the communications of policies and guidelines throughout the organization. The cost of a control should not exceed the benefits to be derived; the objective is to provide reasonable, rather than absolute, assurance that the combining financial statements are free of any material misstatements. These internal controls are reviewed by internal audit programs. All internal audit reports are submitted to the Joint Audit Committee and CERS and KRS Boards.

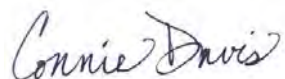
KPPA's external auditors, Blue and Company, LLC, have conducted an independent audit of the combining financial statements in accordance with U.S. Generally Accepted Government Auditing Standards. This audit is described in their Independent Auditors' Report on pages 16 through 18 in the Financial Section. Management has provided the external auditors with full and unrestricted access to KPPA's staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of combining financial statements.



David L. Eager
Executive Director



Rebecca H. Adkins
Executive Director, Office of Operations



Connie Davis, CIA, CGAP, CRMA
Director of Accounting

Schedule of Unfunded Actuarial Accrued Liability CERS

As of June 30 (\$ in Millions)

Item	CERS Non-Hazardous				CERS Hazardous			
	Pension		Insurance		Pension		Insurance	
	2020	2021	2020	2021	2020	2021	2020	2021
Actuarial Accrued Liability (AAL)	\$14,611	\$14,895	\$3,392	\$3,450	\$5,431	\$5,629	\$1,741	\$1,751
Actuarial Value of Assets	7,221	7,716	2,661	2,947	2,448	2,629	1,362	1,476
Unfunded AAL	\$7,390	\$7,179	\$731	\$503	\$2,983	\$3,000	\$379	\$275
Funded Ratio	49.42%	51.80%	78.46%	85.42%	45.07%	46.69%	78.23%	84.26%

Schedule of Unfunded Actuarial Accrued Liability KRS

As of June 30 (\$ in Millions)

Item	KERS Non-Hazardous				KERS Hazardous				SPRS			
	Pension		Insurance		Pension		Insurance		Pension		Insurance	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Actuarial Accrued Liability (AAL)	\$16,349	\$16,321	\$2,565	\$2,574	\$1,284	\$1,295	\$428	\$424	\$1,053	\$1,053	\$276	\$272
Actuarial Value of Assets	2,323	2,736	1,096	1,291	710	782	539	575	296	323	207	223
Unfunded AAL	\$14,026	\$13,585	\$1,469	\$1,283	\$574	\$513	\$(111)	\$(151)	\$757	\$730	\$69	\$49
Funded Ratio	14.21%	16.76%	42.73%	50.17%	55.27%	60.41%	126.00%	135.47%	28.12%	30.69%	74.97%	81.96%

NOTE A. Summary of Significant Accounting Policies

Kentucky Retirement Systems (KRS) is now responsible for the administration of the Kentucky Employees Retirement system (KERS) and the State Police Retirement System (SPRS). HB 484 also created a separate governing board in KRS 78.782, County Employees Retirement System (CERS), to administer the statewide cost-sharing plan for local government employers. KPPA is responsible for administering the single personnel system for the pension plans, a system of accounting, day-to-day administrative needs of CERS and KRS, selecting consulting and service contractors to provide administrative services including an external auditor. KPPA is also responsible for promulgating administrative regulations as an authority or on behalf of KRS and CERS, individually or collectively. It is additionally tasked with administering and operating any jointly held assets for KRS and CERS including, but not limited to real estate, office space, equipment, and supplies. KPPA staff manages assets in accordance with investment policies developed by the CERS and KRS Investment Committees and approved by the Boards. KPPA staff recommends to the Boards the hiring, retention and termination of investment managers. Each Board is responsible for selection of investment services for the management and custody of the assets while KPPA is responsible for the remaining investment services.

This summary of KPPA's significant accounting policies is presented to assist in understanding the combining financial statements for CERS and KRS. The combining financial statements and notes are representations of KPPA's management, which is responsible for their integrity and objectivity. These accounting policies conform to Generally Accepted Accounting Principles (GAAP) and have been consistently applied in the preparation of the combining financial statements.

Basis of Accounting

KPPA's combining financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred. The net position represents the funds of CERS, KERS, SPRS and the Kentucky Retirement Insurance Trust Fund (Insurance Fund) that have accumulated thus far to pay pension benefits for retirees, active and inactive members, and health care premiums for current and future employees.

Method Used to Value Investments

Investments are reported at fair value. Fair value is the price that would be received upon selling an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. See Investments Note D for further discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes gains and losses on investments bought and sold as well as held during the fiscal year. Investment returns are recorded in all plans net of investment fees.

Investment Unitization

"Within the plan accounting structure there are two primary types of accounts: Plan Accounts and Pool Accounts. Plan Accounts are the owners of the investment pool. An account is established for each plan/fund and these accounts hold Units of Participation that represent the plan's/fund's invested value of the investment pool. Pool Accounts are accounts that hold the assets of the investment pool where all investment related activity and earnings occur. These accounts are the investment strategies of the pool. Units of Participation are bought and sold as each plan/fund contributes or withdraws cash or assets from the investment pool. The investment pool earnings are then allocated to plans utilizing a cost distribution method that allows for fluctuating prices experienced in capital markets. This involves earnings allocated to the plan accounts with an increase or decrease in cost on the Unit of Participation Holdings of the Plan Accounts. Correspondingly, the price of the Unit of Participation Holdings is updated to reflect change in market value in the investment pool. Earnings are allocated based on the daily weighted average of Master Trust Units held by each plan/fund account during the monthly earnings period. This method is commonly used when plans make multiple contributions or withdrawals from the investment pool throughout the month as it eliminates allocation distortion due to large end of month cash flows."

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Equipment

Equipment is valued at historical cost and depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Improvements, which increase the useful life of the equipment, are capitalized. Maintenance and repairs are charged as an expense when incurred. The capitalization threshold used in fiscal year 2021 was \$3,000 (see Equipment Note J for further information).

Intangible Assets

Intangible assets, currently computer software, are valued at historical cost and amortization is computed utilizing the straight-line method over the estimated useful lives of the assets which is ten years. The capitalization threshold used in fiscal year 2021 was \$3,000 (see Intangible Assets Note K for further information).

Accounts Receivable

Accounts receivable consist of amounts due from employers. KPPA management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. If amounts become uncollectible, they will be charged to operations when that determination is made. If amounts previously written off are collected, they will be credited to income when received.

The Investment Accounts Receivable and Investment Accounts Payable consist of investment management earning and fee accruals, as well as all buys and sells of securities which have not closed as of the reporting date.

Payment of Benefits

Benefits are recorded when paid.

Expense Allocation

KPPA administrative expenses are allocated in proportion to the number of total members participating in each plan and direct investment manager expenses are allocated in proportion to the percentage of investment assets held by each plan.

Component Unit

KPPA is a component unit of the Commonwealth of Kentucky (the Commonwealth) for financial reporting purposes.

CERS was created by the Kentucky General Assembly on July 1, 1958, pursuant to the provisions of Kentucky Revised Statute 78.520, and the separate governing board was created in 2021. KERS was created by the Kentucky General Assembly on July 1, 1956, pursuant to the provisions of Kentucky Revised Statute 61.515. SPRS was created by the Kentucky General Assembly on July 1, 1958, pursuant to the provisions of Kentucky Revised Statute 16.510. The KRS Insurance Trust Fund was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.701. KPPA's administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the Board of CERS without further legislative review. The methods used to determine the employer rates for CERS and KRS (KERS and SPRS) are specified in Kentucky Revised Statutes 78.635 and 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Perimeter Park West, Incorporated (PPW) is governed by a three-member board selected by shareholders. Although it is legally separate from KPPA, PPW is reported as if it were part of KPPA, because its sole ownership is Kentucky

Retirement Systems and therefore through unitization is owned by KERS, CERS, and SPRS. PPW functions as a real estate holding company for the properties owned by the plans administered by KPPA.

Recent Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board (GASB) issued *Statement Number 87 Leases*. The objective of this Statement is to address government lessee's recognition of lease liabilities, intangible assets, and report amortization expense for using the leased asset, interest expense on the lease liability, and note disclosures about the lease. Another objective of this Statement is to address government lessor's recognition of a lease receivable, deferred inflow, and report lease revenue, interest income, and note disclosures about the lease. Due to COVID-19, *Statement Number 87 Leases* was updated to extend the requirement of this standard to take effect for financial statements starting with the fiscal year that ends June 30, 2022. KPPA is evaluating the impact of this Statement to the financial report.

GASB *Statement Number 96 Subscription-Based Information Technology Arrangements (SBITAs)* established standards of accounting and financial reporting for SBITAs by a government end user (a government). The requirements of this Statement apply to financial statements of all state and local governments. The underlying accounting principles for SBITAs are similar to the standards established in *Statement Number 87, Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. KPPA is evaluating the impact of the Statement to the financial report.

Plan Descriptions

Pension Funds

CERS, KERS, and SPRS provide retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. KPPA provides administrative support to CERS, KERS, SPRS, and Kentucky Retirement System Insurance Trust Fund (Insurance Fund). In addition to executive management, the CERS, KERS, SPRS, and Insurance Fund share investment management, accounting, and information system services, the costs of which are allocated to the plans on an equitable basis.

CERS - County Employees Retirement System

CERS is a cost-sharing multiple-employer defined benefit pension plan and was established by KRS 78.520 for the purpose of providing retirement benefits to all regular full-time members employed in positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. The membership of CERS includes employees whose position is considered hazardous with principal job duties including, but are not limited to, active law enforcement, probation and parole officer, detective, pilots, paramedics, and emergency medical technicians, with duties that require frequent exposure to a high degree of danger or period and also require a high degree of physical condition. The responsibility for the general administration and operation of CERS is vested in its Board of Trustees. The CERS Board of Trustees consist of 9 members. Six trustees are appointed by the governor and three are elected by CERS members and retired members. Of the six appointed trustees, three must have investment experience and three must have retirement experience as defined by statute. All appointments by the governor are subject to Senate confirmation.

KERS - Kentucky Employees Retirement System

KERS is a cost-sharing multiple-employer defined benefit pension plan and was established by Kentucky Revised Statute (KRS) 61.515 for the purpose of providing retirement benefits to all regular full-time members employed in positions of any state department, board, or agency directed by Executive Order to participate in KERS. The membership of KERS includes employees whose position is considered hazardous with principal job duties including, but are not limited to, active law enforcement, probation and parole officer, detective, pilots, paramedics, and emergency medical technicians, with duties that require frequent exposure to a high degree of danger or period and also require a high degree of physical condition. The responsibility for the general administration and operation of KERS is vested with the Kentucky Retirement Systems (KRS) Board of Trustees. The KRS Board of Trustees consist of 9 members. Six trustees are appointed by the governor and three are elected by KERS and SPRS members and retired members. Of the six appointed trustees, three must have investment experience and three must have retirement experience as defined by statute. All appointments by the governor are subject to Senate confirmation. Two elected members represent KERS and must be members of or retired from KERS. One elected member represents SPRS and must be a member of or retired from SPRS.

SPRS - State Police Retirement System

SPRS is a single employer defined benefit pension plan and was established by KRS 16.510 for the purpose of providing retirement benefits to all full-time state troopers employed in positions by the Kentucky State Police. The responsibility for the general administration and operation of the SPRS is vested with the KRS Board of Trustees (see KERS - Kentucky Employees Retirement System for KRS Board composition).

Insurance Fund

Kentucky Retirement System Insurance Trust Fund

The Insurance Fund is a cost-sharing multiple-employer defined benefit other postemployment benefits (OPEB) plan and was established by KRS 61.701 for the purpose of providing hospital and medical insurance benefits for eligible members receiving benefits from CERS, KERS, and SPRS (collectly the Insurance Fund). The responsibility for the general administration and operation of the Insurance is vested with the KRS and CERS Boards of Trustees.

Cost of Living Adjustment (COLA)

Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index (CPI) for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. After July 1, 2009, the COLAs were limited to 1.50%. No COLA has been granted since July 1, 2011.

Contributions

Local government participating employers are required to contribute an actuarially determined rate for CERS pension contributions, per the Kentucky Revised Statute Section 78.545(33). The CERS Board of Trustees establishes the employer contribution rate based on Kentucky Revised Statute section 78.454(33) each year following the annual actuarial valuation as of July 1 and prior to July 1 of the succeeding fiscal year for local governments in Kentucky.

The Commonwealth is required to contribute at an actuarially determined rate for KERS and SPRS pensions. Per Kentucky Revised Statute Sections KERS 61.565(3), and SPRS 16.645(18), normal contribution and past service contribution rates shall be determined by the Board on the basis of the last annual valuation preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget for KERS and SPRS.

For the fiscal year ended June 30, 2021, participating employers contributed a percentage of each employee's creditable compensation. The actuarially determined rates set by the Boards for the fiscal year is a percentage of each employee's creditable compensation. Administrative costs of KPPA are financed through employer contributions and investment earnings. See the chart on the following page for the fiscal year employer contribution rates, including the actuarially recommended rates.

Contribution Rate Breakdown by Fund						
As of June 30, 2021						
Fund	Pension		Insurance		Combined Total	
	Employer Contribution Rates	Actuarially Recommended Rates	Employer Contribution Rates	Actuarially Recommended Rates	Employer Contribution Rates	Actuarially Recommended Rates
CERS Non-Hazardous**	19.30%	21.17%	4.76%	5.78%	24.06%	26.95%
CERS Hazardous**	30.06%	33.86%	9.52%	10.47%	39.58%	44.33%
KERS Non-Hazardous *	41.06%	80.98%	8.41%	12.03%	49.47%	93.01%
KERS Non-Hazardous	73.28%	80.98%	11.15%	12.03%	84.43%	93.01%
KERS Hazardous	36.00%	38.71%	0.00%	0.00%	36.00%	38.71%
SPRS	123.79%	136.12%	19.69%	20.85%	143.48%	156.97%

* House Bill 265 passed during the 2018 legislative session reduced the employer contribution rate for fiscal year 2019 (same as fiscal year 2018 rate) for Regional Mental Health/Mental Retardation Boards, Local and District Health Departments, State Universities, Community Colleges and any agency eligible to voluntarily cease participating in the KERS. The July 2019 Special Session HB 1 continued the reduced KERS Non-Hazardous employer contribution rate for fiscal year 2020 (same as fiscal year 2019) for the agencies listed. The legislated reduced rates have been continued for fiscal year 2021 by the passage of House Bill 352 in the 2020 regular session.

**House Bill 362 passed during the 2018 legislative session caps CERS employer contribution rate increases up to 12% per year over the prior fiscal year for the period of July 1, 2018 to June 30, 2028.

Note D. Investments

Kentucky Revised Statute 78.790 and 61.650 grants the responsibility for the investment of plan assets to CERS and KRS, respectively. In addition, 61.645 and 78.782 requires six (6) members of the boards shall have at least ten (10) years of investment experience. The Boards established Investment Committees are specifically charged with the oversight and investment of plan assets. The Investment Committees recognize their duty to invest the funds in accordance with the "Prudent Person Rule" set forth in Kentucky Revised Statute 61.650 and 78.790 and manage those funds consistent with the long-term nature of the trusts. The Investment Committees of each Board must adopt an Investment Policy Statements (IPS) that contain guidelines and restrictions for deposits and investments. A copy of each Board's IPS can be found on the KPPA website. By statute, the boards, through adopted written policies, shall maintain ownership and control over its assets held in its unitized managed custodial account. The IPS contains the specific guidelines for the investment of CERS, KERS, SPRS and Insurance Fund assets. Additionally, the Investment Committees establish specific investment guidelines that are summarized below and are included in the Investment Management Agreement (IMA) for each investment management firm.

Growth

Equity Investments

Investments may be made in common stock; securities convertible into common stock; preferred stock of publicly traded companies on stock markets; asset class relevant Exchange Traded Funds (ETFs); or any other type of security contained in a manager's benchmark. Each individual equity account has a comprehensive set of investment guidelines prepared, which contains a listing of permissible investments, portfolio restrictions, and standards of performance.

Specialty Credit Investments

The Specialty Credit accounts may include, but are not limited to, the following types of securities and investments: non-investment grade U.S. corporate credit including both bonds and bank loans; non-investment grade non-U.S. corporate credit including bonds and bank loans; private debt; municipal bonds; non-U.S. sovereign debt; mortgages, including residential mortgage-backed securities; commercial mortgage backed securities and whole loans; asset-backed securities and emerging market debt (EMD), including both sovereign EMD and corporate EMD; and asset class relevant ETFs.

Private Equity

Subject to the specific approval of the Investment Committees, Private Equity investments may be made to diversify the Private Equity portfolio. The Boards may invest in, but not limited to and without limitation: venture capital and Private Equity investments. The Investment Committees believe Private Equity investments have the potential to generate substantial income, but may have a higher degree of risk. It is important to note that KERS and SPRS have not made any new investments in Private Equity since 2010 and 2016, respectively, due to the lack of resources available to invest in long-term investments as a result of the underfunding of the plans. Investments may be made in real estate mortgages on a direct basis or in the form of mortgage pool instruments.

Liquidity

Core Fixed Income

The Core Fixed Income accounts may include, but are not limited to, the following securities: U.S. government and agency bonds; investment grade U.S. corporate credit; investment grade non-U.S. corporate credit; mortgages, including residential mortgage-backed securities; commercial mortgage-backed securities and whole loans; asset-backed securities; and, asset class relevant ETFs.

Cash Equivalent Securities

The following Short-Term investment vehicles are considered acceptable: publicly traded investment grade corporate bonds; variable rate demand notes; government and agency bonds; mortgages; municipal bonds; Short-Term Investment Funds (STIFs); money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper); and repurchase agreements relating to the above instruments. Instruments may be selected from among those having an investment grade rating at the time of purchase by at least one recognized bond rating service. In cases where the instrument has a split rating, the lower of the two ratings is used.

Fair Value Measurement and Applications (GASB 72)

In accordance with GASB *Statement No. 72, Fair Value Measurement and Application*, KPPA provides this additional disclosure regarding the fair value of its Pension and Insurance investments. KPPA categorizes its fair value measurements within the fair value hierarchy established by GAAP.

KRS defined the Fair Value Hierarchy and Levels as follows:

Level 1

Quoted prices (unadjusted) in an active market for identical assets or liabilities that KPPA has the ability to access at the measurement date (e.g., prices derived from NYSE, NASDAQ, Chicago Board of Trade, and Pink Sheets). Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using quoted prices (unadjusted) in an active market for identical assets or liabilities that KPPA has the ability to access at the measurement date.

Level 2

Inputs (other than quoted prices included within Level 1) that are observable for an asset or liability, either directly or indirectly. These inputs can include matrix pricing, market corroborated pricing and inputs such as yield curves and indices.

Level 3

Unobservable inputs for an asset or liability, which generally results in using the best information available for the valuation of the assets or liabilities being reported.

Net Asset Value (NAV)

The remaining investments not categorized under the fair value hierarchy are shown at net asset value (NAV). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Note G. Contingencies

In the normal course of business, KPPA is involved in litigation concerning the right of participants, or their beneficiaries, to receive benefits. KPPA does not anticipate any material losses for CERS, KERS, SPRS or the Insurance Fund as a result of the contingent liabilities.

Note H. Defined Benefit Pension Plan

KPPA is an agency within the Executive branch of the Commonwealth of Kentucky. All regular full-time employees in non-hazardous positions of any Kentucky State Department, Board, or Agency are directed by Executive Order (EO) to participate in KERS. These employees participate in KERS Non-Hazardous, a cost-sharing, multiple-employer defined pension fund that provides retirement, disability, and death benefits to fund members. Fund benefits are extended to beneficiaries of fund members under certain circumstances. Tier 1 Fund members contributed 5% of creditable compensation for the fiscal year ended June 30, 2021. Tier 2 and Tier 3 Fund members contributed 6% of creditable compensation for the fiscal year ended June 30, 2021.

The chart below includes the covered payroll and contribution amounts for the employees of KPPA:

Payroll and Contributions as of June 30 (\$ in Thousands)	
	2021
Covered Payroll	\$13,892
Required Employer Contributions	11,729
Employer Percentage Contributed	100%

Note I. Income Tax Status

The Internal Revenue Service (IRS) has ruled that plans administered by KPPA qualifies under Section 401(a) of the Internal Revenue Code so is, generally, not subject to tax. The plans are subject to income tax on any unrelated business income (UBI).

Note J. Equipment

Equipment as of June 30, 2021 (\$ in Thousands)	
	2021
Equipment, cost	\$2,885
Less Accumulated Depreciation	(2,885)
Equipment, net	\$0

Target Asset Allocation

The long-term (10-year) expected rates of return were determined by using a building block method in which best estimated ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

Target Asset Allocation - Pension		
As of June 30, 2021		
Allocations apply only to KERS and SPRS in Pension Funds		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
US Equity	16.25%	5.70%
Non-US Equity	16.25%	6.35%
Private Equity	7.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity		
Core Bonds	20.50%	0.00%
Cash	5.00%	(0.60)%
Diversifying Strategies		
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%

Target Asset Allocation - Pension and Insurance		
As of June 30, 2021		
Allocations apply to CERS, CERS-Haz, and KERS-Haz in Pension Funds and all Plans are included in the Insurance Fund		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth		
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity		
Core Bonds	10.00%	0.00%
Cash	1.50%	(0.60)%
Diversifying Strategies		
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%

NOTE: Minor deviations are expected between the actuarial assumed rate of return and the expected rate of return reported in the above charts. The actuarial assumed rates of return are based on a review of economic assumptions completed periodically as warranted but not longer than every 5 years; whereas, the expected rate of return is calculated annually for GASB purposes by taking the current asset allocation and applying the most relevant long term market expectations (September 2020) for each asset class.

Note N. Pension Legislation

2021 Regular Session

The 2021 Regular Session of the Kentucky General Assembly adjourned on Tuesday, March 30, 2021. The following is a list of the most significant bills and resolutions passed this Session that will have an impact on the systems operated by KPPA.

1. Passage of House Bill 8 to Help Ensure Agencies Pay Their Fair Share of Unfunded Liability

House Bill 8 (Rep. J. DuPlessis) changes the current method for calculating employer contributions from a percent of payroll model to a fixed allocation funding method. **This is only a change for KERS nonhazardous employers.** Beginning July 1, 2021, employers pay the normal cost for all employees plus a flat amount which is equal to their assigned percentage of the annual dollar amount that is sufficient to amortize the total unfunded actuarial accrued liability of the system over a closed period. The percentage is based on the liability that was attributable to the agency as of June 30, 2019.

2. CERS Separation **Technical Changes** Bill

House Bill 9 (Rep. R. Webber) is the CERS separation (House Bill 484 - 2020 Regular Session) cleanup bill. Key elements of this bill include the creation of separate statutes for the CERS as provided by intent language included in HB 484 during the 2020 Regular Session. The bill also amends current statutes to allow KRS and CERS to use the existing registration of assets in order to avoid additional expenses. There were no changes to benefits as a result of this bill.

3. KPPA Housekeeping Bill

House Bill 87 (Rep. J. Decker), the KPPA Housekeeping bill, makes notable changes to current benefits procedures to improve efficiencies and provides eligible members with the flexibility to choose options best suited to their personal situation. For example:

A. Beneficiary Changes after Retirement: House Bill 87 makes changes that will allow retired members to change their beneficiary after retirement under certain conditions:

- **Non-Survivorship Payment Options:** Retired members who selected a non-survivorship payment option (Basic, Annuity, Social Security Adjustment without Survivor Rights, or a life with period certain option (10, 15 or 20 years)) may change their beneficiary designation at any time.
- **Marriage or Remarriage:** Within 120 days of the date of marriage or remarriage, a retired member may name his/her new spouse as beneficiary and elect a new survivorship payment option. The survivorship payment option will be recalculated and must be actuarially equivalent to the retirement allowance at the original retirement date. This bill also establishes a window for retired members who married or remarried prior to June 29, 2021, to do the same if the beneficiary change and new survivorship payment option election is filed with KPPA on or before January 1, 2022. Members must provide a marriage certificate and date of birth verification to name their spouse as beneficiary and elect a survivorship payment option.

B. Pension Spiking: When a member retires, KPPA evaluates creditable compensation growth to determine if pension spiking (a 10% increase during the last five years of employment) has occurred. House Bill 87 amends the current statute to provide that the 10% cap on creditable compensation growth will not apply when it results in a benefit change of less than \$25 per month. If there is a benefit change of \$25 or more per month due to pension spiking, the member's creditable compensation will be reduced by the appropriate amount to meet the new \$25 monthly threshold. This change, effective for retirement dates of July 1, 2021, and after, will save money for KPPA through reduced administrative and legal costs associated with pursuing these cases.

C. Nonhazardous Opt-Out: A member employed in a regular full-time hazardous position, who is simultaneously employed in a part-time nonhazardous position with a different employer, now has the option to decline participation under the part-time nonhazardous position within 30 days of initial employment in the nonhazardous position. Once a member declines participation, they are never permitted to participate as long as they are employed with that employer, even if they change from part-time to full-time at a later date.

This change is prospective and only applies to initial employment in a nonhazardous part-time position on or after June 29, 2021. Members who are dually employed currently cannot terminate and be rehired in order to decline participation under their nonhazardous position. In addition, if a member was previously employed in a participating

position and reemploys with that same employer after June 29, 2021, the member will not be eligible to reject participation under the part-time nonhazardous position.

4. State Executive Branch Budget Bill, House Bill 192

Due to the COVID-19 crisis, the legislature only passed a one-year budget during the 2020 Regular Session rather than the customary two-year budget. Therefore, the General Assembly passed **House Bill 192** (Rep. Petrie) during the 2021 Session that will cover fiscal year 2021-2022.

A few important retirement-related items included in the budget bill were Employer Contribution rates, subsidies for Quasi-governmental agencies to cover anticipated increases in retirement costs for fiscal year 2021-22, and money from the state to assist with covering employer contribution rates for County Attorneys and most universities. The bill contained no raises for State employees, and no Cost of Living Adjustments (COLAs) for retirees. The bill does contain language establishing a process and procedures for State employee layoffs, furloughs, and reduced hours in the event that the Commonwealth or any agency determines it necessary.

House Bill 192 also froze the employer contributions for CERS employers. This allowed employers to use the same contribution rates in fiscal year 2022 that were determined for fiscal year 2021.

5. Changes to Total and Permanent Disability Benefits

Senate Bill 169 (Sen. C. McDaniel) increases the disability benefits for members who become “totally and permanently disabled” as a result of an act in the line of duty (hazardous) or a duty-related injury (nonhazardous) to be equal to 75% of the member’s monthly average pay plus 10% of the member’s monthly average pay for each dependent child. The combined benefit payable to both the member and dependent children while the member is alive is not to exceed 100% of the member’s monthly average pay. Health insurance coverage will be available at 100% of the contribution rate for the member, the member’s spouse, and the member’s dependent children. The bill also provides for prospective adjustments in benefits for those eligible retirees who were already determined to be totally and permanently disabled in the line of duty or due to a duty-related injury.

Members experiencing a total and permanent disability due to a duty related injury in a nonhazardous participating position must meet additional requirements to be considered for these benefits.

6. Additional Requirements for the Actuarial Analysis Performed on Retirement-Related Legislation

House Bill 69 (Rep. J. Miller) establishes additional standards and requirements for information a bill’s actuarial analysis must contain, including lengthening the time period to 30 years from 20 years for certain projections/analysis.

An **actuarial analysis** is intended to show the anticipated economic impact of a bill on the retirement system funding status. Kentucky Revised Statute 6.350 requires an actuarial analysis to be performed on any bill that may increase or decrease benefits, the participation in benefits, or change the actuarial liability of any state-administered retirement system.

7. House Bill 261 Provides Legal Protections Against False Pension Benefit Claims

House Bill 261 (Rep. J. Miller) provides a new level of legal protection for KPPA against anyone who knowingly submits false or fraudulent claims to KPPA in order to obtain benefits.

8. State Senate Confirms Gubernatorial Appointments to CERS and KRS Boards

State law requires that gubernatorial appointments to the CERS and KRS Boards receive Senate approval. On March 30, four Senate Resolutions confirming Governor Andy Beshear’s recent appointments to the boards were unanimously adopted by a vote of 38-0:

1. **Senate Resolution 205** (Sponsor D. Givens) confirmed the appointment of **George Carlisle Cheatham II** to the CERS Board of Trustees for a term ending March 31, 2025;
2. **Senate Resolution 206** (Sponsor J. Adams) confirmed the appointment of **William Thomas O’Mara** to the CERS Board of Trustees for a term ending March 31, 2025;
3. **Senate Resolution 207** (Sponsor J. Adams) confirmed the appointment of **James Michael Foster** to the KRS Board of Trustees for a term ending July 1, 2021;
4. **Senate Resolution 209** (Sponsor J. Adams) confirmed the appointment of **Dr. Merl Hackbart** to the CERS Board of Trustees for a term ending March 31, 2025.

The Resolutions only required Senate confirmation and did not need to be adopted in the House.

MEMORANDUM

Date: February 22, 2022

To: Members of the Joint CERS-KRS Audit Committee

From: Connie A. Davis, CIA, CGAP, CRMA,
Director of Accounting

Re: Fiscal Year End June 30, 2021, End of Audit Requirements

KPPA is required to submit its audited financial statements to the Legislative Research Commission (LRC), and the Auditor of Public Accounts (APA). Therefore, in accordance with Kentucky Revised Statute 45.149(2)(a), the Annual Comprehensive Financial Statements (ACFR), including the audited financial statements were electronically sent to LRC and the APA on December 8, 2022. Also, the ACFR was posted on KPPA's website.

No action is required of the Committee.



KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

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



January 24, 2022

Mike Harmon
Auditor of Public Accounts
Commonwealth of Kentucky
209 St. Clair Street
Frankfort, KY 40601-1817

Dear Mr. Harmon:

The Kentucky Public Pensions Authority (KPPA) requires annual audits of the pension and insurance trusts. We also have our auditors do sample census testing for GASB 68 – Accounting and Reporting for Pensions and GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).

Pursuant to KRS 45.149(2), KRS 61.645(2) (d) and KRS 78.782(2) (d), Kentucky Public Pensions Authority on behalf of the County Employees Retirement System Board and the Kentucky Retirement Systems Board requests permission to enter into a contract with a certified public accounting firm to complete these audits for fiscal year 2022. Our current audit firm, Blue & Co., LLC performed these external audit services for fiscal year 2021. Blue & Co., LLC will perform the audit for fiscal year 2022, and 2024, with a break for fiscal year 2023, due to the APA audit required by statute.

We anticipate that the Auditor of Public Accounts (APA) will perform the KPPA audits for the fiscal year ending June 30, 2023, in accordance with Kentucky Revised Statutes, since the last State audit was performed for the fiscal year ended June 30, 2018.

Please acknowledge your written approval that KPPA may proceed with an external audit engagement for fiscal year 2022. Should you have any questions regarding this request, please don't hesitate to contact me.

Sincerely,
/s/Rebecca H Adkins

Rebecca H. Adkins
Deputy Executive Director – KPPA
502-696-8604

h:/APA Letter 2022



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

January 31, 2022

David Eager
Executive Director
Kentucky Public Pensions Authority
1260 Louisville Road
Frankfort, KY 40601

RE: Request for Audit of Kentucky Public Pensions Authority for FYE June 30, 2022

Dear Mr. Eager:

We have received your request for audit of the Kentucky Public Pensions Authority, (KPPA) for the fiscal year June 30, 2022. We are unable to perform the audit at this time. KRS 45.149, therefore, authorizes you to enter into a contract with a certified public accountant (CPA) for the audit. Please be aware that each year you are required to submit a written request to the Auditor of Public Accounts (APA) prior to entering into or renewing a contract with a private certified public accounting (CPA) firm.

As primary auditor of the Commonwealth of Kentucky's Annual Comprehensive Financial Report (ACFR), the APA is responsible for determining that KPPA, which is part of the Commonwealth's reporting entity, is properly reported in the ACFR. To accomplish this, we need certain audit procedures to be performed by the auditors of Kentucky Public Pensions Authority's annual financial statements.

We request you communicate the following information to your CPA firm for the fiscal year ending June 30, 2022:

New Effective Accounting Standards

As part of the Commonwealth's reporting entity, please be advised that the financial statements must be prepared in accordance with generally accepted accounting principles. Please be aware that the following new governmental accounting standards are in effect for FY 2022:

- GASB Statement No. 87, Leases
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period

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AN EQUAL OPPORTUNITY EMPLOYER M/F/D



David Eager
Executive Director
Kentucky Public Pensions Authority
January 31, 2022
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- GASB Statement No. 92, Omnibus 2020
- GASB Statement No. 93, Replacement of Interbank Offered Rates – paragraphs 13 and 14.
- GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32
- GASB Statement No. 98, The Annual Comprehensive Financial Report

Required Contract Provisions

The following provisions are required for audits performed in connection with the ACFR:

- 1) The scope of the audit shall be a financial statement audit of KPPA to be performed in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. This audit should include a determination as to whether KPPA’s federal expenditures have met the Single Audit threshold established by the Single Audit Act and the provisions of 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards*, and the performance of a single audit in accordance with these standards, if required.
- 2) To facilitate the compilation of the Commonwealth’s ACFR:
 - All statements of cash flows should be prepared in the direct method format;
 - All infrastructure should be recorded on the modified approach; and
 - Component auditors must provide the APA, as the group auditor of the Commonwealth’s ACFR, information it has deemed necessary to meet relevant auditing standards for group audits. This includes information contained below in the section entitled “Required Auditor Correspondence with the APA”, as well as subsequent requests made directly from the APA to the component auditor.
- 3) The scope shall also include updated subsequent events procedures for the period from the date of your auditor’s report on KPPA’s financial statements until **December 13, 2022** for consideration of any additional disclosures warranted for the ACFR. Your auditor shall detail the application of subsequent events audit procedures and report the results of those procedures in a letter that shall be issued to the APA no later than **close of business, December 13, 2022**.

David Eager
Executive Director
Kentucky Public Pensions Authority
January 31, 2022
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Required Auditor Correspondence with the APA

The APA is required to be in direct communication with KPPA's auditor as required for the group audit of the ACFR. The following correspondence will be necessary:

- 4) The Finance and Administration Cabinet (FAC) intends to issue the Commonwealth's Comprehensive Annual Financial Report by **December 15, 2022**. If this does not occur, it may be necessary for your auditor to extend the subsequent events procedures through a later date. The APA will contact you or your auditor if this extension of procedures becomes necessary. The audit contract should provide for this contingency and address whether and how your auditor will be compensated for this additional work.
- 5) Your auditor shall notify our office whenever matters, which may have a significant impact on the Commonwealth's financial statements, come to his/her attention. Your auditor shall be available to the APA to address questions about KPPA's financial statements.
- 6) Please provide the following items, in either hard copy or electronic format, to the APA no later than the date specified below: (APA contact information is presented below):
 - a. Correspondence from your CPA firm identifying that the APA will be able to be involved in the work of the Kentucky Public Pensions Authority CPA and whether the APA (as the group engagement team) will be able to obtain information affecting the consolidation process;
Provide by: July 15, 2022
 - b. An auditor representation letter stating the auditor is in compliance with generally accepted auditing standards and *Government Auditing Standards* concerning continuing education requirements, independence, maintaining an internal quality control system and other peer review requirements. The representation letter should include the following language relating to independence:

In all matters relating to the audit of the Kentucky Public Pensions Authority as of and for the year ended June 30, 2022, our audit organization and our individual auditors, whether government or public, were independent both in mind and appearance.
Provide by: July 15, 2022
 - c. A copy of the CPA firm's most recent peer review, including any letter of comment, if applicable;
Provide by: July 15, 2022
 - d. Audited financial statements and an opinion on them;
Provide by: October 7, 2022

David Eager
Executive Director
Kentucky Public Pensions Authority
January 31, 2022
Page 4

- e. A report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*;
Provide by: October 7, 2022
- f. A copy of the letter to those charged with governance and/or management letter when applicable.
Provide by: October 7, 2022
- 7) If the reports due **October 7, 2022** are delayed for any reason, notification should be sent to the APA on or before that date with reasons for the delay and the expected timeframe for completion.
- 8) The APA shall be permitted to examine and copy all working papers and audit programs prepared as part of the audit process, if necessary.
- 9) The CPA firm is not required to, although it may do so at the request of the Kentucky Public Pensions Authority, issue a separate report on the Kentucky Public Pensions Authority's closing package submitted to the FAC. ***The CPA is strongly encouraged to perform appropriate procedures to ensure the closing package accurately classifies financial information*** since the closing package is used to reformat the audited financial statements for presentation in the Commonwealth's ACFR. However, the closing package is not required to be presented as supplementary information in the report on the financial statements for FY 2022.
- 10) KPPA is not required to submit its single audit report or the Data Collection Form to the APA for FY 2022. This form is the responsibility of KPPA and is not filed by our office. Please contact your CPA to ensure the timely submission of this form.

When you have selected a CPA firm to perform the audit for the fiscal year ending June 30, 2022, please send notification to the APA of the firm, contact name, address, and telephone number. Please send this notification via e-mail to Justin Ebert at Justin.Ebert@ky.gov or Matthew Rice at Matthew.Rice@ky.gov. Also, reports and other documentation required may either be emailed or mailed to the APA at:

Auditor of Public Accounts
ATTN: Justin Ebert, Manager
Matthew Rice, AIC
209 St. Clair Street
Frankfort, KY 40601-1817

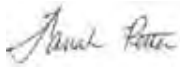
David Eager
Executive Director
Kentucky Public Pensions Authority
January 31, 2022
Page 5

We have enclosed a timetable listing the reporting requirements stated in this letter as well as further correspondence applicable to the group audit engagement. Please note that the Finance and Administration Cabinet, Office of the Controller, has separate submission requests.

KPPA or your auditor should be in contact with the Office of the Controller regarding its specific requirements.

If we can be of further assistance, please contact Jason Johnson, Executive Director, Office of State Government Audits and Technology, or me.

Respectfully Submitted,



Farrah Petter, CPA
Assistant Auditor of Public Accounts

**APA REPORTING REQUIREMENTS
Kentucky Public Pensions Authority
AUDIT FOR THE YEAR ENDING JUNE 30, 2022**

<u>DATE DUE</u>	<u>ITEMS TO BE SUBMITTED TO APA</u>
Upon Selection of Independent CPA by 5/30/2022	Notification to the APA of the CPA firm (contact name, address, and phone number) under contract for audit services for the year ending June 30, 2022.
7/15/2022	CPA firm correspondence confirming that the CPA will cooperate with the APA as necessary in relation to ACFR group audit. Additionally, correspondence shall identify the extent, if any, to which the APA will be able to be involved in the work of the CPA and whether the APA will be able to obtain information affecting the consolidation process from the CPA firm. [Described in item 6a of this letter.]
7/15/2022	Representation letter stating that the CPA firm is in compliance with auditing standards generally accepted in the United States of America and the <i>Government Auditing Standards</i> . [Described in item 6b of this letter.]
7/15/2022	A copy of the CPA firm's most recent peer review, including any letter of comment, if applicable. [Described in item 6c of this letter.]
10/7/2022	Audited financial statements prepared in accordance with generally accepted accounting principles and <i>Government Auditing Standards</i> . Statements should include the Independent Auditor's Report, and the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> . The report should not be restricted to use. [Described in item 6d and 6e of this letter.]
10/7/2022	A copy of any letter to those charged with governance and/or Management Letter when applicable. [Described in item 6f of this letter.]
10/7/2022	Notification to the APA if final reports requiring submittal by 10/7/2022 are delayed. [Described in item 7 of this letter.]
12/13/2022 Close of Business	Provide letter reporting the results of the application of subsequent events audit procedures through <u>12/13/2022</u> . [Described in item 3 of this letter.]



KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

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



MEMORANDUM

TO: Kristen Coffey, Director of Internal Audit Administration

FROM: Jillian Hall, Staff Attorney, Office of Legal Services
 Michael Board, Executive Director, Office of Legal Services

DATE: February 22, 2022

SUBJECT: Potential Information Disclosures/Breaches, 4th Quarter Calendar Year 2021

The following memo outlines the potential information disclosure/breach incidents by the Kentucky Public Pensions Authority (“KPPA”) or an external vendor during the 4th Quarter of Calendar Year 2021 (October through December), and compares them to the 1st Quarter of Calendar Year 2021 (January through March), 2nd Quarter of Calendar Year 2021 (April through June), and 3rd Quarter of Calendar Year 2021 (July through September).

SUMMARY OF POTENTIAL DISCLOSURES/BREACHES IN THE 4th QUARTER OF CALENDAR YEAR 2021

The KPPA investigated or became aware of eight (8) possible information disclosure/breach incidents by the KPPA or its external vendors during the 4th Quarter of Calendar Year 2021. No incidents were a breach that implicated HIPAA/HITECH and no incidents have been determined to be a breach implicating state law. In three (3) incidents, the KPPA determined that these incidents were a data disclosure incident warranting member notification under its internal Data Disclosure Notification Policy. In the remaining five (5) incidents, the KPPA determined that the incident was not a data disclosure incident warranting member notification under its internal Data Disclosure Notification Policy.

Potential Information Disclosures/Breaches - Calendar Year 2021				
	1st Q	2nd Q	3rd Q	4th Q
Number of Potential Disclosures by Type				
Email	1	1	1	5
Postal Mail	4	2	3	0
Fax	0	0	0	0
Other	0	2	3	3
TOTAL	5	5	7	8
Members Affected --- KRS & CERS	5	3	73	8
Members Affected --- External	0	2	65	0

Number of Incidents by Source				
KPPA, KRS, & CERS	3	3	4	4
External Entity (e.g. Bus. Assocs)	2	2	3	2
TOTAL	5	5	7	6

POTENTIAL DISCLOSURES/BREACHES BY THE KPPA IN THE 4th QUARTER OF CALENDAR YEAR 2021

Federal law (HIPAA/HITECH): There were no potential breaches of protected health information by the KPPA during the 4th Quarter of Calendar Year 2021.

State law (KRS 61.931, et seq.): There were no potential “security breaches” of “personal information” as defined by state law by the KPPA during the 4th Quarter of Calendar Year 2021.

Additional information: In one (1) instance, an employer sent unsecure emails to KPPA staff that contained member personally identifying information. This was not a disclosure by KPPA as it was incoming correspondence from an employer providing information already known. The employer was notified and reminded to utilize secure messaging going forward. No other action was taken.

In one (1) instance, outside counsel for a member in the administrative hearing process attempted to file exhibits into an administrative hearing record without using the secure email portal. This was not a disclosure by KPPA as it was incoming correspondence from an individual having a contractual relationship with the member, and was providing information already known. The attorney was notified and reminded to utilize secure messaging going forward. No other action was taken.

In one (1) instance, a KPPA retirement counselor requested a disability letter in an email to KPPA management. The email contained the member’s full name and member ID. The counselor emailed an outside third party. The counselor immediately called the third party who stated they did not view and subsequently deleted the email. KPPA sent an affidavit to the third party to sign stating they did not save or duplicate the information contained in the email in any manner and the member was informed of the event.

In one (1) instance, a KPPA staff attorney electronically filed Notices of Claim in several probate matters, three (3) of which had the incorrect member ID. There were no other identifying pieces of information on these documents. The courts where the filings were submitted were contacted; two were rejected by the courts and subsequently refiled, and the third court redacted the erroneous member ID. No other action was taken.

In one (1) instance, a KPPA retirement counselor emailed an individual outside of KPPA but within State Government regarding a change of address on another member’s account. The individual emailed did not have authorization for the contents in the email. The KPPA counselor attempted to reach the recipient by email but received no answer. KPPA sent an affidavit to the third party to sign stating they did not save or duplicate the information contained in the email in any manner and the member was informed of the event.

In one (1) instance, a KPPA retirement counselor emailed an individual outside of KPPA regarding a death benefit issue on another member's account. The individual emailed did not have authorization for the contents in the email. The KPPA counselor attempted to recall the email. KPPA IT was unable to verify if recall was successful because the email was not sent through Zix Secure Portal. The potential recipient was reached by phone, but had difficulty hearing over the phone. KPPA sent an affidavit to the third party to sign stating they did not save or duplicate the information contained in the email in any manner and the member was informed of the event.

**EXTERNAL DISCLOSURES/BREACHES IN THE 4th QUARTER OF CALENDAR
YEAR 2021**

There were zero (0) external disclosures in the 4th Quarter of Calendar Year 2021.

RECOMMENDATION

This memorandum is provided for informational purposes only.



KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

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



MEMORANDUM

TO: Kristen Coffey, Director of Internal Audit Administration

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

DATE: February 14, 2021

SUBJECT: Anonymous Reports Received

The following chart provides updated information on anonymous tips received by the Kentucky Retirement Systems prior to April 1, 2021 and the Kentucky Public Pensions Authority on and after April 1, 2021.

To summarize the information contained in the chart below, since the Joint Audit Committee of the Board of Trustees of the Kentucky Retirement Systems and the Board of Trustees of the County Employees Retirement System on November 30, 2021, one (1) case has been closed and one case has been opened and closed.

Additionally, the open cases can be summarized as follows:

- One (1) related to possible fraudulent disability payments; and
- One (1) related to a participating employer allegedly improperly requiring employees to change pension plans.

Date Reported	Issue	Current Action	Status
Various	Possible fraudulent disability payments.	Member has been notified that his benefits will be terminated. A hearing is in progress. A second member reported in this complaint is still being investigated.	Hearing in progress
2/10/2020	KERS employees allegedly being forced to switch to either KTRS or an Optional Retirement plan.	Most of the requested information has been received by the KPPA. KPPA Office of Legal Services is requesting information not yet received and working with ERCE to process the information received.	Pending

9/21/2021	Alleged fraudulent overtime worked by three members.	Investigator has determined that allegations cannot be substantiated.	Closed
1/28/2022	Possible fraud related to survivor benefits.	Insufficient information to substantiate allegation.	Open and closed since last meeting

County Employees Retirement System Board of Trustees Election Policy

I. INTRODUCTION

Adoption of Board Election Policy

Pursuant to the provisions of Kentucky Revised Statutes (KRS) 78.782, the Board of Trustees (Board) of the County Employees Retirement System (System) is permitted to adopt procedures necessary to conduct the business of the System as needed. State and federal law shall control if any inconsistency exists between the law and this policy.

Statement of Board Election Policy

The Board is composed of nine Trustees who shall be selected as follows:

1. Three (3) elected from members of the County Employees Retirement System.
 - a. Two (2) elected individuals shall have a majority of service credit earned in a nonhazardous position.
 - b. One (1) elected individual shall have a majority of service credit earned in a hazardous position.
2. Six (6) appointed by the Governor.
 - a. Three (3) Trustees with retirement experience.
 - i. One (1) appointed from a list of three (3) applicants submitted by the Kentucky League of Cities.
 - ii. One (1) appointed from a list of three (3) applicants submitted by the Kentucky Association of Counties.
 - iii. One (1) appointed from a list of three (3) applicants submitted by the Kentucky School Boards Association.
 - b. Three (3) Trustees with investment experience.
 - i. One (1) appointed from a list of three (3) applicants submitted by the Kentucky League of Cities.
 - ii. One (1) appointed from a list of three (3) applicants submitted by the Kentucky Association of Counties.
 - iii. One (1) Trustee appointed from a list of three (3) applicants submitted by the Kentucky School Boards Association.

KRS 78.782 (3) through (6) provides the basic statutory requirements for the election of the elected Trustees of the Board. The Board recognizes the need to establish consistent procedures for the implementation of these statutory provisions requiring the election of certain Trustees.

Purpose

The purpose of this Board Election Policy (Policy) is to establish procedures to implement KRS 78.782 and 105 Kentucky Administrative Regulation 1:445, Electronic ballots in Trustee elections.

II. DEFINITIONS

The following definitions and terms used in this Policy shall be applicable whenever used herein:

1. "Application" means the form adopted by the Board to be used by members seeking to be nominated and placed on the Official Ballot as a candidate. The application can be submitted through the KPPA website using DocuSign. It may also be submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member.
2. "Ballot" or "Official Ballot" means a voting instrument, either electronic or paper, that includes the candidates for election as a Board Trustee and the following information for each of the candidates:
 - a. Name;
 - b. Recent photograph;
 - c. City and county of residence;
 - d. The System's current employing agency and position title or the System's employing agency from which the candidate last worked or retired and the position title of the last position held;
 - e. Education including schools and/or universities attended and degrees earned;
 - ~~f. Whether or not the candidate has been convicted of a felony;~~
 - g. Any professional licenses or certifications held by the candidate; and
 - h. Any organization of which the candidate is a member that is listed on the candidate's application or résumé.

Commented [CK(1)]: This information is on the application, not the ballot.

The ballot shall contain the website address where each candidate's application, cover letter, picture, and résumé shall be available for viewing. Candidates' position on the ballot shall be determined by random lottery, performed and certified by a representative from the Kentucky Public Pensions Authority (KPPA) Division of Internal Audit Administration. Identification information for each eligible voter shall be protected by bar code or other means. The ballot shall include the ability to write-in candidates.

3. "Candidate" means a potential candidate who has been nominated and placed on the Official Ballot by the current Board or by petition from the membership of the System.
4. "Constitutionally eligible individual" means a potential candidate who does not have a conflict of interest on the basis of holding a constitutionally elected or appointed position pursuant to KRS 78.782 and Kentucky Constitution Section 165.
5. "Cover Letter" means a document submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member, which details the member's qualifications for serving as a Trustee to the board.
6. "Eligible voter" means any person who was a member of the System on or before December 31 of the year preceding the election year and who has provided the KPPA at the Frankfort retirement office with a valid email or physical address as set forth in KRS 78.782.

7. "Member" shall mean individuals of the System, whether that individual is active (i.e. currently employed), inactive (i.e. formerly employed, but not retired and has not taken an account refund), or retired.
8. "Petition" means a document submitted by a potential candidate requesting to be nominated and placed on the Official Ballot by the members of the System. A petition shall meet the following standards or, if it fails to meet the following standards, shall be deemed invalid and the requesting individual shall not be a potential candidate qualified for nomination and placement on the Official Ballot as a candidate:
 - a. The petition shall contain the names, the last four digits of Social Security numbers, and signatures of not less than one-tenth of the number of members voting in the last election for the System. Each member may only be counted once on the petition.
 - b. A potential candidate seeking nomination by petition shall submit a fully completed application, cover letter, résumé, picture, and a release for a criminal background check at the same time the petition is submitted to the KPPA at the Frankfort retirement office.
9. "Picture" means a photograph that will be included on the KPPA website and on the Official Ballot. The picture should be in color and at least size 5x7. The picture should be submitted in an electronic format to trustee.election@kyret.ky.gov.
10. "Plurality of votes" means a majority of votes cast in the election on a Valid Ballot.
11. "Potential candidate" means a member who is seeking nomination as a candidate by the current Board or by valid petition from the membership of the System and who meets the following criteria:
 - a. Is a member of the System;
 - b. Has fully completed and submitted an application, cover letter, résumé, picture, and a release for a criminal background check by the required deadline;
 - c. Is a constitutionally eligible individual;
 - d. Is not statutorily prohibited from being a Trustee by virtue of the term limits in KRS 78.782 (3);
 - e. Is not a current or former employee of the System, Kentucky Retirement Systems, or KPPA; and
 - f. Is not in violation of any provision of KRS 11A.020 or 11A.040 by a court of competent jurisdiction or any other statute.
12. "Résumé" means a document submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member, which shall include the member's name, address, phone number, e-mail address, educational background, and professional employment history. Employment history must include dates of employment, job title, employer name and address, and type of business. Résumé may also include any certifications and relevant memberships not included on the application.
13. "Term of Office" means the period of membership on the Board, which shall begin on April 1 of the year elected or appointed and shall end on March 31 four years thereafter.

14. "Valid Ballot" means a current version of the electronic or paper ballot provided to an eligible voter that has been marked to show the voter's choice of at least one (1), but not more than the maximum number of eligible candidates for the number of vacancies being filled.
- a. Electronic ballots shall be cast on or before March 1.
 - b. Paper ballots shall contain the signature of the voter and be postmarked to the System in care of a predetermined post office box number at a United States Post Office on or before March 1.

Any ballot that does not meet these standards shall be deemed an invalid ballot and shall not be counted. In addition, if multiple ballots are submitted by one (1) individual, only the first received ballot will be considered valid and will be counted; all subsequent ballots shall be invalid and will not be counted.

15. "Write-in candidate" means an individual whose full name (first, middle, and last name) was written in the space provided on at least one Valid Ballot. Should a write-in candidate receive a plurality of votes, a representative from the KPPA Division of Internal Audit Administration will ensure the write-in candidate meets all of the following criteria. If the criteria is not met, the write-in candidate will not be allowed to serve as Trustee:
- a. Is a member of the System;
 - b. Is a constitutionally eligible individual;
 - c. Is not statutorily prohibited from being a Trustee by virtue of the term limits in KRS 78.782 (3);
 - d. Is not a current or former employee of the System, Kentucky Retirement Systems, or KPPA; and
 - e. Is not in violation of any provision of KRS 11A.020 or 11A.040 by a court of competent jurisdiction or any other statute.

III. REQUESTS FOR CANDIDATES

1. The KPPA shall notify the membership that applications are being accepted from members who would like to be considered for nomination by the Board as a candidate for the position of Trustee. The notice shall include information, or direct the membership on how to find information, regarding the qualifications necessary for candidacy as well as the due dates for applications and other required documents.
2. A member seeking nomination by the Board must submit a completed application, cover letter, résumé, picture, and a release for a criminal background check to the KPPA by July 31 of the year prior to the expiration of a term of office.
3. If a member requesting nomination by the Board is currently employed or holds any other office, the member's personal information will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
 - a. If the member is not a constitutionally eligible individual, the member shall be notified of his or her ineligibility, and that he or she will not be listed as a potential candidate for nomination by the Board, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were to be declared a winner of the election.

- b. The Board also shall be notified if the member seeking to be listed as a potential candidate for nomination by the Board is determined not to be a constitutionally eligible individual.
4. Any information requested by a potential candidate and approved by designated KPPA staff to be provided to the potential candidate shall be forwarded to all other potential candidates, providing the information does not violate the confidentiality requirements specified in KRS 61.661 or any other binding law.

IV. NOMINATION BY THE BOARD

1. The System's Chief Executive Officer or designee shall provide written notice to the Board of election procedures at the first quarterly meeting in the Board year preceding the expiration of the term of office.
2. The Board shall nominate no more than three (3) candidates for each position to be elected. No more than six (6) candidates can be nominated who have a majority of service in a non-hazardous position and no more than three (3) candidates can be nominated that have a majority of service in a hazardous position. Therefore, the ballot shall contain no more than nine (9) names. This nomination shall take place no less than six (6) months prior to the expiration of the current elected Trustee's term of office. Prior to making the nominations, the current Trustees will be given a list of all potential candidates seeking nomination by the Board.
3. From the list provided, each Trustee may vote for up to three (3) potential candidates, but must vote for at least one (1) potential candidate per open position. Voting will occur in a roll call manner so that each current Trustee verbally confirms his or her nomination(s). Current Trustees may vote for up to a maximum of nine (9) candidates, but must vote for at least three (3) candidates.
4. After voting under Paragraph three (3) of this section is completed, a representative from the KPPA Division of Internal Audit Administration will review the number of votes received by each potential candidate. The potential candidates that receive the highest number of votes will be placed on the Official Ballot. No more than the maximum allowed nominated candidates under Paragraph two (2) of this section will be placed on the Official Ballot.
5. If multiple potential candidates receive the same number of votes under Paragraph three (3) of this section resulting in more than the maximum allowed nominated candidates under Paragraph two (2) of this section, another vote will be taken only of those potential candidates receiving a tying vote for the last spot(s) on the Official Ballot. Trustees will vote for up to one (1) potential candidate per remaining spot to be filled on the Official Ballot. After the additional vote is taken, the potential candidate(s) receiving the highest number of votes will be placed on the Official Ballot. The voting shall continue in this manner until the ties are broken resulting in no more than the maximum number of allowed nominated candidates under Paragraph two (2) of this section.

Commented [BC(2): Nomination by the Board must occur no later than September 30th (6 months prior to the end of the candidate terms). Additionally, Kristen has noted that applications are not due until July 31 according to Section 3 of this policy, so if the nomination occurs prior to July 31st, we would need to change some of the dates earlier in this policy.

6. If voting under Paragraphs three (3) and/or five (5) of this section results in fewer than the maximum number of allowed potential candidates being nominated to the Official Ballot under Paragraph two (2), the Trustees must take one (1) of the following actions by affirmative majority vote:
 - a. Allow only those potential candidates with the highest number of votes under Paragraphs three (3) and/or five (5) to be placed on the Official Ballot, or
 - b. From the original list of potential candidates, vote in accordance with Paragraph five (5) of this section for potential candidates who have not received sufficient votes under Paragraphs three (3) or five (5) to be placed on the ballot until the maximum number of potential candidates under Paragraph two (2) are nominated to be on the Official Ballot.

The KPPA will publish the candidates nominated by the Board on the KPPA website. Deadlines as set out below shall be provided on the website.

V. NOMINATION BY PETITION

1. After the candidates are nominated by the Board, a member may also seek nomination by petition from members of the System. The petition nomination process will be published on the KPPA website.
2. To be nominated as a candidate on the Official Ballot, a member seeking nomination by petition from the membership of the System must submit a petition complying with the requirements as set out in the definitions above and adhere to the following requirements:
 - a. The petition may only contain the name of one (1) potential candidate.
 - b. The petition shall be delivered to the KPPA at the Frankfort retirement office no later than November 30 of the year prior to the expiration of a term of office.
3. Names and last four digits of Social Security numbers on petitions shall be verified by designated KPPA staff and the results shall be certified by a representative from the KPPA Division of Internal Audit Administration. The certification of additional candidates shall become part of the official minutes of the Board.
4. If a member submitting a petition is currently employed or holds any other office, the member's personal information will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
 - a. If the member is not a constitutionally eligible individual, the member shall be notified of his or her ineligibility, and that he or she does not qualify as a potential candidate for nomination by petition, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were to be declared a winner of the election.
 - b. The Board also shall be notified if the member seeking to qualify as a potential candidate for nomination by petition is determined not to be a constitutionally eligible individual.

5. Any information requested by a potential candidate and approved by designated KPPA staff to be provided to the potential candidate shall be forwarded to all other potential candidates, providing the information does not violate the confidentiality requirements specified in KRS 61.661 or any other binding law.

VI. ELECTION BY THE MEMBERSHIP

1. An Official Ballot, complying with the requirements as set out in the definitions above, shall be prepared no later than three (3) months prior to the expiration of the term of office in question.
 - a. Electronic ballots shall include instructions on voting for a candidate, including write-in candidates. The deadline by which electronic votes must be cast shall be included on the electronic ballots.
 - b. Paper ballots shall include instructions for voting for a candidate, including write-in candidates, and for marking and returning the ballots. The postmark deadline for the paper ballots shall be printed on the ballots. Paper ballots shall be addressed to the System in care of a predetermined post office box number at a United States Post Office.
2. The KPPA Executive Director or designee shall initiate a bid for a contracted firm to administer the election (hereafter referred to as the "Election Services Vendor") using the procurement procedures then in place. The bid shall outline vendor security requirements, the technical requirements for both electronic and paper ballots (including paper ballot printing specifications), and the required election timeline.
3. The Election Services Vendor shall obtain the post office box for receipt of paper ballots. Access to this post office box shall be limited to the Election Services Vendor. An agreement shall be made between KPPA and the Election Services Vendor concerning the location of the postal box and the Business Reply Permit Number that shall be used.
4. All eligible voters will be provided with an electronic ballot or mailed a paper ballot on or before January 20.
5. Only one (1) ballot will be provided to an eligible voter. Ballots will be distributed as follows:
 - a. Electronic ballots for the election of Trustees shall be distributed via email addresses on file at KPPA.
 - b. Paper ballots for the election of Trustees shall be distributed via the United States Postal Service to each voter that does not have a valid email address on file at KPPA or to each eligible voter that requests a paper ballot by November 30 of the year prior to the expiration of a term of office.
6. Duplicate ballots will not be produced.
 - a. If an eligible voter fails to receive a ballot (paper or electronic) because of an act or omission of the System or the KPPA and makes the System or the KPPA aware of this before the voting has closed, a representative from the KPPA Division of Internal Audit Administration shall work with the Election Services Vendor to provide a replacement ballot. If the System or the KPPA is made aware of the situation on or before one (1) week prior to the postmark deadline, the eligible

Commented [CK(3): House Bill 297 (2022) allows KPPA to exclude a member address that has been marked as invalid in the KPPA system. If that portion of HB 297 passes, the policy will be updated to say:
Paper ballots for the election of Trustees shall be distributed via the United States Postal Service to each voter that does not have a valid email address on file at KPPA or to each eligible voter that requests a paper ballot by November 30 of the year prior to the expiration of a term of office. Paper ballots shall not be distributed by mail to member addresses reported as invalid to KPPA.

voter may request either a paper or electronic ballot. If the System or the KPPA is made aware of the situation with less than a week before for the postmark deadline, only an electronic ballot will be provided to the eligible voter.

- b. If a paper ballot is returned to the Election Services Vendor, the System, or KPPA with an invalid address, but a corrected address is received from the United States Postal Service on or before one (1) week prior to the postmark deadline, a representative from the KPPA Division of Internal Audit Administration may work with the Election Services Vendor to mail a subsequent paper ballot to the eligible voter at the corrected address.
7. The Election Services Vendor shall count each ballot. In so doing, the Election Services Vendor shall review the validity of the ballot in accordance with the definition above. All votes via valid ballots shall be counted for the candidates marked. During the process of the count, all ballots shall be in the exclusive control of the Election Services Vendor, with proper security to ensure that no one other than the Election Services Vendor has access to the ballots.
 8. Official ballots returned to the System or KPPA will be processed in accordance with 105 KAR 1:445 Sections 4, 6.
 9. After counting all valid ballots, the Election Services Vendor shall certify in writing the results of the election to the Chair of the Board in care of the System's Chief Executive Officer and the KPPA Executive Director on or before March 15 of the year in which a term of office expires.
 10. The two (2) candidates with a majority of service in a non-hazardous duty position and the one (1) candidate with a majority of service in a hazardous position receiving a plurality of the votes shall be designated as the winners. Winning candidates shall begin their term of office as Trustee on April 1 and shall be sworn in at the annual meeting of the Board.
 11. Once ballots have been counted and the election is deemed final, the Election Services Vendor shall destroy all ballots and provide a certificate to that effect to the System's Chief Executive Officer and the KPPA Executive Director.

VII. FILLING A VACANCY

1. Any vacancy that may occur in a Trustee position other an elected Trustee position, except by the expiration of the term, shall be filled in the same manner that provides for the selection of that non-elected Trustee position under KRS 78.782.
2. Any vacancy, which may occur in an elected position, other than by the expiration of the term, shall be filled within ninety (90) days by appointment by a majority vote of the remaining elected Trustees.
 - a. The KPPA shall notify the membership that applications are being accepted from members who would like to be considered for appointed to the position of Trustee.
 - b. A member seeking appointment by the Board must submit a completed application, cover letter, résumé, picture, and release for criminal background

check to the KPPA at the Frankfort retirement office no later than sixty (60) days after the vacancy occurs. The specific due date will be listed in the provided notice.

- c. If the member requesting appointment by the Board is currently employed or holds any other office, the member's personal information will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
 - i. If a member is not a constitutionally eligible individual, the member shall be notified of ineligibility, and that he or she will not be considered for appointment to the vacant position, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were appointed to the position of Trustee.
 - ii. The Board shall also be notified if a member seeking appointment is determined not to be a constitutionally eligible individual.
3. Each current elected Trustee may make one (1) nomination for the vacancy of the elected position, which will allow for a maximum of two nominees.
4. All individuals nominated by the current elected Trustees shall meet the requirements of a potential candidate as defined above.
5. The remaining elected Trustees shall then vote on a nominee to fill the vacancy using the voting procedure set forth above in Nomination by the Board Procedures Paragraphs 3, 4, 5, and 6.
6. Any such vacancies shall only be filled for the expiration of the unexpired term.

VIII. PROCUREMENT OF THE ELECTION SERVICES VENDOR

1. When procuring an Election Services Vendor, the request for proposal (RFP) shall indicate that the selected vendor will sign the KPPA's Business Associate and Confidentiality Agreements as well as provide a summary of security policies and standard security procedures related to ensuring election integrity. The RFP must include specific security details to which the vendor must adhere. The security details should include, but not be limited to, the following topics:
 - a. Technology systems, network, and application software used to process sensitive information.
 - b. Vendor risk and threat management responsibilities.
 - c. Software License Agreements.
 - d. Service Level Agreement and Support.
2. The team that drafts the RFP and evaluates the bid proposals should include KPPA employees from the Divisions of Internal Audit Administration, Communications, and Enterprise and Technology Services. The KPPA Executive Management team and Office of Legal Services employees as well as the System's Chief Executive Officer and General Counsel should be consulted as needed.

IX. ETHICS

Ethics in the election process shall conform to the Executive Branch Code of Ethics as set forth in KRS Chapter 11A.

X. CERTIFICATION

We, the Chair of the County Employees Retirement System Board, the Chief Executive Officer of the County Employees Retirement System, and the Executive Director of KPPA do hereby certify that this Board Election Policy was adopted by the Board on this the 14th day of March, 2022.

Betty Pendergrass, Board Chair
County Employees Retirement System Board of Trustees

Date

Ed Owens III, Chief Executive Officer
County Employees Retirement System

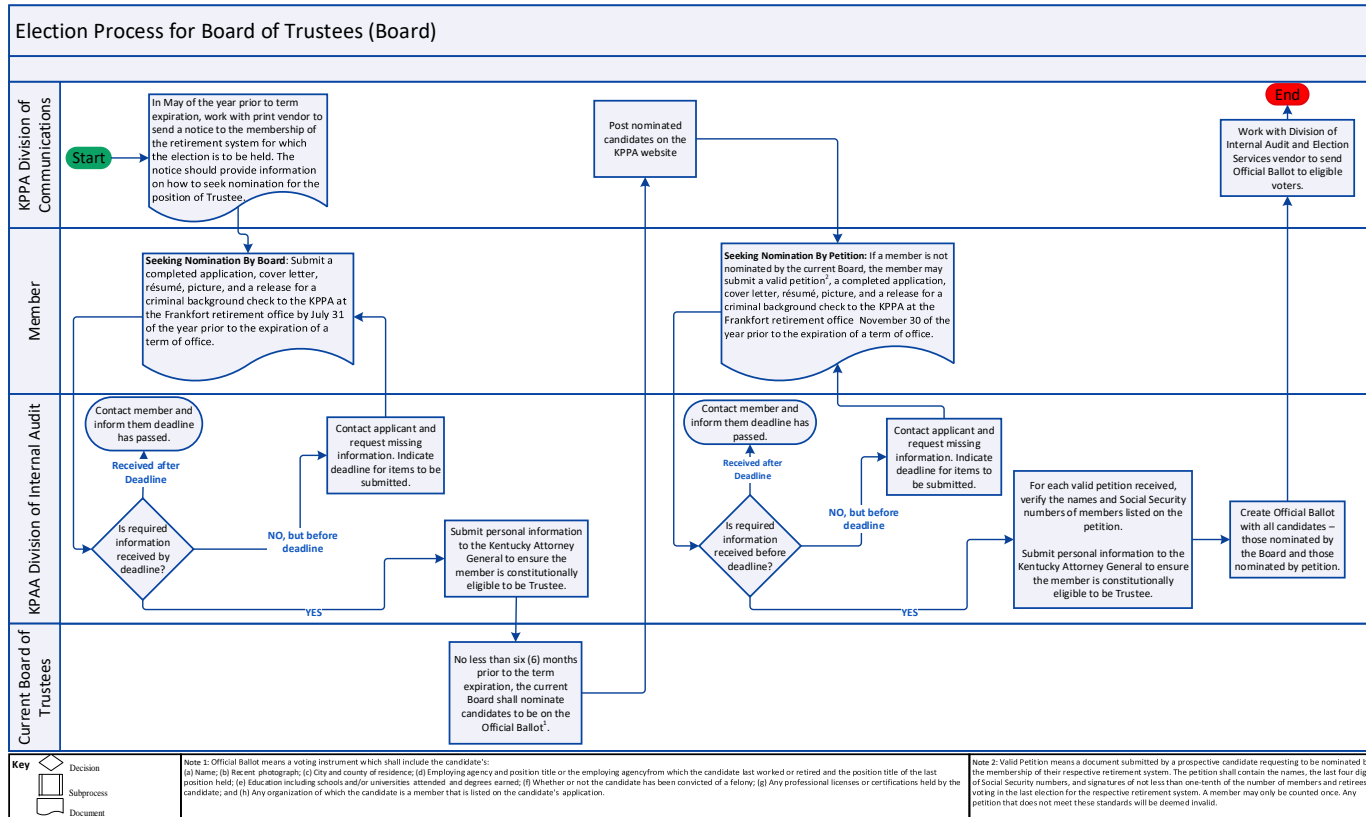
Date

David Eager, Executive Director
Kentucky Public Pensions Authority

Date

History: Approval Date: March 14, 2022
 Amended:

Exhibit A



Kentucky Retirement Systems Board of Trustees Election Policy

I. INTRODUCTION

Adoption of Board Election Policy

Pursuant to the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees (Board) of the Kentucky Retirement Systems (Systems) is permitted to adopt procedures necessary to conduct the business of the Systems as needed. State and federal law shall control if any inconsistency exists between the law and this policy.

Statement of Board Election Policy

The Board is composed of nine Trustees who shall be selected as follows:

1. Two (2) elected from the members of the Kentucky Employees Retirement System (KERS).
2. One (1) elected from the members of the State Police Retirement System (SPRS).
3. Six (6) nominated by the Governor.
 - a. Three (3) Trustees with retirement experience.
 - b. Three (3) Trustees with investment experience.

KRS 61.645 (3) through (6) provides the basic statutory requirements for the election of the Trustees of the Board. The Board recognizes the need to establish consistent procedures for the implementation of these statutory provisions requiring the election of certain Trustees.

Purpose

The purpose of this Board Election Policy (Policy) is to establish procedures to implement KRS 61.645 and 105 Kentucky Administrative Regulation 1:445, Electronic ballots in Trustee elections.

II. DEFINITIONS

The following definitions and terms used in this Policy shall be applicable whenever used herein:

1. "Application" means the form adopted by the Board to be used by members seeking to be nominated and placed on the Official Ballot as a candidate. [The application can be submitted through the KPPA website using DocuSign. It may also be submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member.](#)
2. "Ballot" or "Official Ballot" means a voting instrument, either electronic or paper, that includes the candidates for election as a Board Trustee and the following information for each of the candidates:
 - a. Name;
 - b. Recent photograph;

- c. City and county of residence;
- d. The Systems' current employing agency and position title or the Systems' employing agency from which the candidate last worked or retired and the position title of the last position held;
- e. Education including schools and/or universities attended and degrees earned;
- ~~f. Whether or not the candidate has been convicted of a felony;~~
- ~~g. Any professional licenses or certifications held by the candidate; and~~
- ~~h. Any organization of which the candidate is a member that is listed on the candidate's application or résumé.~~

Commented [CK(1)]: This information is on the application, not the ballot.

The ballot shall contain the website address where each candidate's application, cover letter, picture, and résumé shall be available for viewing. Candidates' position on the ballot shall be determined by random lottery, performed and certified by a representative from the Kentucky Public Pensions Authority (KPPA) Division of Internal Audit Administration. Identification information for each eligible voter shall be protected by bar code or other means. The ballot shall include the ability to write-in candidates.

- 3. "Candidate" means a potential candidate who has been nominated and placed on the Official Ballot by the current Board or by petition from the membership of the retirement system for which the vote is being taken.
- 4. "Constitutionally eligible individual" means a potential candidate who does not have a conflict of interest on the basis of holding a constitutionally elected or appointed position pursuant to KRS 61.645 and Kentucky Constitution Section 165.
- 5. "Cover Letter" means a document submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member, which details the member's qualifications for serving as a Trustee to the board.
- 6. "Eligible voter" means any person who was a member of the retirement system for which the vote is being taken on or before December 31 of the year preceding the election year and who has provided the KPPA at the Frankfort retirement office with a valid email or physical address as set forth in KRS 61.645.
- 7. "Member" shall mean individuals of KERS or SPRS, whether that individual is active (i.e. currently employed), inactive (i.e. formerly employed, but not retired and has not taken an account refund), or retired.
- 8. "Petition" means a document submitted by a potential candidate requesting to be nominated and placed on the Official Ballot by the members of their respective retirement system. A petition shall meet the following standards or, if it fails to meet the following standards, shall be deemed invalid and the requesting individual shall not be a potential candidate qualified for nomination and placement on the Official Ballot as a candidate:
 - a. The petition shall contain the names, the last four digits of Social Security numbers, and signatures of not less than one-tenth of the number of members voting in the last election for the respective retirement system. Each member may only be counted once on the petition.

- b. A potential candidate seeking nomination by petition shall submit a fully completed application, cover letter, résumé, picture, and a release for a criminal background check at the same time the petition is submitted to the KPPA at the Frankfort retirement office.
9. "Picture" means a photograph that will be included on the KPPA website and on the Official Ballot. The picture should be in color and at least size 5x7. The picture should be submitted in an electronic format to trustee.election@kyret.ky.gov.
10. "Plurality of votes" means a majority of votes cast in the election on a Valid Ballot.
11. "Potential candidate" means a member who is seeking nomination as a candidate by the current Board or by valid petition from the membership of the system for which the vote is being taken and who meets the following criteria:
- Is a member of the system for which the vote is being taken;
 - Has fully completed and submitted an application, cover letter, résumé, picture, and a release for a criminal background check by the required deadline;
 - Is a constitutionally eligible individual;
 - Is not statutorily prohibited from being a Trustee by virtue of the term limits in KRS 61.645 (3);
 - Is not a current or former employee of the Systems, County Employees Retirement System, or KPPA; and
 - Is not in violation of any provision of KRS 11A.020 or 11A.040 by a court of competent jurisdiction or any other statute.
12. "Résumé" means a document submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member of the system for which an election is to be held, which shall include the member's name, address, phone number, e-mail address, educational background, and professional employment history. Employment history must include dates of employment, job title, employer name and address, and type of business. Résumé may also include any certifications and relevant memberships not included on the application.
13. "Term of Office" means the period of membership on the Board, which shall begin on April 1 of the year elected or appointed and shall end on March 31 four years thereafter.
14. "Valid Ballot" means a current version of the electronic or paper ballot provided to an eligible voter that has been marked to show the voter's choice of at least one (1), but not more than the maximum number of eligible candidates for the number of vacancies being filled.
- Electronic ballots shall be cast by-on or before March 1.
 - Paper ballots shall contain the signature of the voter and be postmarked to the Systems in care of a predetermined post office box number at a United States Post Office no later than on or before March 1.

Any ballot that does not meet these standards shall be deemed an invalid ballot and shall not be counted. In addition, if multiple ballots are submitted by one (1) individual, only the first received ballot will be considered valid and will be counted; all subsequent ballots shall be invalid and will not be counted.

15. "Write-in candidate" means an individual whose full name (first, middle, and last name) was written in the space provided on at least one Valid Ballot. Should a write-in candidate receive a plurality of votes, a representative from the KPPA Division of Internal Audit Administration will ensure the write-in candidate meets all of the following criteria. If the criteria is not met, the write-in candidate will not be allowed to serve as Trustee:
- a. Is a member of the system for which the vote is being taken;
 - b. Is a constitutionally eligible individual;
 - c. Is not statutorily prohibited from being a Trustee by virtue of the term limits in KRS 61.645 (3);
 - d. Is not a current or former employee of the Systems, County Employees Retirement System, or KPPA; and
 - e. Is not in violation of any provision of KRS 11A.020 or 11A.040 by a court of competent jurisdiction or any other statute.

III. REQUESTS FOR CANDIDATES

1. The KPPA shall notify the membership of the retirement system holding the election that applications are being accepted from members who would like to be considered for nomination by the Board as a candidate for the position of Trustee. The notice shall include information, or direct the membership on how to find information, regarding the qualifications necessary for candidacy as well as the due dates for applications and other required documents.
2. A member seeking nomination by the Board must submit a completed application, cover letter, résumé, picture, and a release for a criminal background check to the KPPA by July 31 of the year prior to the expiration of a term of office.
3. If a member requesting nomination by the Board is currently employed or holds any other office, the member's personal information ~~for each member requesting nomination by the Board~~ will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
 - a. If the member is not a constitutionally eligible individual, the member shall be notified of his or her ineligibility, and that he or she will not be listed as a potential candidate for nomination by the Board, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were to be declared a winner of the election.
 - b. The Board also shall be notified if the member seeking to be listed as a potential candidate for nomination by the Board is determined not to be a constitutionally eligible individual.
4. Any information requested by a potential candidate and approved by designated KPPA staff to be provided to the potential candidate shall be forwarded to all other potential candidates, providing the information does not violate the confidentiality requirements specified in KRS 61.661 or any other binding law.

IV. NOMINATION BY THE BOARD

1. The System's Chief Executive Officer or designee shall provide written notice to the Board of election procedures at the first quarterly meeting in the Board year preceding the expiration of the term of office.
2. The Board shall nominate no more than three (3) candidates for each position to be elected. This nomination shall take place no less than six (6) months prior to the expiration of the current elected Trustee's term of office. Prior to making the nominations, the current Trustees will be given a list of all potential candidates seeking nomination by the Board.
 - a. In the case of KERS, the ballot shall contain no more than six (6) names.
 - b. In the case of SPRS, the ballot shall contain no more than three (3) names.
3. From the list provided, each Trustee may vote for up to three (3) potential candidates, but must vote for at least one (1) potential candidate per open position. Voting will occur in a roll call manner so that each current Trustee verbally confirms his or her nominations. The number of allowable nominations are as follows:
 - a. In the case of KERS, each current Trustee may vote for up to six (6) candidates, but must vote for at least two (2) candidates.
 - b. In the case of SPRS, each current Trustee may vote for up to three (3) candidates, but must vote for at least one (1) candidate.
4. After voting under Paragraph three (3) of this section is completed, a representative from the KPPA Division of Internal Audit Administration will review the number of votes received by each potential candidate. The potential candidates that receive the highest number of votes will be placed on the Official Ballot. No more than the maximum allowed nominated candidates under Paragraph two (2) of this section will be placed on the Official Ballot.
5. If multiple potential candidates receive the same number of votes under Paragraph three (3) of this section resulting in more than the maximum allowed nominated candidates under Paragraph two (2) of this section, another vote will be taken only of those potential candidates receiving a tying vote for the last spot(s) on the Official Ballot. Trustees will vote for up to one (1) potential candidate per remaining spot to be filled on the Official Ballot. After the additional vote is taken, the potential candidate(s) receiving the highest number of votes will be placed on the Official Ballot. The voting shall continue in this manner until the ties are broken resulting in no more than the maximum number of allowed nominated candidates under Paragraph two (2) of this section.
6. If voting under Paragraphs three (3) and/or five (5) of this section results in fewer than the maximum number of allowed potential candidates being nominated to the Official Ballot under Paragraph two (2), the Trustees must take one (1) of the following actions by affirmative majority vote:
 - a. Allow only those potential candidates with the highest number of votes under Paragraphs three (3) and/or five (5) to be placed on the Official Ballot, or

- b. From the original list of potential candidates, vote in accordance with Paragraph five (5) of this section for potential candidates who have not received sufficient votes under Paragraphs three (3) or five (5) to be placed on the ballot until the maximum number of potential candidates under Paragraph two (2) are nominated to be on the Official Ballot.
7. The KPPA will publish the candidates nominated by the Board on the KPPA website. Deadlines as set out below shall be provided on the website.

V. NOMINATION BY PETITION

1. After the candidates are nominated by the Board, a member may also seek nomination by petition from the membership of the retirement system for which the election is to be held. The petition nomination process will be published on the KPPA website.
2. To be nominated as a candidate on the Official Ballot, a member seeking nomination by petition from the membership of the retirement system for which the election is to be held must submit a petition complying with the requirements as set out in the definitions above and adhere to the following requirements:
 - a. The petition may only contain the name of one (1) potential candidate.
 - b. The petition shall be delivered to the KPPA at the Frankfort retirement office no later than November 30 of the year prior to the expiration of a term of office.
3. Names and last four digits of Social Security numbers on petitions shall be verified by designated KPPA staff and the results shall be certified by a representative from the KPPA Division of Internal Audit Administration. The certification of additional candidates shall become part of the official minutes of the Board.
4. If a member submitting a petition is currently employed or holds any other office, the member's personal information for each member submitting a petition will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
 - a. If the member is not a constitutionally eligible individual, the member shall be notified of his or her ineligibility, and that he or she does not qualify as a potential candidate for nomination by petition, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were to be declared a winner of the election.
 - b. The Board also shall be notified if the member seeking to qualify as a potential candidate for nomination by petition is determined not to be a constitutionally eligible individual.
5. Any information requested by a potential candidate and approved by designated KPPA staff to be provided to the potential candidate shall be forwarded to all other potential candidates, providing the information does not violate the confidentiality requirements specified in KRS 61.661 or any other binding law.

VI. ELECTION BY THE MEMBERSHIP

1. An Official Ballot, complying with the requirements as set out in the definitions above, shall be prepared no later than three (3) months prior to the expiration of the term of office in question.
 - a. Electronic ballots shall include instructions on voting for a candidate, including write-in candidates. The deadline by which electronic votes must be cast shall be included on the electronic ballots.
 - b. Paper ballots shall include instructions for voting for a candidate, including write-in candidates, and for marking and returning the ballots. The postmark deadline for the paper ballots shall be printed on the ballots. Paper ballots shall be addressed to the Systems in care of a predetermined post office box number at a United States Post Office.
2. The KPPA Executive Director or designee shall initiate a bid for a contracted firm to administer the election (hereafter referred to as the "Election Services Vendor") using the procurement procedures then in place. The bid shall outline vendor security requirements, the technical requirements for both electronic and paper ballots (including paper ballot printing specifications), and the required election timeline.
3. The Election Services Vendor shall obtain the post office box for receipt of paper ballots. Access to this post office box shall be limited to the Election Services Vendor. An agreement shall be made between KPPA and the Election Services Vendor concerning the location of the postal box and the Business Reply Permit Number that shall be used.
4. All eligible voters will be provided with an electronic ballot or mailed a paper ballot on or before January 20.
5. Only one (1) ballot will be provided to an eligible voter. Ballots will be distributed as follows:
 - a. Electronic ballots for the election of Trustees shall be distributed via email addresses on file at KPPA.
 - b. Paper ballots for the election of Trustees shall be distributed via the United States Postal Service to each voter that does not have a valid email address on file at KPPA or to each eligible voter that requests a paper ballot by November 30 of the year prior to the expiration of a term of office.
6. Duplicate ballots will not be produced.
 - a. If an eligible voter fails to receive a ballot (paper or electronic) because of an act or omission of the Systems or the KPPA and makes the Systems or the KPPA aware of this before the voting has closed, a representative from the KPPA Division of Internal Audit Administration shall work with the Election Services Vendor to provide a replacement ballot. If the Systems or the KPPA is made aware of the situation on or before one (1) week prior to the postmark deadline, the eligible voter may request either a paper or electronic ballot. If the Systems or the KPPA is made aware of the situation with less than a week before for the postmark deadline, only an electronic ballot will be provided to the eligible voter.
 - b. If a paper ballot is returned to the Election Services Vendor, the System, or KPPA with an invalid address, but a corrected address is received from the United

Commented [CK(2)]: House Bill 297 (2022) allows KPPA to exclude a member address that has been marked as invalid in the KPPA system. If that portion of HB 297 passes, the policy will be updated to say:
 Paper ballots for the election of Trustees shall be distributed via the United States Postal Service to each voter that does not have a valid email address on file at KPPA or to each eligible voter that requests a paper ballot by November 30 of the year prior to the expiration of a term of office. Paper ballots shall not be distributed by mail to member addresses reported as invalid to KPPA.

States Postal Service on or before one (1) week prior to the postmark deadline, a representative from the KPPA Division of Internal Audit Administration may work with the Election Services Vendor to mail a subsequent paper ballot to the eligible voter at the corrected address.

7. The Election Services Vendor shall count each ballot. In so doing, the Election Services Vendor shall review the validity of the ballot in accordance with the definition above. All votes via valid ballots shall be counted for the candidates marked. During the process of the count, all ballots shall be in the exclusive control of the Election Services Vendor, with proper security to ensure that no one other than the Election Services Vendor has access to the ballots.
8. Official ballots returned to the Systems or KPPA will be processed in accordance with 105 KAR 1:445 Sections 4, 6.
9. After counting all valid ballots, the Election Services Vendor shall certify in writing the results of the election to the Chair of the Board in care of the Systems' Chief Executive Officer and the KPPA Executive Director on or before March 15 of the year in which a term of office expires.
10. The candidate(s) receiving a plurality of the votes for each Trustee position to be elected shall be designated as the winner. Winning candidates shall begin their term of office as Trustee on April 1 and shall be sworn in at the annual meeting of the Board.
 - a. In the case of KERS, the two (2) persons receiving the largest pluralities of votes shall be the elected Trustees.
 - b. In the case of SPRS, the one (1) person receiving the largest plurality of votes shall be the elected Trustee.
11. Once ballots have been counted and the election is deemed final, the Election Services Vendor shall destroy all ballots and provide a certificate to that effect to the Systems' Chief Executive Officer and the KPPA Executive Director.

VII. FILLING A VACANCY

1. Any vacancy that may occur in a Trustee position other an elected Trustee position, except by the expiration of the term, shall be filled in the same manner that provides for the selection of that non-elected Trustee position under KRS 61.645.
2. Any vacancy, which may occur in an elected position, other than by the expiration of the term, shall be filled within ninety (90) days by appointment by a majority vote of the remaining elected Trustees.
 - a. The KPPA shall notify the membership of the retirement system with the vacancy that applications are being accepted from members who would like to be considered for appointed to the position of Trustee.
 - b. A member seeking appointment by the Board must submit a completed application, cover letter, résumé, picture, and release for criminal background check to the KPPA at the Frankfort retirement office no later than sixty (60) days after the vacancy occurs. The specific due date will be listed in the provided notice.

- c. ~~If the member requesting appointment by the Board is currently employed or holds any other office, the member's~~ Personal information ~~for each member requesting appointment by the Board~~ will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
 - i. If a member is not a constitutionally eligible individual, the member shall be notified of ineligibility, and that he or she will not be considered for appointment to the vacant position, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were appointed to the position of Trustee.
 - ii. The Board shall also be notified if a member seeking appointment is determined not to be a constitutionally eligible individual.
3. Each current elected Trustee may make one (1) nomination for the ~~vacant~~ vacancy of the elected position, which will allow for a maximum of two nominees.
4. All individuals nominated by the current elected Trustees shall meet the requirements of a potential candidate as defined above.
5. The remaining elected Trustees shall then vote on a nominee to fill the vacancy using the voting procedure set forth above in Nomination by the Board Procedures Paragraphs 3, 4, 5, and 6.
6. Any such vacancies shall only be filled for the expiration of the unexpired term.

VIII. PROCUREMENT OF THE ELECTION SERVICES VENDOR

1. When procuring an Election Services Vendor, the request for proposal (RFP) shall indicate that the selected vendor will sign the KPPA's Business Associate Agreement and Confidentiality Agreement as well as provide a summary of security policies and standard security procedures related to ensuring election integrity. The RFP must include specific security details to which the vendor must adhere. The security details should include, but not be limited to, the following topics:
 - a. Technology systems, network, and application software used to process sensitive information.
 - b. Vendor risk and threat management responsibilities.
 - c. Software License Agreements.
 - d. Service Level Agreement and Support.
2. The team that drafts the RFP and evaluates the bid proposals should include KPPA employees from the Divisions of Internal Audit Administration, Communications, and Enterprise and Technology Services. The KPPA Executive Management team and Office of Legal Services employees as well as the Systems' Chief Executive Officer and General Counsel should be consulted as needed.

IX. ETHICS

Ethics in the election process shall conform to the Executive Branch Code of Ethics as set forth in KRS Chapter 11A.

X. CERTIFICATION

We, the Chair of the Kentucky Retirement Systems Board, the Chief Executive Officer of the Kentucky Retirement Systems, and the Executive Director of KPPA do hereby certify that this Board Election Policy was adopted by the Board on this the ~~15th~~^{2nd} day of ~~April~~^{March}, 202~~1~~.

Keith Peercy, Board Chair
Kentucky Retirement Systems Board of Trustees

Date

John Chilton, Chief Executive Officer
Kentucky Retirement Systems

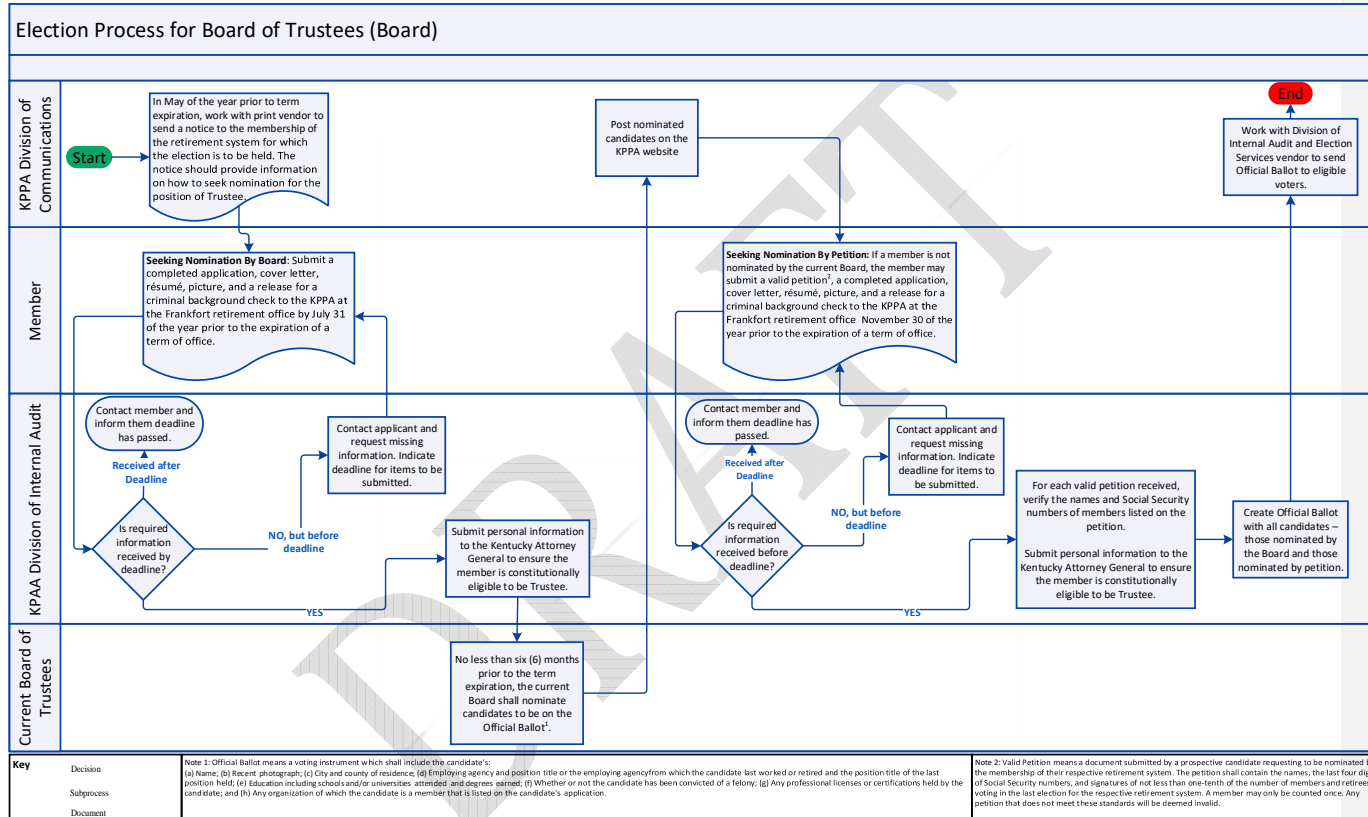
Date

David Eager, Executive Director
Kentucky Public Pensions Authority

Date

History: Approval Date: April 15, 2021
Amended: March 2, 2022

Exhibit A





Kentucky Public Pensions Authority

Internal Audit Administration



To: Members of the Joint Audit Committee

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

Date: February 22, 2022

Subject: Additions to the Internal Audit Plan

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

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

1. Review of all JP Morgan Chase accounts. This would include documenting the accounts' purpose, reviewing the cash flow in and out of the accounts, and assessing how the funds available in the account are handled at year-end.
2. Review of Administrative Expenses, including plan specific expenses. This would look at how the administrative expenses are calculated and allocated to the various plans.
3. Review of the employer contribution process. This would include recalculating the amount of the contribution owed to KPPA and verifying that the amounts received are accurate.
4. Review of the process for balancing received contributions.
5. Review of cash receipt process. This would look at how KPPA handles payments that are received in the office.
6. Review of investment manager and performance fee reconciliations.
7. Review of the investment reconciliation between BNY Mellon and Great Plains.
8. Review of the process for investing direct repo.

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

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



Kentucky Public Pensions Authority

Internal Audit Administration



Kentucky Public Pensions Authority

To: Members of the Joint Audit Committee

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

Date: February 22, 2022

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

Account Number	Account Name	FYE 2022 Budget	FY 2022 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries*	\$ 209,000.00	\$ 106,805.10	\$ 102,194.90	48.90%
121	Employer Paid FICA	15,988.50	7,896.55	8,091.95	50.61%
122	Employer Paid Retirement	175,497.30	89,209.45	86,287.85	49.17%
123	Employer Paid Health Insurance*	41,000.00	19,201.12	21,798.88	53.17%
124	Employer Paid Life Insurance*	48.00	25.00	23.00	47.92%
125	Employer Paid HRA	-	-	-	-
133T	Tuition Assistance	2,500.00	-	2,500.00	100.00%
259T	Conference Expenses	1,500.00	1,700.00	(200.00)	-13.33%
361T	Travel - In State	500.00	-	500.00	100.00%
362T	Travel - Out State	450.00	-	450.00	100.00%
381T	Dues & Subscriptions	5,000.00	50.00	4,950.00	99.00%
399T	Miscellaneous	200.00	-	200.00	100.00%
	Total	\$ 451,683.80	\$ 224,887.22	\$ 226,796.58	50.21%

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

Conference Expenses

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

Dues and Subscriptions

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



Kentucky Public Pensions Authority

Internal Audit Administration



To: Members of the Joint Audit Committee
 From: Kristen N. Coffey, CICA *KNC*
 Division Director, Internal Audit Administration
 Date: February 22, 2022
 Subject: Status of Current Projects

The Division of Internal Audit Administration is currently working on 15 projects: 3 Audit/Review and 12 Other Projects.
 Internal Audit has completed 13 projects for the fiscal year: 4 Audits/Reviews and 9 Other Projects.
 Internal Audit has 16 planned projects that have not yet been assigned to an auditor (5 investment related and 11 operations/benefits related).

For the projects completed during fiscal year 2022:
 - It took an average of 113 days or 16 weeks to complete audit projects.
 - It took an average of 100 days or 14 weeks to complete other projects.

In Process			
Type	Name	Description	Status
Audits/ Reviews	2022-1 Plan Liquidity/ Available Cash Balance - Employer Insurance Process (Phase 2)	Auditor will review the process for making employer insurance payments (part of the Daily Cash Projection process).	This phase is in review with Director.
Audits/ Reviews	2022-1 Plan Liquidity/ Available Cash Balance - Daily Cash Projection Process (Phase 3)	Investment Retirement Specialist and Auditor will review the process for ensuring there is enough cash on hand to meet daily investment activities.	This phase is in Fieldwork.
Audits/ Reviews	Not yet started: Review of House Bill 8 Calculations (AUP)	Deputy Executive Director suggested that Internal Audit review the procedures followed to comply with House Bill 8 calculations. Testing will involve selecting a sample and recalculating the liability amount.	Not yet started
Other Projects	Trustee Application - DocuSign	Director will work with KPPA Division of Enterprise and Technology Services to determine if DocuSign can be used on the Trustee Application. If so, we will work on making this transition.	Goal to Complete: 3/31/2022
Other Projects	KERS 2022 Election	IA staff will work with KRS Election team and Election Services Vendor to oversee the KERS 2022 election.	Six candidates placed on ballot. Currently accepting petitions for members to be added to the ballot.
Other Projects	2022 Audit Committee Charter Updates	Director and Retirement Investment Specialist will update the Audit Charter for fiscal year 2022.	Will work on this as time allows.
Other Projects	2022 Internal Audit Charter Updates	Director and Retirement Investment Specialist will update the Internal Audit Charter for fiscal year 2022. This includes adding the COSO information.	Will work on this as time allows.
Other Projects	SPRS 2023 Election	Retirement Investment Specialist will work with KRS Election team and Election Services Vendor to oversee the SPRS 2023 election.	Not yet started
Other Projects	Risk Assessment	IA staff will work with Executive Management to develop a risk assessment for KPPA	Estimated completion date not yet known.
Other Projects	Annual Audit Plan	IA staff will work with Audit Committee, all Boards, all Executive Management, and KPPA Directors to develop a new audit plan.	Initial discussions took place at the August Audit Committee meeting.
Other Projects	KPPA Inventory	Director and Auditor will work with Assistant Director of Procurement and Office Services on establishing inventory procedures and completing an inventory assessment for KPPA.	Start date unknown
Other Projects	Management Response to Findings	Director will create a project in Gravity to show all findings made to management and the status of the finding.	Goal to Present to Audit Committee: May 2022 Meeting
Other Projects	Process Documentation	Director will ensure all Internal Audit procedures are documented and saved to the KPPA Process Documentation SharePoint site. Twenty-one processes need to be documented.	Completed as of 8/25/2021: 16 processes
Other Projects	Training Videos	Director will record training videos that correspond to the Process Documentation. New auditors will be able to review these upon hire and the videos will be available as a reference to current staff. Ensure all Internal Audit procedures are documented and saved to the KPPA Process Documentation SharePoint site. Eighteen processes need to be documented.	Goal to Complete: 6/30/2022 One video has been recorded as of 2/22/2022.
Other Projects	QAR Self-Assessment	All Internal Audit staff will work to complete Self-Assessment as required by Internal Audit Standards.	There is no estimate for this item. This will be completed as time and staffing allow.

Joint Audit Committee Meeting - Joint Audit Committee Administrative Updates

Completed			
Type	Name	Description	Completed Dates
Audits/ Reviews	2021-3 System Access Review	Reviewed employee access to various IT systems and determine if the access was reasonable. Ensured proper policies were followed.	Completed By: Internal Auditor Final Report Issued: 9/9/2021 Presented to Audit Committee: 11/4/2021
Audits/ Reviews	2021-8 Investment Custodial Fee Payment Process	Reviewed the process for making payments to the Custodial Bank. Ensured payments follow agency process and ensured payments agree to contract with the custodial bank.	Completed By: Retirement Investment Specialist Final Report Issued: 7/29/2021 Presented to Audit Committee: 8/26/2021
Audits/ Reviews	2022-2 Waived Employer Penalties	Reviewed process for waiving employer penalty invoices and ensured the process was documented and being followed.	Completed By: Internal Auditor Final Report Issued: 11/19/2021 Presented to Audit Committee: 11/30/2021
Audits/ Reviews	2022-1 Plan Liquidity/ Available Cash Balance - Daily Qualification Process (Phase 1)	Reviewed the process used to transfer contributions received from the JP Morgan Chase Clearing Account to the custodial bank.	Completed By: Retirement Investment Specialist Final Report Issued: 2/3/2022 Presented to Audit Committee: 2/22/2022
Other Projects	Hiring a New Position	Hiring new Auditor I.	Completed By: IA Team Employee Start Date: 7/16/2021
Other Projects	2021 Internal Audit Charter Updates	Made updates to the Internal Audit Charter to reflect changes effective April 1, 2021.	IA Charter Approved: 9/15/2021
Other Projects	Review of IT Governance Policies	Reviewed IT Governance policies and provide feedback as needed.	Completed By: Director Policies Approved: 9/30/2021
Other Projects	Review of Continuity of Operations Plan	Reviewed COOP and provided feedback as needed.	Completed By: Director Review Completed: 10/5/2021
Other Projects	2021 Audit Committee Charter Updates	Updated the Audit Charter to reflect changes effective April 1, 2021.	Audit Committee Charter Approved: 11/16/2021
Other Projects	Review of Procurement Standard Operating Procedures	Reviewed Procurement SOPs and provided feedback as needed.	Review Completed: 12/14/2021
Other Projects	Annual Comprehensive Financial Report	IA staff will review all non-investment sections of the ACFR.	Approved by Audit Committee: 11/30/2021
Other Projects	KRS Board Election Policy Update	Updated the KRS Board Election Policy.	Presented to Audit Committee: 2/22/2022 Goal KRS Board Approval: 3/2/2022
Other Projects	CERS Board Election Policy Update	Updated the CERS Board Election Policy.	Presented to Audit Committee: 2/22/2022 Goal CERS Approval: 3/14/2022



I have included this article as information to keep in mind as the risk assessment project is undertaken by KPPA.

Auditors, Accountants and ERM

By James J. Kline and Greg Hutchins

In a 2019 opinion piece in *The Missouri Times*, Jo Anne Smiley, the mayor of Clarkson, Mo., pointed to the federal government with an accusation of waste in times of disaster. She said the federal government “prefers reactionary action to proactive prevention,” and it results in “recurrent recovery expenditures, which drain precious resources.”¹ In other words, Smiley suggested the federal government fails to heed Benjamin Franklin’s famous advice to the City of Philadelphia in 1736 about fire safety preparations: “An ounce of prevention is worth a pound of cure.”²

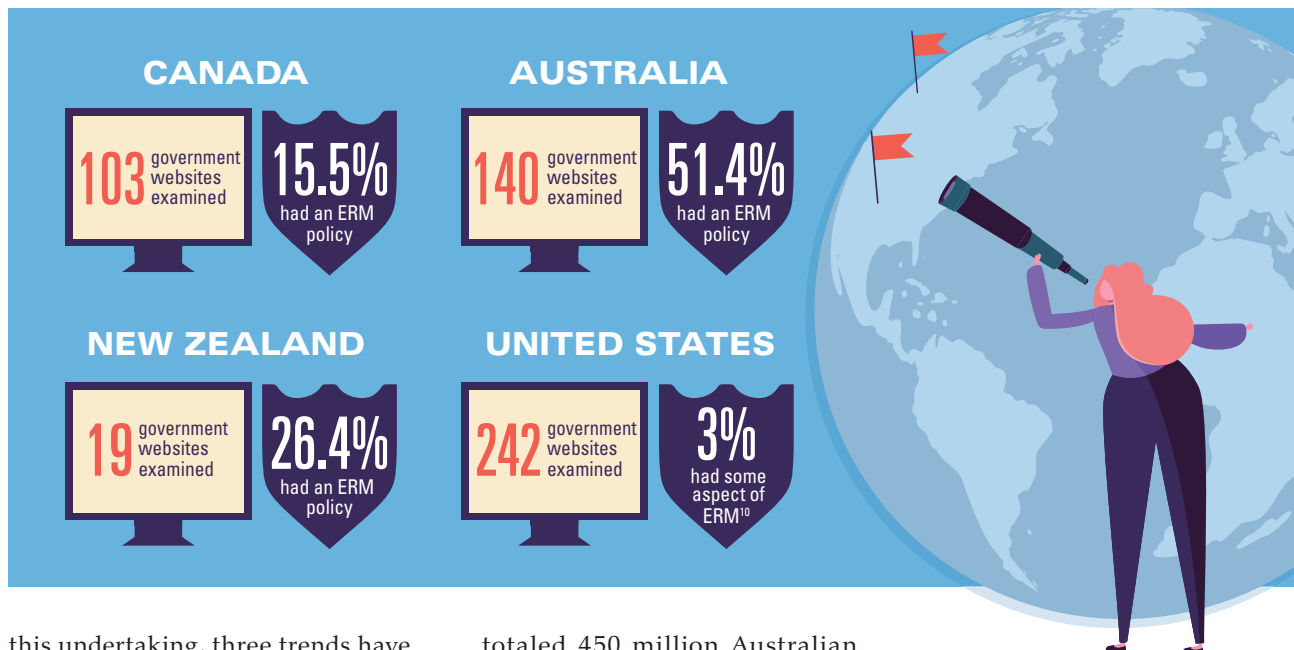
The Congressional Budget Office (CBO), in a 2019 study of the impact of natural disasters, recommended similar proactivity in

the governmental approach to risk management. The CBO suggested a pre-emptive style could reduce repair costs in the aftermath of catastrophes. Also, it recommended an increase in the share of post-disaster assistance paid for by state and local governments.³

Three Trends in ERM Expansion

The problem is not unique to governments in the United States. As costs associated with natural disasters as well as cyberattacks increase everywhere, governments worldwide are adopting enterprise risk management (ERM) solutions with the help of government accounting and auditing professionals. Throughout

Figure 1. Local Governments with ERM Policy, per Their Websites



this undertaking, three trends have emerged that increase interest in and implementation of ERM.

The interconnected global economy.

A disaster in one place can affect the entire world. In 2011, two-thirds of Thailand experienced floods. The United Nations estimated these floods reduced global industrial production by 2.5% and that the top three non-life insurance companies paid out \$5.3 billion in related claims.⁴

Increased awareness of multiple risks.

Greg Case, president and CEO of the insurance provider Aon, makes the point: “The complexity of the situation organizations face today is substantial. These challenges are likely to grow in intensity over the next few years as new risks become even more prominent, including the implications of an aging workforce, the impact of climate change, the growing prevalence of cyberattacks, and the emergence of evermore disruptive technologies.”⁵

The high cost of risk events.

A cost study of the 2011 floods in Queensland, Australia, found numerous expenses beyond restoration. While infrastructure repairs

totaled 450 million Australian dollars (\$308 million), increased physical and social ailments as a result of the disaster added even more expense. Increases in diabetes, cardiovascular disease and strokes cost AU\$430 million; jumps in family violence cost an additional AU\$720 million.⁶ While not a natural disaster, the risk of cyberattacks can similarly impact budgets. In 2019, a ransomware attack shut down Baltimore’s city services network for three weeks and cost the city an estimated \$18 million.⁷

Such events, whether natural or cyber, and the exorbitant cost of recovery from them strain budgets. With limited resources, governments around the world are seeking ways to proactively manage risks through ERM implementation.

ERM Use in Governments Worldwide

In 2015, the Office of Management and Budget (OMB) modified Circular A-123 to require all federal agencies to adopt ERM. In 2016, the CFO Council and Performance Improvement Group developed *Playbook: Enterprise Risk Management for the U.S. Federal Government* (the Playbook).⁸ With the Circular A-123 modification and

the issuance of the Playbook, the U.S. federal government joined the states of California, Tennessee and Washington, the Commonwealth of Australia and the Australian states of New South Wales, Queensland, Victoria and Western Australia, the Republic of South Africa, the United Kingdom (U.K.), and the Canadian provinces of British Columbia, New Brunswick and Nova Scotia in adopting ERM policies.

No firm numbers can be found to show the use of ERM in local governments; however, an examination of local government websites in 2019 indicated several statistics of interest, compiled in Figure 1. These numbers simply show that local governments around the world have published ERM policies. To be sure, having a policy does not necessarily mean it has been implemented. Further, implementation does not necessarily mean usage. For instance, in the U.K., the shared data center of the councils of East Northants and Wellinborough suffered a phishing attack shortly after adopting cybersecurity policy in response to an audit finding. Ironically, the local governments’ risk registers had recently rated cybersecurity at high risk.⁹

The exploratory numbers point to two critical questions about

ERM — who is recommending its implementation, and who is making sure it is used? In many cases, the answer to both is the accounting and auditing professions. While at times these professions exert influence directly through recommendations in audit reports, at other times their sway is indirect, communicated through manuals or sponsored workshops to encourage ERM adoption, for instance.

Comparative ERM Implementation in Four Countries

Frequently, internal auditors are tasked with evaluating the extent of ERM implementation. Their influence and involvement in the assessment is demonstrated through the following comparative anecdotes from Australia, Canada, the U.K. and the U.S., and how certain entities in these nations have implemented ERM.

Figure 2. Australian Audit Findings of ERM Compliance

Agency	Met	Mostly met	Total	Percentage (n=22)
Employment	19	2	21	95
Health	10	10	20	91
ACMA	6	10	16	73
AFMA	13	2	15	68

Commonwealth of Australia

In 2013, the Australian government issued its Public Governance, Performance and Accountability Act, which required governments throughout the commonwealth to establish and maintain appropriate internal controls for the “oversight and management of risks.” In 2014, its Department of Finance, Business, Procurement and Asset Management issued the “Commonwealth Risk Management Policy,” which states: “A more productive, innovative and efficient public sector requires a focused approach to managing risk in

order to achieve the commonwealth’s strategic objectives and to limit unnecessary red tape.”¹¹

The department mandated 22 specific requirements to facilitate ERM implementation and compliance auditing and to provide management and auditors with a baseline for future implementations. In 2017, the National Audit Office conducted an ERM compliance audit of four agencies — the departments of Employment and Health, the Australian Communications and Media Authority (ACMA), and the Australian Fisheries Management Authority (AFMA).¹² Figure 2 summarizes the

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audit findings, which show Australia had integrated ERM into its operational process. All four departments had met or mostly met 15 requirements, while the departments of Employment and Health had met more than 90% of the requirements.

The State of New South Wales, Australia

In 2012, the New South Wales (NSW) Treasury issued its "Risk Management Tool Kit for NSW Public Sector Agencies." Although oriented toward NSW departments, its self-assessment checklist for local governments provides a useful line of questioning for any entity interested in ERM implementation:

- ▣ Does the council have a risk management plan that addresses all business risk it faces?
- ▣ How was the risk management plan prepared?

- ▣ Has council assigned responsibility across the organization for implementing the risk management plan?
- ▣ How does the council check the plan and progress against risk management strategies?

To reinforce self-assessment, the NSW Treasury conducts best practice audits. For example, a 2015 audit of the City of Wentworth, NSW, determined the city used an integrated approach to governance, and its strategic plan linked the delivery of programs, set forth audit objectives, examined key risks, and included process improvements.¹³

In September 2019, the NSW Local Government Department issued a discussion paper, "A New Risk Management and Internal Audit Framework for Local Councils in NSW," which outlines policies to take effect in 2021. In the cover letter accompanying the framework, the state's minister for local government noted: "These requirements are based on international standards and the experience of Australian and NSW government public sector agencies who have implemented risk management and internal audit."¹⁴

The framework mandates ERM implementation and also makes clear that internal auditors from the Audit, Risk and Improvement Committee will assure local councils that "goals and objectives will be achieved within an acceptable level of risk."¹⁵ Thus, the mandate requires local councils to apply ERM and use internal audits to evaluate it.



The City of Oshawa, Ontario, Canada

The City of Oshawa fashioned a link between ERM and internal audits similar to the one in NSW. The difference between them is the origin of the plan. In 2011, Oshawa's city auditor general developed an ERM policy and process; in 2015, the internal auditor updated the process. By 2017, four management activities were combined into a continuous improvement framework. These activities include:

- ▣ **Lean Initiatives** — team-based assessment projects designed to improve performance and eliminate waste.
- ▣ **Service Reviews** — projects similar to lean initiatives but not as formal.
- ▣ **Internal Audits** — to cover all the elements mentioned earlier.
- ▣ **Risk Management** — the ERM process identifies key risks and mitigative efforts.¹⁶

While auditors' ERM involvement was mandated in NSW, local auditors requested it in Oshawa. Meanwhile, both examples contrast with the approach taken in the U.K., where the ERM push came from the accounting profession.



United Kingdom

In the U.K., ERM is part of its “Good Governance Framework,” a set of practices considered essential for proper control of public sector organizations. In 2004, an independent commission, which included the participation of the Chartered Institute of Public Finance and Accountancy (CIPFA), examined the risk question. The commission’s report, “The Good Governance Standard for Public Services,” offered six elements of guidance. One of them was: “Good governance means taking informed, transparent decisions and managing risk.”

In 2007, CIPFA and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) conducted a similar study that resulted in the adoption of comparable good governance elements. In 2013, CIPFA, in conjunction with the International Federation of Accountants (IFAC), issued a framework that included a section emphasizing ERM. In 2014, IFAC formally adopted the framework and deemed ERM a global concern. By 2016, the SOLACE/CIPFA framework became an official part of the Local Government Annual Governance Statements.¹⁷

United States

ERM implementation at the U.S. federal level compares to that in Australia. Like its Australian counterpart, OMB mandated ERM. Following the 2016 publication of the Playbook, AGA collaborated with the Association for Federal Enterprise Risk Management to help facilitate implementation through ERM workshops in 2018 and 2019. The 2020 ERM Workshop will be held April 29 in Washington, D.C.

Unlike the U.K. and NSW, where ERM is a local government mandate, the U.S. encourages local governments to adopt ERM through guidance developed by individual federal agencies. In its 2018 statement entitled “Cybersecurity is Everyone’s Job,” the National Institute of Standards and Technology encouraged ERM adoption. The cybersecurity approach it presents is designed to be plugged into an organizational ERM process.

ERM Cannot be Ignored

ERM is being adopted by governments worldwide, reflecting growing concern over the severity of adverse impacts and the multiple directions from which risks emanate. Internationally, internal auditors are increasingly tasked with compliance auditing, while the accounting and auditing professions have been instrumental in facilitating and spreading ERM implementation. Although ERM is required for federal agencies in the U.S., it remains voluntary for state and local governments. Given the increasing costs of risk events, a government at any level can no longer ignore the need to manage risk and plan ahead. As the use of ERM becomes more commonplace throughout the world, the accounting and auditing professions will become increasingly engaged in it.

Are you ready? **■**

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Staffing levels are an issue everywhere, including KPPA. I felt this article could offer some insight ways to help retain our staff.

GALLUP®

NOVEMBER 10, 2021

5 Ways Managers Can Stop Employee Turnover

BY RYAN PENDELL



STORY HIGHLIGHTS

- Employee turnover is often preventable
- Proactive managers keep your employee turnover rate under control
- Give your managers five ways to retain employees

People may give many reasons for leaving a job. Unrealistic expectations. Excessive workload. Lack of flexibility. Unfair pay. But perhaps the biggest reason for employee turnover may be that there was no manager trying to keep them there.

Fifty-two percent of exiting employees say that their manager or organization could have done something to prevent them from leaving their job. But only about a third of former employees said they had a conversation with their manager about leaving before they quit.

Obviously, not every employee can be saved. But Gallup's workplace analysis shows that much more can be done in most organizations to decrease your employee turnover rate. And it begins with the manager.

Fifty-two percent of exiting employees say that their manager or organization could have done something to prevent them from leaving their job.

Great managers motivate employees to stay in many ways; here's five of them:

1. Connected managers catch intent to leave long before it occurs.

When an employee quits, it can often be a shock to a team and their manager. But Gallup's analysis has found that many times the decision was a long time coming.

Forty-three percent of former employees say they spoke with a coworker about their intention to leave before leaving. And 36% were actively searching for a new job for one or more months before leaving their last job.

So for some employees, there's a window when a manager could have made a difference. And yet, *more than half of exiting employees say that in the three months before they left, neither their manager nor any other employee influenced their* *job satisfaction or future with the organization.*

KPPA has a review process for most employees, but the process only requires meeting twice a year.



Many employees rarely receive any feedback from their managers. Nearly half of employees say they get feedback from their manager a few times a year or less.

So perhaps the biggest change managers can make is to increase the frequency of conversations with employees. This makes it more likely that managers will be able to identify concerns, roadblocks and signs of disengagement long before the employee's last day.

2. Empathetic managers listen to problems, receive employee feedback and help prioritize the workload.

Managers may often feel powerless in the face of employee problems. Simply listening may not feel like anything particularly special or helpful.

But *employees whose manager is always willing to listen to their work-related problems are 62% less likely to be burned out*. In other words, listening matters to employee retention. It also helps employees feel like their voice and opinion matter.

Similarly, managers may not always be able to reduce the amount of work to be done, but they can help sort and organize work for employees. In the absence of communication, employees may feel anxiety about details that don't matter. Or they may feel overwhelmed by the total amount of work to be done.

A few simple words or clarifications, or showing someone where to begin, can express to employees, "I've got your back. We're in this together." And that can make all the difference.

This is an easy step that managers should be actively taking with their employees.

3. Empowered managers find creative solutions, personalize flexibility and advocate for their people.

Managers are uniquely positioned to resolve employees' concerns, but only when they have freedom and decision-making authority.

When managers have a good rapport with their employees, they can come up with novel solutions to employees' needs. Sometimes a minor change to a work schedule can make all the difference between a bad day and a good one.

KPPA currently offers flexible work schedules.

Managers are uniquely positioned to resolve employees' concerns, but only when they have freedom and decision-making authority.

This is something that could be reviewed and considered by Executive Management.

Sometimes a role doesn't fit just right, but moving a few responsibilities around can get everyone working from their sweet spot.

There's nothing worse than being the proverbial "middle manager" who is only there to communicate (and enforce) corporate policy. Managers need some reasonable freedom to tailor roles, schedules and policies to fit individuals. In addition, managers need to be able to communicate the concerns of their people to leaders without fear.

The result is not just team members who want to stay -- but managers, too, when they feel supported by their leaders.

4. Inspiring managers offer regular employee recognition, encouragement and mission moments.

Gallup has consistently found that feeling cared for and having friends at work are essential drivers of engagement. When employees feel engaged, they are eager to come to work, ready to give their best, and feel connected to their team and organization. Unsurprisingly, engaged workers are much less likely to quit.

When managers increase the frequency of their conversations, there's a greater chance that employees will feel that someone cares about them. But managers can go further, asking questions and listening to answers with genuine interest and concern. Managers can also weave deserved recognition into informal conversations, rather than waiting for formal recognition rituals.

Managers also help connect the everyday work of a team to the mission of an organization. People leave jobs when they don't feel like their work matters. A manager who shows how team success improves the world can go a long way to addressing this attitude.

Understanding your value is essential. Strides have been taken to do that at KPPA, but this may be an area that needs focus. Some employees need to hear that they are appreciated; others need to actually see that they are making a difference. It is important for managers to understand the individual needs of their employees and ensure those needs are met.

5. Coaching managers help struggling employees find their future within your organization.

KPPA has a lot of staff that are topped out in their job classification.

The No. 1 reason for leaving an employer is a lack of career opportunities. There may be many underlying reasons for the decision, but ultimately employees who leave *no longer see a future* at your organization. Like so many things in life, we often lose the will to continue when there is no reasonable path to success.

In hard times, the future can feel murky. Development often goes to the wayside. And many employees may be thinking, "Is it just this -- forever?"

In the absence of a manager, there is no reason for employees to think things are going to change. They also may be siloed in their work, unaware of alternative career paths, helpful corporate programs or potential mentors.

In contrast, a manager can play the role of coach, co-crafting a path forward that is appropriate and inspiring. Instead of focusing on weaknesses, they can remind people of their strengths. Instead of focusing on the immediate crisis, they can pull back and show how this experience is building capacity for future growth.

Coaching employees through career challenges not only makes for better employees, it makes employees feel appreciated, valued, and connected to your organization -- even when immediate circumstances can't be changed.

To learn more about why people quit -- and why they don't -- [download Gallup's paper on exit programs](#).

Managers Are Your Front Line Against High Employee Turnover -- And Employee Turnover Costs

The cost of employee turnover is about more than an empty seat. Some employees lose their best friend, making them more likely to leave. Customers may have lost the personal relationship that kept them coming back to you. Your organization may have also lost institutional knowledge and experience that your leaders relied on for consistency and repeat performance.

Coaching employees through career challenges not only makes for better employees, it makes employees feel appreciated, valued, and connected to your organization

-- even when immediate circumstances can't be
changed.

Based on Gallup's workplace analysis, retaining employees through policies and pay is only a partial fix to the problem of high turnover. Managers who are interacting with their employees on a regular basis, and who provide support and guidance, should be at the center of your retention strategy.

Learn how to retain more employees:

- Download our paper, *Exit Programs That Retain Stars and Build Brand Ambassadors*.
 - Partner with Gallup to find and fix pain points in your employee experience.
-