

**KPPA Audit Committee  
June 10, 2026 at 2:00 p.m. Eastern Time  
Live Video Conference/Facebook Live**

**AGENDA**

- |     |                                                                    |                               |
|-----|--------------------------------------------------------------------|-------------------------------|
| 1.  | Call to Order                                                      | William Summers               |
| 2.  | Opening Video Teleconference Statement                             | Legal Services Representative |
| 3.  | Roll Call                                                          | Sherry Rankin                 |
| 4.  | Public Comment                                                     | Sherry Rankin                 |
| 5.  | Approval of February 24, 2026 KPPA Audit Committee Minutes*        | William Summers               |
| 6.  | Office of Legal Services Updates                                   |                               |
|     | a. Information Disclosure Incidents                                | Nathan Goodrich               |
|     | b. Anonymous Tips                                                  | Stephanie Hold                |
| 7.  | Update on Retirement Allowance Account Research                    | Mike Lamb                     |
| 8.  | <b>Update on Office Space Utilization Project*</b>                 | Kristen Coffey                |
| 9.  | KPPA Audit Committee Administrative Updates                        |                               |
|     | a. Internal Audit fiscal year 2027 Independence Statements         | Will Prince                   |
|     | b. Internal Audit Budget                                           |                               |
|     | i. As of March 31, 2026                                            | James Westbay                 |
|     | ii. <b>Approval of Internal Audit Budget for Fiscal Year 2027*</b> | Kristen Coffey                |
|     | c. Status of Current Internal Audit Projects                       | Zach Curtis                   |
|     | d. <b>Issued Reports and/or Memorandums*</b>                       |                               |
|     | i. 2026-9 Review of Post-Retirement Audit Process                  | Madeline Evans                |
|     | ii. 2026-16 Administrative Regulation Update Process               | Kristen Coffey                |
| 10. | Adjourn                                                            | William Summers               |

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

**MINUTES OF MEETING  
KENTUCKY PUBLIC PENSIONS AUTHORITY  
AUDIT COMMITTEE  
FEBRUARY 24, 2026, 10:00 A.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the February 24, 2026, Regular Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O’Mara (Chair), George Cheatham, Lynn Hampton, and William Summers V. Attending on behalf of KRS was Mary Eaves; attending on behalf of CERS was J. T. Fulkerson. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Erin Surratt, Michael Lamb, Michael Board, Victoria Hale, Nathan Goodrich, Stephanie Hold, Kristen Coffey, Madeline Evans, James Westbay, William Prince, Zachary Curtis, Liza Welch, Stephanie Aldridge, Connie Davis, Shauna Miller, Kathy McNaughton, Phillip Cook, Sherry Rankin, and Mary Hill. Eide Bailly representatives Lealan Miller, Roger Alfaro, and Kellie Burgey were also present.

1. Mr. O’Mara called the meeting to order.
2. Mr. Board read the *Opening Video Teleconference Statement*.
3. Ms. Rankin called roll.
4. Ms. Rankin noted that there were three (3) *Public Comments* received (*Video 00:06:27 to 00:07:08*).  
From Rebecca Coley, “*Please, please pass HB 406.*”  
From Glenn D. Carty, “*I wish to express my strong support of HB 406 and equally strong opposition to HB 500.*”  
From Alberta Webb, “*Please support HB 406. Thank you for the opportunity to voice my wishes.*”
5. Mr. O’Mara introduced the agenda item *Approval of November 18, 2025 KPPA Audit Committee Minutes*. (*Video 00:07:18 to 00:08:14*). Ms. Hampton made a motion to approve the November 18, 2025, minutes. Mr. Fulkerson seconded the motion. Ms.

Hampton further inquired whether Ms. Eaves and Mr. Fulkerson were voting members of the committee. Mr. Board confirmed that both are voting members of this committee. The motion passed unanimously.

6. Mr. O'Mara introduced agenda item ***External Audit Updates (CERS and KRS GASB 68 and GASB 75)*** (Video 00:08:18 to 00:24:58). Mr. Lamb introduced representatives from Eide Bailly. Lealan Miller then introduced Roger Alfaro and Kellie Burgey before reviewing the independent auditor's report. He explained that the reports are important for employers to complete their required reporting. Mr. Miller noted that the report presented is a draft and that minor edits will be made before the final version is presented to the CERS and KRS Boards at their respective March 2026 meetings.

Mr. Miller first reviewed the Schedule of Employer Allocations and the Schedule of Collective Pension Amounts by Employer. He explained that the reports are extensive because KPPA administers pension benefits for both hazardous and non-hazardous employees. He further noted that actuaries rely on census data testing to determine pension liability, and the actuarial reports provide the detailed information used in each schedule. A final review is conducted to confirm the accuracy of the reported data. Mr. Miller reported that, across all four (4) reports, the review of internal controls did not identify any issues requiring attention.

Ms. Eaves asked for clarification regarding to whom the reports are specifically addressed. Mr. Lamb explained that the reports should be addressed to CERS and noted that there are two separate reports, one for KRS and one for CERS. He further explained that while KPPA is responsible for hiring the auditing firm, the reports are prepared specifically for each Board.

Ms. Eaves requested that any references to "the Board" be clarified to specify which Board is being referenced. Mr. Miller stated that his team would review the reports and address her concerns. Mr. Lamb added that each report will be presented to its respective Board for approval at their meetings, after which the approved reports will be submitted to the KPPA Board for publication.

A brief discussion took place regarding whether to vote on the draft reports separately or together. It was agreed that voting on them as a single motion was most practical since the reports will be distributed to the full KPPA Board. Mr. Fulkerson made a motion to accept the CERS and KRS draft proportionate share audits as presented and forward them to the KPPA Board for approval, which Ms. Hampton seconded.

Ms. Eaves suggested amending the motion to specify that KRS and CERS would receive their reports separately before submission to the full KPPA Board for publication. The amendment was agreed upon, and the motion carried. Following the vote, Ms. Eaves requested clarification of the language in the reports to ensure they are addressed to the appropriate Boards of Trustees. Mr. Miller agreed to make these changes in the final draft. At this point, the Eide Bailly representatives left the meeting.

7. Mr. O'Mara introduced agenda item ***Office of Legal Services Updates*** (Video 00:25:06 to 00:30:04). Mr. Goodrich presented the potential disclosure data for FY 2026 2nd Quarter. There were four (4) possible disclosures, two (2) of which were incidents that implicated the disclosure breach policy (though these were not HIPAA, HITECH, or state law disclosures). The other two (2) were found to not be a breach. Both disclosures were handled promptly through the Agency's established processes.

Ms. Hold, the Legal Services Investigator, was introduced to discuss open anonymous fraud tip cases. She provided an update on the fraud tips since the last meeting was held in November, 2025. There have been three (3) tips received, and two (2) tips have been closed since the last meeting. The third open tip is currently being monitored by the Office of Legal Services.

8. Mr. O'Mara introduced agenda item ***KPPA Audit Committee Administrative Updates: Item (a)***. (Video 00:30:19 to 00:40:02). Ms. Coffey presented KPPA Audit Committee Charter, highlighting changes made to align with new national standards. KPPA-specific updates include allowing KRS and CERS to appoint one (1) non-KPPA member to the Audit Committee and specifying the frequency for future Charter reviews and updates.

Ms. Hampton asked for additional context regarding discussions held by the national association before voting to approve the changes. Ms. Coffey stated she would provide Ms. Hampton with all relevant information. Ms. Hampton inquired about the urgency of voting on the changes, and Ms. Coffey explained that it is important for the Agency to remain compliant with national standards implemented in January 2025. Ms. Hampton requested more information on why the changes were made and the process involved, and she moved to table the vote until a later date. Mr. Summers seconded the motion.

Mr. Board noted that, according to the rules, a vote must be taken with no discussion. The motion to table passed unanimously. Ms. Eaves requested clarification on the specific changes and their timing, and Ms. Coffey briefly explained the required updates to ensure compliance with national standards. At this time, Mr. Cheatham noted that he had voted “no” on the motion to table, but his microphone was not on, and he asked that his “no” vote be reflected in the record.

Mr. O’Mara continued agenda item *KPPA Audit Committee Administrative Updates* to address *item (b)* (*Video 00:40:03 to 00:45:57*), Ms. Coffey presented the Charter for the Division of Internal Audit, reiterating that most changes were made to ensure the Agency’s compliance with national standards. She explained that the KPPA-specific updates in the “Audit Process” section reflect management’s requests to clarify the steps of the audit process. The most significant change allows preliminary findings to be discussed directly with executive management, rather than relying on divisions to relay the information through the chain of command. Other revisions included aligning language with the main Audit Charter and outlining the updated audit process that has been in use since last year.

Ms. Hampton reiterated her request for additional information about the changes and moved to table the vote. Ms. Eaves seconded the motion. A roll-call vote was conducted, with Trustees O’Mara, Eaves, Hamton and Summers voting “yes” and Cheatham and Fulkerson voting “no.” The motion carried, with a plan to provide the requested information and bring the vote back at the next meeting.

Ms. Coffey introduced agenda item *KPPA Audit Committee Administrative Updates item (c)*, (*Video 00:46:00 to 01:05:15*). Ms. Evans provided a brief update on the Internal Audit

Budget, stating that all line items are on track to being well within their ranges. She then briefly discussed *item (d), Status of Current Internal Audit Reports*. There being no questions, Ms. Coffey moved on to *item (e), Issued Reports and/or Memoranda*, where she provided an update on the Follow-up of Open Internal Audit Findings as of December 31, 2025. She reported that there were thirty-one (31) open items at the end of December 2025. After consulting with the respective departments, nineteen (19) items remained open, all with revised completion dates within calendar year 2026.

Ms. Coffey then presented the *2025-8 Inventory Observation Report*, noting that 2025 marked the first full inventory conducted by KPPA in several years. The report included recommendations for steps to be taken prior to finalizing inventory procedures. Mr. O'Mara requested a motion to accept the Issued Report on the 2025-8 Inventory Observation as presented. Ms. Hampton made the motion, and Ms. Eaves seconded. The motion passed unanimously.

Mr. Cheatham raised a question regarding an earlier audit report noting missing investment documents. Mr. Lamb explained that these documents relate to legacy private equity investors and that the recovery of these documents is an ongoing project. Mr. Barrow clarified that the documents are not contracts but side letters or amendments, and the issue is that they have not yet been incorporated into the current central repository.

Mr. Curtis was introduced to briefly explain the *2026-4 and 2026-5 Member Benefit and Disability Benefit Payment Process* reports. He stated that there were no adverse findings in either report. Ms. Eaves moved to *accept the Issued Report on the 2026-4 and 2026-5 Member Benefit and Disability Benefit Payment Process as presented*. Ms. Hampton seconded, and the motion carried unanimously.

Mr. Prince provided a brief presentation of the *2026-6 Review of the Procurement Process (non-investment)*. He explained that there were two (2) opportunities for improvement relating to frequency of vendor performance evaluations and sharing procurement related information with Trustees. Mr. Fulkerson made a motion to accept the Issued Report on the 2026-6 Review of the Procurement Process (non-investment). Ms. Hampton seconded, and the motion carried unanimously.

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

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## CERTIFICATION

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

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Recording Secretary

I, as Chair of the Audit Committee of the Kentucky Public Pensions Authority, do certify that the Minutes of the meeting held on February 24, 2026, were approved by the Audit Committee on May 28, 2026.

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Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on February 24, 2026, for form, content, and legality.

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Executive Director  
Office of Legal Services



**KENTUCKY PUBLIC PENSIONS AUTHORITY**

**Ryan Barrow, Executive Director**

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**MEMORANDUM**

**TO:** Members of the KPPA Audit Committee

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

**DATE:** May 19, 2026

**SUBJECT:** Potential Information Disclosures/Breaches Affecting the Kentucky Public Pensions Authority (“KPPA”), Fiscal Year 2026 Quarter 3

**DATA ON POTENTIAL DISCLOSURES/BREACHES FY 2026 3rd QUARTER**

**Total Disclosures/Breaches Reports Investigated: 14**

<u>Total Number Investigated</u>	<u>Type</u>
0	Implicated HIPAA/HITECH
0	Implicated state law
7	Implicated KPPA Data Disclosure Notification Policy
1	Implicated business associate obligations
5	Found not to be a disclosure/breach
1	Pending additional information

**Total Members Affected by Potential Disclosures/Breaches: 14**

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

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

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

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

## SYNOPSIS ON POTENTIAL DISCLOSURES/BREACHES

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

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

**Background:** IT Security identified three unrelated suspicious account access and change attempts. Affected members confirmed they did not initiate the activity. Accounts were promptly secured and unauthorized changes removed (one within 3 hours). Benefits were not impacted. Two members reported experiencing identity theft outside of KPPA.

**Root Cause:** External fraud enabled unauthorized access to member self-service accounts.

**Follow Up:** Access was restricted for affected accounts (and spouses, where applicable), and account changes were limited to KPPA management. IT continues to monitor. Notification letters, including identity theft guides, were issued to impacted members.

**Background:** A member received an envelope addressed listing another member’s name. When they logged into their self-service portal, the other member’s contact information was displayed, and the other member received correspondence which included this member’s KPPA ID.

**Root Cause:** A system error merged two member profiles.

**Follow Up:** The two profiles were separated and KPPA is implementing measures to prevent reoccurrence. Both members were notified. We are seeking an affidavit from the member who observed the other member’s contact information confirming they did not retain the information.

**Background:** A member received an envelope containing correspondence intended for five other members.

**Root Cause:** Manual mailing error during large-scale envelope stuffing (~15,000 benefit change letters)

**Follow Up:** Notification letters were sent to the affected members. KPPA is seeking an affidavit from the recipient confirming the disclosed information was not retained.

**Background:** In two separate incidents, correspondence was in envelopes intended for other members.

**Root Cause:** Automatic mailer error.

**Follow Up:** Affected members were notified via disclosure letters. KPPA is seeking affidavits from recipients confirming the information was not copied or retained.

### **External Disclosures/Breaches**

**Background:** A KPPA vendor's subcontractor experienced unauthorized system access, potentially implicating two KPPA members. Exposed information varied but included personally identifiable information.

**Root Cause:** Vendor cybersecurity incident

**Follow Up:** The vendor remediated the issue and notified law enforcement. Affected members were notified and offered 24 months of complimentary credit monitoring and identity restoration services.

### **RECOMMENDATION**

This memorandum is provided for informational purposes only.



## KENTUCKY PUBLIC PENSIONS AUTHORITY

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### MEMORANDUM

**TO:** Kentucky Public Pensions Authority Audit Committee

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

**DATE:** May 28, 2026

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

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

#### OPEN FRAUD TIP CASES

Since the Audit Committee met on February 24, 2026, the KPPA received five (5) new fraud tips. Two (2) tips were closed following a review and three (3) are currently pending.

As of the date of this memo, the KPPA has five (5) cases in open status. The following chart provides current information for all open cases as of the date of this Memorandum:

Date Reported	C, K, S, Other	Allegation(s)	Current Action
01/22/2024	CERS	Disability retirement fraud.	The Office of Legal Services has gathered information and is working with Disability and Survivor Benefits to submit all collected information to a medical examiner from MMRO.
06/16/2024	CERS	Prearranged agreement to return to work for the same employer and failure to have the required break in service.	Fraud allegations related to the member is resolved. The Office of Legal Services is investigating employer reporting issues and is finalizing the last action item needed.
04/21/2026	CERS	Prearranged agreement to return to work for the same employer and no break in service.	Office of Legal Services is currently investigating.

<b>Date Reported</b>	<b>C, K,S, Other</b>	<b>Allegation(s)</b>	<b>Current Action</b>
04/29/2026	CERS	Prearranged agreement to return to work for the same employer.	Office of Legal Services monitoring. To date, member has not provided any documentation to re-employ.
04/30/2026	CERS	Member receiving retirement credit for time not actually worked.	Office of Legal Services currently investigating.

**FRAUD TIPS CLOSED SINCE LAST MEETING**

As of the date of this memo, four (4) cases have been closed since the last meeting of the KPPA Audit Committee. The following case(s) were closed since the last meeting:

<b>Date Reported</b>	<b>C, K, S, Other</b>	<b>Allegation(s)</b>	<b>Disposition</b>
06/12/2024	CERS	Employer not making the required retirement contributions for employees.	ERCE continues to address this issue and no longer needs assistance of the Office of Legal Services.
02/07/2026	KERS	Fraud involving beneficiary change	IT Security is monitoring and no longer needs assistance of the Office of Legal Services.
04/08/2026	Other	Related to illegal eviction	Closed due to non-member and non-participating agency.
04/17/2026	Other	Medicaid Fraud	Provided tipster with correct contact information to make a report.

**RECOMMENDATION**

This memorandum is provided for informational purposes only.



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To: KPPA Audit Committee

From: Michael Lamb, Executive Director, Office of Operations, and Chief Financial Officer, KPPA

Date: May 28, 2026

Subject: The Retirement Allowance Account

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**Issue:**

Disagreement and/or lack of clarification of what the Retirement Allowance Account (RAA) is and how and where it is to be set up and utilized for the County Employees Retirement System (CERS), the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS) (the Systems).

This specific problem has been co-mingled with other questions and concerns related to the Systems' use of the Commonwealth's depository bank, currently JP Morgan Chase (JPM), versus the use of the Systems' custodial bank, currently The Bank of New York Mellon Corporation (BNY), as well as the definition of public funds vs. trust funds and trustee oversight and control of such funds.

Those other questions and concerns are important and need to be concluded on separately. This memo seeks to exclusively/solely conclude on the RAA and establish the appropriate definition and use to be utilized by the Kentucky Public Pensions Authority (KPPA) in the administration of the Systems.

**Conclusion:**

The RAA is the equivalent of a governmental accounting "Fund Balance" that is maintained within the general ledger accounting and pension administration systems of KPPA, and has always been accounted for correctly, since the inception of the Systems in 1956 and 1958, respectively.

KPPA's research through April 30, 2026, has found no statutory or industry evidence that the RAA should be set up as a bank, custodial, or investment account, or a series of such accounts.

### Analysis and Basis for Conclusion:

#### **Statutes:**

KRS 16.555 (SPRS), KRS 61.570 (KERS), and KRS 78.630 (CERS) indicate that all the Assets of the Systems shall be held and invested in their respective retirement fund and credited to one of three accounts **(1): the Members' Account, (2) The Retirement Allowance Account, or (3): accounts established to pay for medical benefits under 26 U.S.C. sec. 401(h).**

**(1) The Members' Account** – KRS 16.560 (SPRS), KRS 61.575 (KERS), and KRS 78.640 (CERS) define the Members' Account as the account that accumulates all members' contributions, or contributions picked up by the employer, all interest allowances (under Tier 1 and Tier 2), employer pay credits (under Tier 3), and GANIR Interest (under Tier 3), and excludes employee health insurance contributions. Interest allowances and GANIR interest are to be applied as of June 30 and transferred from the RAA. Prior to the member's retirement, death or statutorily required refund, no funds shall be made available from this account. Upon retirement of a member, then his or her accumulated member balance is transferred to the RAA.

**Note:** The Statutory name of "The Members Account" was changed from "The Members' ~~Contribution~~ Account" as part of SB 2 (2013) which introduced Tier 3.

**(2) The Retirement Allowance Account (RAA)** – KRS 16.565 (SPRS), KRS 61.580 (KERS), and KRS 78.650 (CERS) define the RAA as the account in which shall be accumulated all employer contributions, amounts transferred from the member's account, and to which all income from the invested assets of the system shall be credited. In addition, from this account the administration expenses of the system shall be paid, retirement allowances, and any other benefits payable after a member's retirement. Therefore, KPPA is not to pay any such "expenses" from the Members' Account. Furthermore, from this Account, KPPA is to transfer to the Members' Account the Employer pay credit (as these are "employer contributions") as well as the GANIR interest, both of which were established with the creation of Tier 3.

Prior to the establishment of the Systems in the late 1950's, the Legislative Research Commission (LRC) conducted research for the purpose of informing the Kentucky General Assembly of what options were available in establishing a retirement system for public employees. LRC published their research in the *Commonwealth of Kentucky Research Publication No. 6, "A Retirement System for Kentucky State Employees" (1949)*; The report included information on different

types/structures of public retirement systems, comparisons of other state and municipal public pension plans at the time, and the cost of forming such retirement systems.

The report identified several options on how to administratively separate funds for accounting purposes, citing that some states utilize as many as five separate funds to account for varying levels of members and state contributions, as well as “a state pension fund” in which amounts are transferred to at the time of a member’s retirement.

It is a matter of administrative detail as to how funds shall be separated for accounting purposes. Some states utilize as many as five separate funds:

1. A fund for members' contributions in the process of accumulation,
2. A fund for the state's contributions for current service of members,
3. A prior service fund to which the state makes contributions,
4. A members' annuity fund to which individual members' accounts are transferred for the payment of annuities which they have built up at the time of retirement, and
5. A state pension fund to which the state's prior service and current service contributions in an individual member's account are transferred at the time of his retirement.

The state normally pays the costs of administration from the regular appropriations it makes to the fund. The provision in the Nevada law for collecting fifty cents each month from every employee to defray administrative costs is exceptional.

(See PDF page 50 of the 1949 research paper.)

The original statutes establishing the RAA in the 1950’s for each of the systems are very similar to a hybrid of example 4 and 5 included in the report, and likewise, the “retirement allowance accounts” as they exist today for the systems are very similar to a hybrid of options #4 and #5 listed in the 1949 report.

**(3) Accounts established to pay for medical benefits under 26 U.S.C. sec. 401(h).**

The 3<sup>rd</sup> account referenced in the above statutes are the accounts established to pay for medical benefits under 26 U.S.C. sec. 401(h), and essentially are the plans established in the Insurance Trust Fund and include the employee and employer

contributions to the Insurance Trust and not part of the Members' Account and/or the RAA.

**Financial Statements; Pension Administration System; Bookkeeping / Accounting System.**

Within the Systems' bookkeeping or accounting processes there is, and has always been, a series of general ledger/bookkeeping accounts that contain the statutory required accumulated amounts for the RAA.

Furthermore, within the Systems' pension administration system (when it was kept manually or in today's modern START system), there has always been an individual account for every member that contains the statutory accumulated amounts of the Members' Account, as well as a series of general ledger/bookkeeping accounts that capture the accumulation of all individual member accounts, with the following exception:

**Exception:** In 2013, a decision was made to no longer utilize the Series 600-**Member Fund Balance Accounts** within the system of accounting/booking accounts. Research has not determined exactly why this changed; however, the following indications may have contributed to the change.

- With the implementation of Tier 3 via SB 2 (2013) there was statutory language change from the Member Contribution Account to just Member Account.
- The pension administration system has always maintained an individual **Member Account** for every member that shows accumulated balance for that member, and a cumulative member balance can be generated (showing the entire Member Balance at any time).
- Due to GAAP and GASB changes, The Annual reports were no longer segregating the Member Contribution Account and the RAA as part of fund balance.

These Series 600 fund balance accounts were brought back to the general ledger in fiscal year 2023, and the Series 700 fund balance (Retirement Allowance Accounts) have always been in the general ledger/bookkeeping accounts since the Systems' inception as evidenced in the following Annual Reports presented below.

**The first financial statements**

There are two financial statements in these annual reports.

In the example below, the first financial statement shows the Assets and Liabilities of the CERS System as of June 30, 1960, with the liabilities separated between the accumulated

balance of the **Member Contribution Account** and the **Retirement Allowance Account**. In this financial statement, the RAA does not represent a bank, custodial, or investment account, or series of such accounts, but rather a fund balance.

This financial statement is generally referred to as a balance sheet, and in today's generally accepted accounting principles (GAAP) for pensions, is called the "Statement of Fiduciary Net Position"

COUNTY EMPLOYEES RETIREMENT SYSTEM			
Financial Statement			
As of June 30, 1960			
<b>ASSETS</b>			
Cash			\$ 4,591.78
June 1960 Contributions (In Process of Payment by State Treasurer)			107,146.03
Investment Securities:	Percent of Investment		
U. S. Bonds	16.51	\$124,241.56	
Mutual Funds	83.49	<u>628,375.79</u>	
Total Investments	100.%		752,617.35
Bond Interest Purchased			<u>96.04</u>
Total Assets			\$864,451.20
<b>LIABILITIES</b>			
Member Contribution Account		\$342,741.67	
Retirement Allowance Account		<u>521,709.53</u>	
Total Liabilities			\$864,451.20

The second financial statement shows the cumulative receipts and disbursements of both the **Member Contribution Account** and the **Retirement Allowance Account**, of June 30, 1960, resulting in the total "cash on hand" or in this case, with the State Treasurer. This financial statement also does not depict the RAA as a bank, custodial, or investment account, or series of such accounts, but rather a fund balance, in which the annual activity is being reconciled to the fund balance on the first financial statement.

This financial statement is generally referred to as an income statement, and in today's GAAP for pensions, is called the "Statement of Changes in Fiduciary Net Position"

COUNTY EMPLOYEES RETIREMENT SYSTEM  
 Analysis of Cumulative Cash Receipts and Disbursements

Period 7/1/1958 - 6/30/1960

<u>MEMBER CONTRIBUTION ACCOUNT</u>		
Accumulated Contributions of Members		\$352,008.05
Less: Refunds		<u>9,266.38</u>
Net Receipts - Member Accounts		\$342,741.67
<u>RETIREMENT ALLOWANCE ACCOUNT</u>		
Net Additions:		
Employer Contributions		\$526,466.28
Dividends - Interest on Investments		<u>28,375.79</u>
Total Additions		\$554,842.07
Net Reductions:		
Administrative Costs	\$28,373.09	
Actuarial Costs	710.00	
Interest on Member Accounts	<u>4,049.45</u>	
Total Reductions		<u>33,132.54</u>
Net Receipts - Retirement Allowance Account		521,709.53
Total Receipts of System		<u>\$864,451.20</u>
Disbursements for Investments		<u>752,713.39</u>
Cash on hand and due from State Treasurer		\$111,737.81

### The Annual Reports 1961-1990

The financial statements from 1961 through 1990 are functionally the same as the 1960 statements but this 1990 example better illustrates that the **Member Contribution Account** and the **Retirement Allowance Account** are truly Fund Balances, and represent an accumulation of all system assets including investments, cash on deposit, receivables, accrued income, and other assets (which could be fixed assets or equipment, etc.).

The two income statements also illustrate the statutory requirements to transfer amounts between the two accounts (“retired members’ balances transferred to retirement allowance account”, and “Interest credited to members’ balances transferred to Members’ Contribution Account”, and vice versa).

COUNTY EMPLOYEES RETIREMENT SYSTEM  
BALANCE SHEETS

	June 30	
	1990	1989
<b>ASSETS</b>		
Investments (Note 7):		
United States Government securities	\$ 202,647,085	\$ 140,834,335
Government National Mortgage Association and similar securities	82,534,737	137,569,093
Corporate bonds and notes	74,294,842	85,533,897
Convertible bonds	456,244	422,166
Common stocks	516,084,853	265,349,082
First mortgage real estate loans	292,029	349,041
Real estate investment trust	44,554,750	29,379,594
Securities purchased under agreement to resell	274,717,537	337,406,104
	<u>\$1,195,582,077</u>	<u>\$ 996,843,312</u>
Cash on deposit with State Treasurer	91,948	254,486
Member and employer contributions receivable	10,698,258	13,433,230
Past service credit contribution receivable	58,189,845	66,533,639
Accrued investment income	9,484,087	8,826,881
Other assets	17,647	13,286
	<u>\$1,274,063,862</u>	<u>\$1,085,904,834</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Member refunds, insurance fund transfers and investment expenses payable	\$ 3,997,595	\$ 7,852,198
Fund balance:		
Members' Contribution Account	\$ 254,282,752	\$ 225,193,010
Retirement Allowance Account	1,015,783,515	852,859,626
	<u>\$1,270,066,267</u>	<u>\$1,078,052,636</u>
	\$1,274,063,862	\$1,085,904,834

COUNTY EMPLOYEES RETIREMENT SYSTEM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN MEMBERS' CONTRIBUTION ACCOUNT

	Year Ended June 30	
	1990	1989
Revenues:		
Member contributions	\$ 41,650,282	\$ 63,609,817
Interest credited to members' balances transferred from Retirement Allowance Account	8,279,504	6,668,871
Total revenues	\$ 49,929,786	\$ 70,278,688
Expenses:		
Refunds to former members	\$ 6,346,247	\$ 5,208,722
Retired members' balances transferred to Retirement Allowance Account	14,493,797	17,403,017
Total expenses	\$ 20,840,044	\$ 22,611,739
Excess of revenues over expenses	\$ 29,089,742	\$ 47,666,949
Members' Contribution Account at beginning of year	225,193,010	177,526,061
Members' Contribution Account at end of year	\$254,282,752	\$225,193,010

COUNTY EMPLOYEES RETIREMENT SYSTEM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES  
IN RETIREMENT ALLOWANCE ACCOUNT

	Year Ended June 30	
	1990	1989
Revenues:		
Employer contributions	\$ 80,658,140	\$140,659,744
Investment income	86,852,951	76,400,250
Net realized gain on disposal of investments	45,450,457	6,466,883
Retirement members' balances transferred from Members' Contribution Account	14,493,797	17,403,017
Total revenues	\$ 227,455,345	\$240,929,894
Expenses:		
Retirement benefits for members	\$ 41,158,196	\$ 31,719,667
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	13,054,106	10,131,427
Interest credited to members' balances transferred to Members' Contribution Account	8,279,504	6,668,871
Administrative expenses	1,551,164	1,420,006
Investment expenses	488,486	183,132
Total expenses	\$ 64,531,456	\$ 50,123,103
Excess of revenues over expenses	\$ 162,923,889	\$190,806,791
Retirement Allowance Account at beginning of year	852,859,626	662,052,835
Retirement Allowance Account at end of year	\$1,015,783,515	\$852,859,626

### The Annual Reports for 1991-1995

In the 1991 Annual Report, the **Member Contribution Account** and the **Retirement Allowance Account** were combined into the line item "Net Assets Available for Plan Benefits" but has the two accounts parenthetically disclosed and tied out to the Fund Balance via an "actuarial present value of credited projected benefits" as well as an "unfunded actuarial present value of credited projected benefits".

#### COUNTY EMPLOYEES RETIREMENT SYSTEM

#### BALANCE SHEETS JUNE 30, 1991 AND 1990

	<u>1991</u>	<u>1990</u>
<b>ASSETS:</b>		
Investments:		
Bonds (market value - 1991, \$279,548,000; 1990, \$365,332,000)	\$ 270,111,181	\$ 359,932,908
Common stocks (market value - 1991, \$876,403,000; 1990, \$600,305,000)	747,111,835	516,084,853
First mortgage real estate loans (market value - 1991, \$9,289,000; 1990, \$288,000)	10,124,614	292,029
Real estate investment trusts (market value - 1991, \$79,710,000; 1990, \$51,065,000)	75,313,134	44,554,750
Securities purchased under agreements to resell (market value approximates cost)	<u>223,993,377</u>	<u>274,717,537</u>
Total investments	1,326,654,141	1,195,582,077
Cash on deposit with State Treasurer	499,863	91,948
Members and employers contributions receivable	12,463,161	10,698,258
Past service credit contribution receivable	52,577,347	58,189,845
Accrued investment income	7,482,817	9,484,087
Other assets	<u>17,647</u>	<u>17,647</u>
<b>TOTAL</b>	<b>1,399,677,329</b>	<b>1,274,063,862</b>
<b>LIABILITIES:</b>		
Members refunds, insurance fund transfers and investment expenses payable	<u>3,450,324</u>	<u>3,997,595</u>
<b>NET ASSETS AVAILABLE FOR PLAN BENEFITS (Members' Contribution Account - 1991, \$289,073,219; 1990, \$254,282,752 and Retirement Allowance Account - 1991, \$1,107,153,786; 1990, \$1,015,783,515)</b>	<b><u>\$1,396,227,005</u></b>	<b><u>\$1,270,066,267</u></b>

These statements also depict that if your fund balance does not equal assets minus liabilities you have to have a negative. This is presented in the “unfunded actuarial present value of credited projected benefits”, which essentially reduces the RAA. The Member Contribution Account should never be negative, as that represents the System’s obligation to refund all the contributions and interest active members are entitled to. If it is negative, the System would be facing insolvency.

<b>FUND BALANCE:</b>		
Actuarial present value of projected benefits payable to current retirees and beneficiaries	\$ 533,730,563	\$ 414,437,109
Actuarial present value of projected benefits payable to terminated vested participants	15,183,655	21,505,175
Actuarial present value of credited projected benefits for active members:		
Member contributions	279,301,024	242,006,912
Employer financed portion	<u>680,565,641</u>	<u>621,270,666</u>
Total actuarial present value of credited projected benefits	1,508,780,883	1,299,219,862
Unfunded actuarial present value of credited projected benefits	<u>(112,553,878)</u>	<u>(29,153,595)</u>
<b>TOTAL FUND BALANCE</b>	<u><b>\$1,396,227,005</b></u>	<u><b>\$1,270,066,267</b></u>

See notes to financial statements.



COUNTY EMPLOYEES RETIREMENT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
MEMBERS' CONTRIBUTION ACCOUNT  
YEARS ENDED JUNE 30, 1991 AND 1990

	<u>1991</u>	<u>1990</u>
<b>REVENUES:</b>		
Members contributions	\$ 50,027,929	\$ 41,650,282
Interest credited to members' balances transferred from Retirement Allowance Account	<u>9,356,568</u>	<u>8,279,504</u>
<b>Total revenues</b>	<u>59,384,497</u>	<u>49,929,786</u>
<b>EXPENSES:</b>		
Refunds to former members	5,404,817	6,346,247
Retired members' balances transferred to Retirement Allowance Account	<u>19,189,213</u>	<u>14,493,797</u>
<b>Total expenses</b>	<u>24,594,030</u>	<u>20,840,044</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	34,790,467	29,089,742
<b>MEMBERS' CONTRIBUTION ACCOUNT:</b>		
BEGINNING OF YEAR	<u>254,282,752</u>	<u>225,193,010</u>
<b>END OF YEAR</b>	<u>\$289,073,219</u>	<u>\$254,282,752</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
RETIREMENT ALLOWANCE ACCOUNT  
YEARS ENDED JUNE 30, 1991 AND 1990

	<u>1991</u>	<u>1990</u>
<b>REVENUES:</b>		
Employers contributions	\$ 77,403,269	\$ 80,658,140
Investment income	75,889,593	86,852,951
Net realized gain on disposal of investments	1,292,434	45,450,457
Retired members' balances transferred from Members' Contribution Account	<u>19,189,213</u>	<u>14,493,797</u>
<b>Total revenues</b>	<u>173,774,509</u>	<u>227,455,345</u>
<b>EXPENSES:</b>		
Retirement benefits for members	53,341,986	41,158,196
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	16,562,994	13,054,106
Interest credited to members' balances transferred to Members' Contribution Account	9,356,568	8,279,504
Administrative expenses	1,585,753	1,551,164
Investment expenses	<u>1,556,937</u>	<u>488,486</u>
<b>Total expenses</b>	<u>82,404,238</u>	<u>64,531,456</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	91,370,271	162,923,889
<b>RETIREMENT ALLOWANCE ACCOUNT:</b>		
BEGINNING OF YEAR	<u>1,015,783,515</u>	<u>852,859,626</u>
<b>END OF YEAR</b>	<u>\$1,107,153,786</u>	<u>\$1,015,783,515</u>

## The Annual Reports for 1996-2018

The financial statements of this annual report, no longer identify the Members' Contribution Account or the RAA, and this is due to the adoption of *GASB Statement 25 - "Financial Reporting for the Defined Benefit Plans and Note Disclosures for Defined Contribution Plans"*

### NOTE C. Change in Accounting Principles

During 1996, the System elected an early adoption of the provisions of Government Auditing Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at fair value. The effect of the change in accounting principle on the beginning net assets held in trust for pension benefits for System as previously reported was a decrease of \$17,444,017.

*GASB 25* required that the difference between total plan assets and total plan liabilities at the reporting date should be captioned **net assets held in trust for pension benefits**.

The statement of changes in plan net assets should be prepared on the accrual basis, for the recognition of plan receivables and liabilities. The information should be presented in two principal sections, additions and deductions. The difference between total additions and deductions should be reported as the net increase (or decrease) for the year in **net assets held in trust for pension benefits**.

This didn't mean that the RAA or the Members' Contribution Account was dissolved as they were still a part of the Systems general ledger/bookkeeping accounts; however, per GAAP, these two accounts were no longer being presented on the face of the audited annual financial statements.

COUNTY EMPLOYEES RETIREMENT SYSTEM  
 STATEMENTS OF NET PLAN ASSETS  
 June 30, 1996

	<u>Hazardous Employees</u>	<u>Non-Hazardous Employees</u>	<u>1996 Total</u>
<b>ASSETS</b>			
Cash and short-term investments			
Cash	\$ 63,159	\$ 194,248	\$ 257,407
Short-term investments	<u>106,388,817</u>	<u>385,171,136</u>	<u>491,559,953</u>
Total cash and short-term investments	106,451,976	385,365,384	491,817,360
Receivables			
Investments - accounts receivable	4,651,627	16,314,612	20,966,239
Interest receivable - year end	1,925,908	6,244,953	8,170,861
Accounts receivable - year end	5,612,688	18,859,357	24,472,045
Accounts receivable - alternate plan	4,112,315	4,863,504	8,975,819
A/R - alternate plan - year end	<u>282,960</u>	<u>324,375</u>	<u>607,335</u>
Total receivables	16,585,498	46,606,801	63,192,299
Investments at fair value			
Bonds	88,920,374	273,222,092	362,142,466
Common stocks	456,124,114	1,639,717,615	2,095,841,729
Mortgages	25,797,074	81,390,663	107,187,737
Real estate	<u>35,870,238</u>	<u>119,030,638</u>	<u>154,900,877</u>
Total investments at fair value	<u>606,711,800</u>	<u>2,113,361,009</u>	<u>2,720,072,809</u>
Total assets	729,749,274	2,545,333,194	3,275,082,468
<b>LIABILITIES</b>			
Investment - accounts payable	28,508,921	88,415,960	116,924,881
Accounts payable	<u>1,511,746</u>	<u>4,971,755</u>	<u>6,483,501</u>
Total liabilities	<u>30,020,667</u>	<u>93,387,715</u>	<u>123,408,382</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$699,728,607</u>	<u>\$2,451,945,479</u>	<u>\$3,151,674,086</u>



COUNTY EMPLOYEES RETIREMENT SYSTEM  
STATEMENT OF CHANGES IN NET PLAN ASSETS  
For the Year Ended June 30, 1996

	<u>Hazardous Employees</u>	<u>Non-Hazardous Employees</u>	<u>Total</u>
<b>ADDITIONS</b>			
Contributions			
Employer	\$ 35,951,348	\$ 95,660,478	\$ 131,611,826
Member	<u>14,855,633</u>	<u>57,702,044</u>	<u>72,557,677</u>
Total contributions	50,806,981	153,362,522	204,169,503
Investment income			
Net appreciation in fair value of investments	192,603,233	707,162,428	899,765,661
Interest	13,513,968	44,746,256	58,260,224
Dividends	9,828,958	34,929,987	44,758,945
Real estate operating income (net)	<u>2,093,876</u>	<u>6,855,703</u>	<u>8,949,579</u>
Investment income	218,040,035	793,694,374	1,011,734,409
Less investment expense	<u>2,385,784</u>	<u>8,441,531</u>	<u>10,827,315</u>
Net investment income	<u>215,654,251</u>	<u>785,252,843</u>	<u>1,000,907,094</u>
Total additions	266,461,232	938,615,365	1,205,076,597
<b>DEDUCTIONS</b>			
Benefit payments	29,625,883	79,455,516	109,081,399
Refunds	968,999	7,975,454	8,944,453
Administrative expense	272,161	2,945,029	3,217,190
Other deductions (net)	<u>12,382,174</u>	<u>25,240,005</u>	<u>37,622,179</u>
Total deductions	<u>43,249,217</u>	<u>115,616,004</u>	<u>158,865,221</u>
Net increase	223,212,015	822,999,361	1,046,211,376
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>			
Beginning of year	478,924,330	1,643,982,397	2,122,906,727
Adjustment to net assets	<u>(2,407,738)</u>	<u>(15,036,279)</u>	<u>(17,444,017)</u>
End of year	<u>\$699,728,607</u>	<u>\$2,451,945,479</u>	<u>\$3,151,674,086</u>

**The Current Annual Reports (2025), the Current System of Accounting, and the current Pension Administration System**

The current term for fund balance used is “Fiduciary Net Position”, which is required with the adoption of *GASB Statement No. 67 – Financial Reporting for Pension Plans*, superseding *GASB Statement No. 25*, and was effective for fiscal year ended June 30, 2014.

GASB 67 requires defined benefit pension plans to present two financial statements, a statement of fiduciary net position and a statement of changes in fiduciary net position.

The statement of fiduciary net position presents the following items as of the end of the pension plan’s reporting period, as applicable:

- Assets, such as cash and cash equivalents, receivables from employers and plan members, investments (measured at fair value), and equipment and other assets used in pension plan operations
- Deferred outflows of resources
- Liabilities, such as benefit payments due to plan members
- Deferred inflows of resources
- Fiduciary net position, which equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources

The statement of changes in fiduciary net position presents the following items for the pension plan’s reporting period:

- Additions, such as contributions from employers, non-employer contributing entities, plan members, and net investment income
- Deductions, such as benefit payments and administrative expenses
- Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions

**The Individual Member Account & The RAA**

Within the current pension administration system, there is an individual **Member Account** for every member that shows an accumulated account balance. In addition, an annual statement is produced for each member and members can log into their self-service account and see their individual member balance.

Below is a screenshot of an actual Tier 3 Member’s account, with a total balance of \$47,240.72 (\$11,405.66 + \$16,177.83 + \$14,144.68+ \$5,512.55).

**Contribution History Information**

Your service, salary, and contribution history for this account through June 2025 is below. The 2010-2011 row may have the entirety of your interest accrued, instead of spread through each year. This is due to data conversion, and has no bearing on your account or retirement eligibility. The contribution details for service purchases will be reflected in the fiscal years in which you made the purchase. Contributions and interest displayed below are subject to audit and can change.

Fiscal Year	Plan	Pre Tax Contribution	Post Tax Contribution	Employee Interest	ERPAY	Employer Interest	Total Contribution & Interest
2025 - 2026	KERSNHZ	\$6,336.52	\$0.00	\$0.00	\$5,069.14	\$0.00	\$11,405.66
2024 - 2025	KERSNHZ	\$8,205.72	\$0.00	\$781.92	\$6,564.66	\$625.53	\$16,177.83
2023 - 2024	KERSNHZ	\$7,680.86	\$0.00	\$177.32	\$6,144.64	\$141.86	\$14,144.68
2022 - 2023	KERSNHZ	\$3,062.53	\$0.00	\$0.00	\$2,450.02	\$0.00	\$5,512.55

Within the current accounting system, there is a series of general ledger accounts that represents the combined balance of all individual **member accounts** in each system and plan (nonhazardous and hazardous).

In addition, within the current accounting system, there is a series of general ledger accounts that represents the balance of the RAA for each system and plan.

Below is the 6/30/2025 Great Plains general ledger trial balance for KERS and CERS nonhazardous that ties out to the 6/30/2025 ACFR's fiduciary net position.

System: 4/24/2026 9:28:31 AM **TRIAL BALANCE SUMMARY FOR 2026** Page: 1  
 User Date: 4/24/2026 Kentucky Retirement Systems User ID: acase  
 General Ledger

Ranges: From: To: Sorted By: Account  
 Date: 7/1/2024 7/1/2025 Include: Posting  
 Account: 56-CG-600 56-CG-700

Inactive	Account	Description	Beginning Balance	Debit	Credit	Net Change	Ending Balance
	56-CG-600	Fund Balance-Member	(\$2,157,409,921.00)	\$0.00	\$167,151,176.35	(\$167,151,176.35)	(\$2,324,561,097.35)
	56-CG-700	Retirement Allowance Account	(\$7,560,216,065.45)	\$0.00	\$740,798,162.41	(\$740,798,162.41)	(\$8,301,014,227.86)
<b>Grand Totals:</b>			<b>2 (\$9,717,625,986.45)</b>	<b>\$0.00</b>	<b>\$907,949,338.76</b>	<b>(\$907,949,338.76)</b>	<b>(\$10,625,575,325.21)</b>

System: 4/24/2026 9:26:12 AM **TRIAL BALANCE SUMMARY FOR 2026** Page: 1  
 User Date: 4/24/2026 Kentucky Retirement Systems User ID: acase  
 General Ledger

Ranges: From: To: Sorted By: Account  
 Date: 7/1/2024 7/1/2025 Include: Posting  
 Account: 51-KG-600 51-KG-700

Inactive	Account	Description	Beginning Balance	Debit	Credit	Net Change	Ending Balance
	51-KG-600	Fund Balance-Member	(\$1,449,467,943.63)	\$0.00	\$104,867,176.35	(\$104,867,176.35)	(\$1,554,335,119.98)
	51-KG-700	Retirement Allowance Account	(\$2,848,103,014.33)	\$0.00	\$740,846,180.54	(\$740,846,180.54)	(\$3,588,949,194.87)
<b>Grand Totals:</b>			<b>2 (\$4,297,570,957.96)</b>	<b>\$0.00</b>	<b>\$845,713,356.89</b>	<b>(\$845,713,356.89)</b>	<b>(\$5,143,284,314.85)</b>

## Basic Financial Statements

CERS Combining Statement of Fiduciary Net Position						
As of June 30, 2025, with Comparative Totals as of June 30, 2024 (\$ in Thousands)						
	Pension		Insurance		Total 2025	Total 2024
	Nonhazardous	Hazardous	Nonhazardous	Hazardous		
<b>ASSETS</b>						
<b>CASH AND SHORT-TERM INVESTMENTS</b>						
Cash Deposits	\$347	\$27	\$102	\$14	\$490	\$427
Short-term Investments	456,987	199,753	130,051	50,742	837,533	549,100
<b>Total Cash and Short-term Investments</b>	<b>457,334</b>	<b>199,780</b>	<b>130,153</b>	<b>50,756</b>	<b>838,023</b>	<b>549,527</b>
<b>RECEIVABLES</b>						
Accounts Receivable	82,169	24,683	4,848	1,866	113,566	132,694
Accounts Receivable - Investments	109,279	40,795	38,699	17,025	205,798	83,651
<b>Total Receivables</b>	<b>191,448</b>	<b>65,478</b>	<b>43,547</b>	<b>18,891</b>	<b>319,364</b>	<b>216,345</b>
<b>INVESTMENTS, AT FAIR VALUE</b>						
Core Fixed Income	1,308,686	477,687	487,232	221,756	2,495,361	1,810,070
Public Equities	5,038,728	1,806,652	1,856,841	872,231	9,574,452	9,514,789
Private Equities	598,233	212,752	227,007	126,030	1,164,022	1,219,303
Specialty Credit	2,059,130	734,922	776,100	362,496	3,932,648	3,638,528
Derivatives	(5)	(10)	9	16	10	219
Real Return	575,879	205,995	209,520	99,364	1,090,758	726,051
Real Estate	543,195	172,873	196,756	107,976	1,020,800	954,047
Securities Lending Collateral	272,127	97,816	82,942	39,382	492,267	445,653
<b>Total Investments, at Fair Value</b>	<b>10,395,973</b>	<b>3,708,687</b>	<b>3,836,407</b>	<b>1,829,251</b>	<b>19,770,318</b>	<b>18,308,660</b>
<b>Total Assets</b>	<b>11,044,755</b>	<b>3,973,945</b>	<b>4,010,107</b>	<b>1,898,898</b>	<b>20,927,705</b>	<b>19,074,532</b>
<b>LIABILITIES</b>						
Accounts Payable	6,699	1,310	15	—	8,024	8,604
Accounts Payable - Investments	140,354	52,768	51,302	23,076	267,500	147,492
Securities Lending Collateral	272,127	97,816	82,942	39,382	492,267	445,653
<b>Total Liabilities</b>	<b>419,180</b>	<b>151,894</b>	<b>134,259</b>	<b>62,458</b>	<b>767,791</b>	<b>601,749</b>
<b>Total Fiduciary Net Position</b>						
<b>Restricted for Benefits</b>	<b>\$10,625,575</b>	<b>\$3,822,051</b>	<b>\$3,875,848</b>	<b>\$1,836,440</b>	<b>\$20,159,914</b>	<b>\$18,472,783</b>

See accompanying notes which are an integral part of these combining financial statements.

## Basic Financial Statements

KRS Combining Statement of Fiduciary Net Position								
As of June 30, 2025, with Comparative Totals as of June 30, 2024 (\$ in Thousands)								
	Pension			Insurance			KRS Total 2025	KRS Total 2024
	KERS Nonhazardous	KERS Hazardous	SPRS	KERS Nonhazardous	KERS Hazardous	SPRS		
<b>ASSETS</b>								
<b>CASH AND SHORT-TERM INVESTMENTS</b>								
Cash Deposits	\$263	\$28	\$26	\$101	\$16	\$12	\$446	\$465
Short-term Investments	221,007	59,712	38,383	71,358	28,082	8,904	427,446	441,430
<b>Total Cash and Short-term Investments</b>	<b>221,270</b>	<b>59,740</b>	<b>38,409</b>	<b>71,459</b>	<b>28,098</b>	<b>8,916</b>	<b>427,892</b>	<b>441,895</b>
<b>RECEIVABLES</b>								
Accounts Receivable	89,217	4,019	2,995	5,631	444	220	102,526	116,626
Accounts Receivable - Investments	100,502	15,366	15,179	22,680	8,027	2,972	164,726	56,377
<b>Total Receivables</b>	<b>189,719</b>	<b>19,385</b>	<b>18,174</b>	<b>28,311</b>	<b>8,471</b>	<b>3,192</b>	<b>267,252</b>	<b>173,003</b>
<b>INVESTMENTS, AT FAIR VALUE</b>								
Core Fixed Income	1,321,111	108,938	192,126	185,737	71,714	26,046	1,905,672	1,672,118
Public Equities	1,634,223	488,519	239,772	778,997	308,751	124,098	3,574,360	3,092,032
Private Equities	204,983	64,641	28,351	110,299	44,588	19,915	472,777	474,267
Specialty Credit	1,007,415	279,612	141,502	450,538	173,745	72,263	2,125,075	1,726,445
Derivatives	17	(2)	1	—	11	(2)	25	(63)
Real Return	468,629	85,420	69,012	139,103	53,375	21,664	837,203	684,912
Real Estate	234,554	63,267	35,441	102,488	45,389	17,333	498,472	466,474
Securities Lending Collateral	129,611	29,538	19,073	39,153	15,518	6,208	239,101	205,574
<b>Total Investments, at Fair Value</b>	<b>5,000,543</b>	<b>1,119,933</b>	<b>725,278</b>	<b>1,806,315</b>	<b>713,091</b>	<b>287,525</b>	<b>9,652,685</b>	<b>8,321,759</b>
<b>Total Assets</b>	<b>5,411,532</b>	<b>1,199,058</b>	<b>781,861</b>	<b>1,906,085</b>	<b>749,660</b>	<b>299,633</b>	<b>10,347,829</b>	<b>8,936,657</b>
<b>LIABILITIES</b>								
Accounts Payable	4,662	1,276	236	3	—	—	6,177	5,691
Accounts Payable - Investments	133,975	19,574	19,699	33,057	10,039	3,953	220,297	112,582
Securities Lending Collateral	129,611	29,538	19,073	39,153	15,518	6,208	239,101	205,574
<b>Total Liabilities</b>	<b>278,248</b>	<b>50,388</b>	<b>39,008</b>	<b>72,213</b>	<b>25,557</b>	<b>10,161</b>	<b>465,575</b>	<b>323,847</b>
<b>Total Fiduciary Net Position</b>								
<b>Restricted for Benefits</b>	<b>\$5,143,284</b>	<b>\$1,148,670</b>	<b>\$742,853</b>	<b>\$1,833,872</b>	<b>\$724,103</b>	<b>\$289,472</b>	<b>\$9,882,254</b>	<b>\$8,612,810</b>

See accompanying notes which are an integral part of these combining financial statements.

CERS Combining Statement of Changes In Fiduciary Net Position						
For the fiscal year ended June 30, 2025, with Comparative Totals as of June 30, 2024 (\$ in Thousands)						
	Pension		Insurance		Total 2025	Total 2024
	Nonhazardous	Hazardous	Nonhazardous	Hazardous		
<b>ADDITIONS</b>						
Member Contributions	\$167,083	\$65,788	\$22,847	\$5,495	\$261,213	\$248,354
Employer Contributions	677,429	306,031	12,842	19,950	1,016,252	1,118,858
Other Additions	—	—	—	—	—	12,082
<b>Total Contributions &amp; Other Additions</b>	<b>844,512</b>	<b>371,819</b>	<b>35,689</b>	<b>25,445</b>	<b>1,277,465</b>	<b>1,379,294</b>
<b>INVESTMENT INCOME</b>						
Net Appreciation in FV of Investments	872,213	311,368	310,970	148,062	1,642,613	1,507,635
Interest/Dividends	321,416	115,259	118,334	55,730	610,739	566,984
Securities Lending Income	12,932	4,839	4,298	1,749	23,818	20,244
Less: Investment Expense	64,089	22,005	23,941	12,226	122,261	117,831
Less: Performance Fees	23,797	8,108	8,520	4,505	44,930	36,302
Less: Securities Lending Fees, Expenses, and Rebates	11,683	4,366	3,875	1,573	21,477	18,313
<b>Net Investment Income</b>	<b>1,107,012</b>	<b>396,987</b>	<b>397,266</b>	<b>187,237</b>	<b>2,088,502</b>	<b>1,922,417</b>
<b>Total Additions</b>	<b>1,951,524</b>	<b>768,806</b>	<b>432,955</b>	<b>212,682</b>	<b>3,365,967</b>	<b>3,301,711</b>
<b>DEDUCTIONS</b>						
Benefit Payments	993,357	376,348	—	—	1,369,705	1,284,097
Refunds	24,377	8,005	—	—	32,382	33,807
Administrative Expenses	25,841	2,262	917	524	29,544	30,350
Healthcare Expenses	—	—	142,084	105,121	247,205	221,030
<b>Total Deductions</b>	<b>1,043,575</b>	<b>386,615</b>	<b>143,001</b>	<b>105,645</b>	<b>1,678,836</b>	<b>1,569,284</b>
Net Increase in Fiduciary Net Position Restricted for Pension Benefits	907,949	382,191	289,954	107,037	1,687,131	1,732,427
<b>Total Fiduciary Net Position Restricted for Benefits</b>						
Beginning of Period	9,717,626	3,439,860	3,585,894	1,729,403	18,472,783	16,740,356
End of Period	\$10,625,575	\$3,822,051	\$3,875,848	\$1,836,440	\$20,159,914	\$18,472,783
See accompanying notes, which are an integral part of these combining financial statements.						

KRS Combining Statement of Changes In Fiduciary Net Position								
For the fiscal year ended June 30, 2025, with Comparative Totals as of June 30, 2024 (\$ in Thousands)								
	Pension			Insurance			KRS Total 2025	KRS Total 2024
	KERS Nonhazardous	KERS Hazardous	SPRS	KERS Nonhazardous	KERS Hazardous	SPRS		
	<b>ADDITIONS</b>							
Member Contributions	\$104,830	\$22,096	\$6,006	\$12,295	\$2,176	\$418	\$147,821	\$136,995
Employer Contributions	154,409	70,768	52,975	38,863	2,159	1,888	321,062	368,848
Actuarially Accrued Liability Contributions	864,522	—	—	1,860	—	—	866,382	987,445
General Fund Appropriations	300,000	—	25,000	—	—	—	325,000	240,000
Other Additions	—	—	—	4	—	—	4	9,485
<b>Total Contributions &amp; Other Additions</b>	<b>1,423,761</b>	<b>92,864</b>	<b>83,981</b>	<b>53,022</b>	<b>4,335</b>	<b>2,306</b>	<b>1,660,269</b>	<b>1,742,773</b>
<b>INVESTMENT INCOME</b>								
Net Appreciation in FV of Investments	363,949	92,561	52,053	147,310	56,743	22,884	735,500	553,411
Interest/Dividends	161,500	37,396	24,259	61,373	23,284	9,436	317,248	278,989
Securities Lending Income	6,775	1,655	1,119	2,535	766	345	13,195	8,524
Less: Investment Expense	23,822	6,541	3,341	10,280	4,681	1,878	50,543	43,491
Less: Performance Fees	9,022	2,232	1,076	3,575	1,810	695	18,410	13,592
Less: Securities Lending Fees, Expenses, and Rebates	6,093	1,495	1,008	2,293	690	312	11,891	7,641
<b>Net Investment Income</b>	<b>493,287</b>	<b>121,344</b>	<b>72,006</b>	<b>195,070</b>	<b>73,612</b>	<b>29,780</b>	<b>985,099</b>	<b>776,200</b>
<b>Total Additions</b>	<b>1,917,048</b>	<b>214,208</b>	<b>155,987</b>	<b>248,092</b>	<b>77,947</b>	<b>32,086</b>	<b>2,645,368</b>	<b>2,518,973</b>
<b>DEDUCTIONS</b>								
Benefit Payments	1,048,018	87,620	65,696	—	—	—	1,199,334	1,176,475
Refunds	11,154	6,212	346	—	—	—	17,712	16,046
Administrative Expenses	14,163	1,627	308	687	116	71	16,972	16,947
Healthcare Expenses	—	—	—	105,627	21,645	14,634	141,906	127,902
<b>Total Deductions</b>	<b>1,071,335</b>	<b>95,459</b>	<b>66,350</b>	<b>106,314</b>	<b>21,761</b>	<b>14,705</b>	<b>1,375,924</b>	<b>1,337,370</b>
Net Increase in Fiduciary Net Position Restricted for Pension Benefits	845,713	118,749	89,637	141,778	56,186	17,381	1,269,444	1,181,603
<b>Total Fiduciary Net Position Restricted for Benefits</b>								
Beginning of Period	4,297,571	1,029,921	653,216	1,692,094	667,917	272,091	8,612,810	7,431,207
End of Period	\$5,143,284	\$1,148,670	\$742,853	\$1,833,872	\$724,103	\$289,472	\$9,882,254	\$8,612,810
See accompanying notes, which are an integral part of these combining financial statements.								

While the Member Account and the RAA are no longer presented on the Systems' Annual Financial Statements as fund balance, and as the name fund balance has changed over the years, fund balance remains as it always has been: Assets minus Liabilities, and that "fund balance" (or that "net assets held in trust", or that "fiduciary net position") for the Systems continues to represent the combination of the Member Account and the RAA, and these accounts continue to be maintained as a system of accounting/general ledger accounts as they have always been since inception.

Through review of all the historical financial statements of CERS, KERS, and SPRS, there is no evidence that the RAA is to be depicted as a bank, custodial, or investment account, or series of such accounts, but rather a fund balance.

**Other retirement systems and Industry Guidance:**

Other public pension plan statutes with comparable language to the "retirement allowance accounts" of the Systems that have adopted similar interpretations, are as follows:

The Virginia Retirement Systems (VRS) has a "retirement allowance account",

*§ 51.1-148. Retirement allowance account.*

*A. All employer contributions, all amounts transferred from the members' contribution account, and all income from the invested assets of the retirement system shall be credited to the retirement allowance account. All benefits under the retirement system, other than refunds of members' accumulated contributions, and all administrative expenses of the retirement system, except to the extent that such expenses are otherwise paid, shall be paid from the retirement allowance account. At the discretion of the Board, contributions, penalties, and interest assessments may be deducted from the retirement allowance account of the employer.*

*B. The amount of the interest allowances provided for in this chapter shall be transferred from the retirement allowance account to the members' contribution account annually.*

*C. The records of the retirement allowance account shall be maintained so that the portion that is applicable to each respective employer may be ascertained at all times.*

Correspondence with the VRS Director of Policy, Planning and Compliance is as follows:

"These accounts are tracked separately in our system of record; they are not independent bank accounts. We think it would be impractical to have these funds in separate bank

accounts and would provide challenges for investing the funds within the overall Trust structure. We also construe subsection (C) of the statute to mean that the retirement allowance accounts are intended to be a record keeping function.”

The Kansas State Public Employees Retirement System (KPERs) also has “reserves” within the pension fund, (See K.S.A. § [74-4922](#)), including members accumulate contribution reserve, retirement benefit accumulation reserve, and a retirement benefit payment reserve, expense reserve:

*(b) Retirement benefit accumulation reserve. This reserve within the fund shall be credited with the portion of employer contributions for retirement benefits both for prior service and for participating service and with income of the fund not otherwise directed by law to a different reserve. The board shall credit interest to all other reserves and reserve accounts as provided by law at rates determined by the board. Interest so credited shall be transferred from the retirement benefit accumulation reserve. Separate reserve accounts shall not be maintained for each participating employer joining the system on the first entry date. The board shall determine whether or not separate reserve accounts shall be maintained for each participating employer joining the system after the first entry date.*

Correspondence with the KPERs Deputy Executive Director for Modernization is as follows:

“I would describe them as bookkeeping/accounting categories. The State has a main bank account divided into funds, one of which is the KPERs Trust Fund. The reserves are a component of the Trust Fund, with different accounting codes, depending on the type. Our statutes say the reserves are maintained within the funds and there is no mention of bank accounts or anything similar.”

The Teachers Retirement System of Kentucky (TRS) also has a series of funds and accounts, including the State Accumulation Fund, the Allowance Reserve Fund, the Guarantee Fund, and the Expense Fund. See KRS 161.420.( [statute.aspx](#))

*KRS 161.420 (4) The allowance reserve fund shall be the fund from which shall be paid all retirement allowances and benefits provided under KRS 161.520 and 161.525. In addition, whenever a change in the status of a member results in an obligation on this fund, there shall be transferred to this fund from the teachers' savings fund and the state accumulation fund, the amounts as may be held in those funds for the account or benefit of the member;*

Upon meeting with the TRS Chief Financial Officer and the Investment Accounting Manager, it was confirmed that all these accounts referenced in statute are a series of self-balancing general ledger accounts. They too use JPM as their depository bank and BNY as their custodial bank and do not consider any of these statutory retirement accounts to be bank, custodial, investment, or series of such accounts.

DRAFT

**List of documents, reports, memos, and minutes, utilized in the research for reaching the above noted conclusion.**

The Cash Flow Memo

Email Exchange between Kentucky Public Pensions Authority and the Commonwealth Office of Financial Management

Internal Audit report titled "*Plan Liquidity – Daily Qualification Process as of November 18, 2021*", issued February 3, 2022, - Finding Item #1 "Compliance with State Statutes"

Minutes of April 7, 2022, Joint Audit Committee Meeting

May 24, 2022, memo titled "Legal Analysis of Retirement Allowance Account"

Minutes of May 24, 2022, Joint Audit Committee Meeting.

April 20, 2026, KPPA Compliance Officer RAA research Memo

Founding Research Document – "Commonwealth of Kentucky Research Publication No. 6, "A Retirement System for Kentucky State Employees" (1949)

Specific Annual reports from 1958-2025, including CERS 1960, CERS/KRS: 1990, 1991, 1996, and the 2025 ACFRs (on website).

DRAFT



**Kentucky Public Pensions Authority**  
Internal Audit Administration



To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA  
Chief Auditor

Date: June 10, 2026

Subject: Update on the Office Space Utilization Project

At the May 2025 Audit Committee meeting, the Audit Committee approved the fiscal year 2026 Audit Plan. This plan included a review of Office Space Utilization, which was initially to be performed by the Internal Audit team. At that meeting, the Audit Committee approved allowing KPPA management to perform the research and have the Internal Audit team perform an independent review/confirmation of the information, to provide a higher level of confidence to the Audit Committee. The Audit Committee requested that the research include the following information:

1. Square footage of buildings and how much of the space is currently being used.
2. If all employees return to work five days a week, do we have enough space to accommodate that?
3. Current cost to operate buildings.
4. Estimated cost to operate buildings if 100% of employees were to return to work five days a week.
5. Impact on the above numbers if a Louisville office were to be opened.
6. Estimated square footage of Louisville office and how many employees would work out of that office.
7. Estimated cost of operating a Louisville office.
8. Feasibility of closing off certain areas of the buildings to reduce cost since many employees work from home.
9. Feasibility of consolidating employees into one building and leasing out the other building.

[Type here]

On June 1, a memorandum related to the Office Space Utilization project was provided to the Chief Auditor. The memorandum gives a background on building ownership, discusses the current telecommuting policy, and provides an average number of employees that were in office during a six-month period. There is a brief discussion on leasing part of one of the buildings.

The memorandum fails to address many of the items requested by the Audit Committee. When the Chief Auditor inquired about the missing details, it was communicated that after the Audit Committee approved the project in May 2025, a separate meeting was held with two members of KPPA management and one, possibly two, Audit Committee members. During that meeting, the participants agreed to change the requirements of the project. Those changes were not communicated to the Chief Auditor nor were they approved by the Audit Committee.

**RECOMMENDATION:** I am recommending the Audit Committee provide clarification on the expectations of the Office Space Utilization project. Additionally, I am requesting approval for either the original project to be completed or approval of accepting the guidelines of the revised project.



## Kentucky Public Pensions Authority

### Division of Internal Audit



## Independence Statement

The Global Internal Audit Standards (excerpted):

### Domain II Ethics and Professionalism

#### Principle 2 Maintain Objectivity

Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

- 2.1 Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances. Internal auditors must be aware of and manage potential biases.
- 2.2 The chief audit executive must establish methodologies to address impairments to objectivity.
  - Internal auditors must recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity.
  - Internal auditors must not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.
  - Internal auditors must avoid conflicts of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.
  - Internal auditors must refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 12 months.
  - If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.
  - If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.
- 2.3 If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.

### Domain III Governing the Internal Audit Function

#### Principle 7 Positioned Independently

The board establishes and protects the internal audit function's independence and qualifications.

- 7.1 The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.

**Code of Ethics — Principles**

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

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency** – Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

**Rules of Conduct**

1. Integrity – Internal auditors:
  - Shall perform their work with honesty, diligence, and responsibility.
  - Shall observe the law and make disclosures expected by the law and the profession.
  - Shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization.
  - Shall respect and contribute to the legitimate and ethical objectives of the organization.
2. Objectivity – Internal auditors:
  - Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
  - Shall not accept anything that may impair or be presumed to impair their professional judgment.
  - Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
3. Confidentiality – Internal auditors:
  - Shall be prudent in the use and protection of information acquired in the course of their duties.
  - Shall not use the information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.
4. Competency – Internal auditors:
  - Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
  - Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
  - Shall continually improve their proficiency and the effectiveness and quality of their services.

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

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

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

Unless indicated in the table on the previous page or listed below, in relation to my responsibilities as an employee of the Kentucky Public Pensions Authority – Division of Internal Audit, there are no impairments to my professional independence as defined by the Global Internal Audit Standards with respect to the responsibilities of the Division of Internal Audit, my public employment, and, specifically, units of state and local government and quasi-public corporations.

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics (page 3). I have also reviewed and understand the information set forth in Charter of the Division of Internal Audit.

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

None

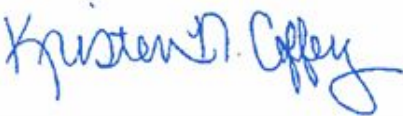
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Kristen N. Coffey  
*Employee Name (Please Print)*

Fiscal Year 2027  
*Effective Fiscal Year*



May 4, 2026  
*Date*

*Employee Signature*

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



## Kentucky Public Pensions Authority

### Division of Internal Audit



# Independence Statement

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  - Shall observe the law and make disclosures expected by the law and the profession.
  - Shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization.
  - Shall respect and contribute to the legitimate and ethical objectives of the organization.
2. Objectivity – Internal auditors:
  - Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
  - Shall not accept anything that may impair or be presumed to impair their professional judgment.
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3. Confidentiality – Internal auditors:
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4. Competency – Internal auditors:
  - Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
  - Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
  - Shall continually improve their proficiency and the effectiveness and quality of their services.

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

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

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

Unless indicated in the table on the previous page or listed below, in relation to my responsibilities as an employee of the Kentucky Public Pensions Authority – Division of Internal Audit, there are no impairments to my professional independence as defined by the Global Internal Audit Standards with respect to the responsibilities of the Division of Internal Audit, my public employment, and, specifically, units of state and local government and quasi-public corporations.

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics (page 3). I have also reviewed and understand the information set forth in Charter of the Division of Internal Audit.

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

None

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Madeline Evans	Fiscal Year 2027
<i>Employee Name (Please Print)</i>	<i>Effective Fiscal Year</i>
<hr/>	
/s/ Madeline Evans	5/4/2026
<i>Employee Signature</i>	<i>Date</i>

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## Kentucky Public Pensions Authority

### Division of Internal Audit



Kentucky Public  
Pensions Authority

## Independence Statement

The Global Internal Audit Standards (excerpted):

### Domain II Ethics and Professionalism

#### Principle 2 Maintain Objectivity

Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

- 2.1 Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances. Internal auditors must be aware of and manage potential biases.
- 2.2 The chief audit executive must establish methodologies to address impairments to objectivity.
  - Internal auditors must recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity.
  - Internal auditors must not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.
  - Internal auditors must avoid conflicts of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.
  - Internal auditors must refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 12 months.
  - If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.
  - If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.
- 2.3 If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.

### Domain III Governing the Internal Audit Function

#### Principle 7 Positioned Independently

The board establishes and protects the internal audit function's independence and qualifications.

- 7.1 The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.

### Code of Ethics — Principles

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

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency** – Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

### Rules of Conduct

1. Integrity – Internal auditors:
  - Shall perform their work with honesty, diligence, and responsibility.
  - Shall observe the law and make disclosures expected by the law and the profession.
  - Shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization.
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  - Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
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KPPA – Kentucky Public Pensions Authority  
 CERS – County Employees Retirement System  
 KRS – Kentucky Retirement Systems

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

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Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics (page 3). I have also reviewed and understand the information set forth in Charter of the Division of Internal Audit.

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

None

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James Westbay

<i>Employee Name (Please Print)</i>	<i>Fiscal Year 2027 Effective Fiscal Year</i>
/s/ James Westbay	5/4/2026
<i>Employee Signature</i>	<i>Date</i>

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## Kentucky Public Pensions Authority

### Division of Internal Audit



# Independence Statement

The Global Internal Audit Standards (excerpted):

### Domain II Ethics and Professionalism

#### Principle 2 Maintain Objectivity

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Question	Yes or No	Explanation for Yes Response
1. Have you or any of the following had any financial interest, direct or indirect, in any transaction with KPPA, CERS, and/or KRS?	No	
a. Any member of your immediate family (defined as your spouse, children, siblings, parents, and parents of spouses).	No	
b. Any person, firm, etc. in which you have a substantial economic interest.	No	
c. Any firm or corporation of which you are an officer, director, trustee, partner, or employee.	No	
d. Any person for whom you hope, expect, or are negotiating to work.	No	
e. Any person with whom you have any contact or who owes you money and is, therefore, able to affect your economic interests.	No	
2. Have you accepted or solicited anything of value in return for promises of favorable action on any matter that might be the subject of an audit?	No	
3. Are any members of your immediate family currently employed by KPPA, CERS, and/or KRS or have been in the previous three years?	No	
4. Do you have any official, professional, personal, or financial relationships that might cause you to limit the extent of any inquiry, to limit disclosure, or to weaken or slant audit findings in any way?	No	
5. Do you have any preconceived ideas towards individuals, groups, organizations, or objectives of a particular program that could bias an audit?	No	
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7. Did you have any previous responsibilities for decision-making on a program or process team that would influence the current operations of KPPA, CERS, and/or KRS?	No	
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Please list any personal impairment not discussed on page 2 or answer “None”:

None  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

<u>Zachary Curtis</u> <i>Employee Name (Please Print)</i>	<u>Fiscal Year 2027</u> <i>Effective Fiscal Year</i>
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<u>/s/Zachary Curtis</u> <i>Employee Signature</i>	<u>05/04/2026</u> <i>Date</i>
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## Kentucky Public Pensions Authority

### Division of Internal Audit



# Independence Statement

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

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

None  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

<u>William Prince</u> <i>Employee Name (Please Print)</i>	<u>Fiscal Year 2027</u> <i>Effective Fiscal Year</i>
--------------------------------------------------------------	---------------------------------------------------------

<u>/s/ William Prince</u> <i>Employee Signature</i>	<u>5/11/2026</u> <i>Date</i>
--------------------------------------------------------	---------------------------------

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# Kentucky Public Pensions Authority

## Division of Internal Audit



To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA  
Chief Auditor

Date: May 28, 2026

Subject: Fiscal Year 2026 Internal Audit Budget as of March 31, 2026

Account Number	Account Name	FYE 2026 Budget	FY 2026 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries	\$ 400,000.00	\$ 269,353.71	\$ 130,646.29	32.66%
121	Employer Paid FICA	30,600.00	19,419.67	11,180.33	36.54%
122	Employer Paid Retirement	169,372.36	116,046.23	53,326.13	31.48%
123	Employer Paid Health Insurance	50,000.00	46,322.16	3,677.84	7.36%
124	Employer Paid Life Insurance	60.00	44.00	16.00	26.67%
259T	Conference Expenses	4,000.00	825.00	3,175.00	79.38%
361T	Travel - In State	1,000.00	22.36	977.64	97.76%
362T	Travel - Out State	3,000.00	-	3,000.00	100.00%
381T	Dues & Subscriptions	1,500.00	803.50	696.50	46.43%
399T	Miscellaneous	-	-	-	-
847T	Computer Equipment	16,500.00	14,469.10	2,030.90	12.31%
	<b>Total</b>	<b>\$ 676,032.36</b>	<b>\$ 467,305.73</b>	<b>\$ 208,726.63</b>	<b>30.88%</b>

**259T Conference Expenses**

1. \$275 - NASRA Conference - virtual (K. Coffey)
2. \$550 - Association of Public Pension Fund Auditors Conference (Z. Curtis)

**361T In State Travel**

1. \$22.36 - Mileage Reimbursement IMPACT Forum (K. Coffey)

**362T Out of State Travel**

**381T Dues and Subscriptions**

1. \$103.50 - CPA License (J. Westbay)
2. \$500 - Annual dues Association of Public Pension Fund Auditors (KPPA)
3. \$200 - Dues for Institute for Internal Auditors (M. Evans)

**847T Computer Equipment**

1. \$14,469.10 - This is for the audit software utilized by Internal Audit. Amount paid in 1st Quarter covers all audit employees for June 2025 to May 2026 (due in prior fiscal year, but correct invoice not received until FY 2026).



# Kentucky Public Pensions Authority

## Division of Internal Audit



To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA  
Chief Auditor

Date: May 28, 2026

Subject: Fiscal Year 2026 Internal Audit Budget as of March 31, 2026

### Proposed FY 2027 Budget

Account Number	Account Name	Estimated 2026 Expenses	FYE 2027 Requested Budget	Percentage Change from 2026 Estimated Expenses
111	Salaries	\$ 359,971.24	\$ 375,000.00	4%
121	Employer Paid FICA	\$ 25,936.39	28,687.50	11%
122	Employer Paid Retirement <sup>1</sup>	\$ 154,104.05	167,550.00	9%
123	Employer Paid Health Insurance <sup>2</sup>	\$ 63,426.00	71,000.00	12%
124	Employer Paid Life Insurance	\$ 59.00	60.00	2%
259T	Conference Expenses <sup>3</sup>	\$ 825.00	3,000.00	264%
361T	Travel - In State <sup>3</sup>	\$ 22.36	2,000.00	8845%
362T	Travel - Out State <sup>4</sup>	\$ 833.46	-	-100%
381T	Dues & Subscriptions	\$ 1,013.50	1,500.00	48%
399T	Miscellaneous	\$ -	-	-
847T	Computer Equipment <sup>5</sup>	\$ 30,236.55	19,904.90	26%
	<b>Total</b>	<b>\$ 636,427.55</b>	<b>\$ 668,702.40</b>	<b>5%</b>

1. Retirement rate increased from 42.76% to 44.68% for KERS nonhazardous employees.
2. Increase is to adjust to match the anticipated actual health insurance cost for the rest of calendar year 2026. Additionally, KPPA is anticipating significant increase in health insurance during calendar year 2027.
3. Increase is based on anticipated fiscal year 2027 conference attendance. All employees will be attending conference in Louisville during November 2026.
4. No out of state travel is anticipated during fiscal year 2027.
5. Difference is based only on 2026 to 2027 amounts. Increase includes upgrade to new package that includes unlimited storage.

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Project Code	Project Name	Phase	Scheduled Start	Actual Start	Scheduled End	Actual End	Total FY 2026 Hours to Date	Estimated Hours	Estimated Hours Variance	Percentage Variance Estimated vs. Actual
2025-8	Inventory Process	Completion	7/1/2025	7/1/2025	8/29/2025	1/30/2026	113.75	100.00	20.00	6%
2026-1	GAINR Calculation	Completion	7/1/2025	7/1/2025	9/30/2025	9/22/2025	112.50	120.00	(7.50)	-7%
2026-2	Process for Updating the KPPA Website	Completion	7/1/2025	7/1/2025	9/19/2025	10/14/2025	262.00	250.00	12.00	5%
2026-3	Trustees Payments	Completion	7/1/2025	7/1/2025	9/17/2025	11/10/2025	412.00	300.00	112.00	27%
2026-4	Normal Member Benefit Payments	Completion	8/11/2025	9/15/2025	12/5/2025	2/9/2026	668.75	350.00	318.75	48%
2026-5	Disability Benefit Payments	Completion	8/11/2025	9/15/2025	12/5/2025	2/9/2026	356.75	350.00	6.75	2%
2026-6	Procurement Process	Completion	9/2/2025	9/2/2025	12/19/2025	2/16/2026	657.25	400.00	257.25	39%
2026-7	Tier 3 Opt-in Process	Fieldwork	1/14/2026	1/14/2026	4/17/2026	1/0/1900	495.50	500.00	(4.50)	-1%
2026-8	Hearing Officer Payments	Completion	7/1/2025	7/1/2025	9/17/2025	9/29/2025	289.25	300.00	(10.75)	-4%
2026-9	Post-retirement Audit Process	Completion	12/1/2025	12/15/2025	2/13/2026	3/17/2026	228.25	250.00	(21.75)	-10%
2026-10	Establishment of Process Back-ups	Fieldwork	12/1/2025	1/14/2026	3/13/2026	1/0/1900	436.00	450.00	(14.00)	-3%
2026-11	Employer Audit Process (specific to House Bill 8)	Planning	2/2/2026	2/2/2026	5/15/2026	1/0/1900	471.50	650.00	(77.00)	-13%
2026-12	Annual Dependent Verification Process	Not Started	5/4/2026	5/4/2026	6/30/2026	1/0/1900	96.00	250.00	(154.00)	-160%
2026-13	Training Related to Various Leave Types	Not Started	4/20/2026	4/20/2026	6/19/2026	1/0/1900	75.75	300.00	(224.25)	-296%
2026-14	System Build Process	Fieldwork	4/1/2026	3/2/2026	6/30/2026	1/0/1900	220.00	400.00	(180.00)	-82%
2026-15	Manual Remittance Process	Not Started	5/1/2026	1/0/1900	6/30/2026	1/0/1900	136.25	500.00	(363.75)	-267%
2026-16	Administrative Regulations Update Process	Completion	5/1/2026	3/4/2026	6/30/2026	3/18/2026	45.75	75.00	(29.25)	-64%
2026-20	KERS Trustee Election	Completion	7/1/2025	7/1/2025	4/30/2026	1/0/1900	122.25	100.00	22.25	18%
2026-21	FY 2027 Risk Assessment and Audit Plan	Fieldwork	1/5/2026	2/12/2026	6/30/2026	1/0/1900	48.25	125.00	(76.75)	-159%
2026-22	Open Audit Recommendation Review	Completion	1/5/2026	12/22/2025	3/31/2026	2/2/2026	25.75	25.00	0.75	3%
2026-23	Staff Performance Evaluations	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	226.00	200.00	26.00	12%
2026-24	ACFR/SAFR Review	Completion	8/18/2025	9/1/2025	2/13/2026	1/7/2026	25.75	30.00	(4.25)	-17%
2027-17	SPRS Trustee Election	Planning	1/0/1900	1/0/1900	6/30/2026	1/0/1900	8.25	14.00	(5.75)	-70%
2026-25	<b>Special Projects</b>									
2026-25.1	KPPA Executive Requests	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	34.50	25.00	9.50	28%
2026-25.2	CERS Requests	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	119.25	120.00	(0.75)	-1%
2026-25.3	KRS Requests	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	0.00	5.00	(5.00)	#DIV/0!
2026-25.4	FY 2026 Audit Project Setup	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	3.75	10.00	(6.25)	-167%
2026-25.5	Election Batch and Process Update	Completion	7/1/2025	7/1/2025	6/30/2026	2/27/2026	16.75	20.00	(3.25)	-19%
2026-25.6	Key Performance Indicators and Monthly Reports	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	26.25	36.00	(9.75)	-37%
2026-25.7	Process Documentation and Template Updates	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	192.00	200.00	(8.00)	-4%
2026-25.8	Quarterly Open Recommendations Report	Completion	7/1/2025	7/1/2025	4/30/2026	4/6/2026	3.00	4.00	(1.00)	-33%
2026-25.9	Security Access Review	Completion	8/1/2025	8/26/2025	2/27/2026	3/9/2026	1.50	2.00	(0.50)	-33%
2026-25.10	Charter and Policy Updates	Fieldwork	7/1/2025	1/29/2026	6/30/2026	1/0/1900	0.75	4.00	(3.25)	-433%
2026-25.11	APPFA Conference	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	33.00	30.00	3.00	9%
2026-25.12	Election Administrative Regulation Update	Completion	7/1/2025	7/1/2025	6/30/2026	9/30/2025	15.00	20.00	(5.00)	-33%
2026-25.13	KPPA Inventory Project	Completion	3/1/2026	3/10/2026	4/15/2026	4/2/2026	1.50	4.00	(2.50)	-167%
2026-25.14	Review of Office Space Utilization	Not Started	5/1/2026	1/0/1900	6/30/2026	1/0/1900	0.00	30.00	(30.00)	#DIV/0!

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

2026-30 Board and Committee Meetings											
2026-30.1	Audit Committee Meetings and Preparation	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	39.50	56.00	(16.50)	-42%	
2026-30.2	KPPA Board Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	28.00	40.00	(12.00)	-43%	
2026-30.3	CERS Board and Committee Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	70.25	75.00	(4.75)	-7%	
2026-30.4	KRS Board and Committee Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	33.00	35.00	(2.00)	-6%	
2026-31 Non-Board Meetings											
2026-31.1	Internal Audit Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	282.25	490.00	(207.75)	-74%	
2026-31.2	KPPA Executive Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	48.00	50.00	(2.00)	-4%	
2026-31.3	Meetings with CEOs	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	53.75	75.00	(21.25)	-40%	
2026-31.4	Meetings with KPPA Staff	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	25.00	40.00	(15.00)	-60%	
2026-31.5	Quarterly Director's Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	1.00	4.00	(3.00)	-300%	
2026-31.6	Quarterly All Employee Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	7.00	10.00	(3.00)	-43%	
2026-31.7	IT Governance	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	0.00	4.00	(4.00)	#DIV/0!	
2026-31.8	Employer Outstanding Invoices Work Group	Completion	7/1/2025	7/1/2025	8/31/2025	8/29/2025	1.00	5.00	(4.00)	-400%	
2026-31.9	External Meetings	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	56.75	68.00	(11.25)	-20%	
2026-32	Continuing Professional Education	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	172.75	200.00	(27.25)	-16%	
2026-33	On-The-Job Staff Training	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	366.25	350.00	16.25	4%	
2026-34	KPPA Leadership Program	Completion	7/1/2025	7/1/2025	6/30/2026	12/10/2025	13.00	15.00	(2.00)	-15%	
2026-35	Internal Audit Staff Hiring	Completion	7/1/2025	2/20/2026	6/30/2026	2/20/2026	0.00	0.00	0.00	#DIV/0!	
	Administrative Hours	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	194.25	350.00	(155.75)	-80%	
	Non-Working Hours	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	1,248.25	875.00	373.25	30%	
	Holiday	Fieldwork	7/1/2025	7/1/2025	6/30/2026	1/0/1900	431.25	500.00	(68.75)	-16%	

\*Budget variance takes into account the full budget for the audit, not just the FY 26 budget hours.

**Total Hours Worked** 9,052.00  
**Total Hours Scheduled** 8,954.50  
**Total Overtime Hours** 97.50  
**Average OT by Employee** 19.50

**Explanation of Overages 10% or greater**

- 2026-3: Lead auditor assigned was still in training, and the reviewer changed part of the way through the audit. Both resulted in additional time being spent on the audit than originally estimated.
- 2026-4: Changes were made to the audit scope as the audit was nearing completion. This caused additional hours to be spent on the audit.
- 2026-6: Reasoning for excess time spent on this audit is a personnel issue that has been addressed with audit team.
- 2026-20: More time was spent on this audit than anticipated due to various meetings held to discuss project next steps and status.
- 2026-23: Additional time was needed give various issues throughout the year.
- 2026-25.1: First time this project has been included (added at request of prior AC Chair and Vice Chair). Budgeted hours next year will be adjusted to reflect actual hours for this fiscal year.

FY 2026 Audit Plan

Fiscal Year 2026 Audits/Projects											Over Budget			
Carry-Over from FY 2025 Plan											FY 2025 Hours Available			
Division	Audit Number	Audit Name	Estimated Audit Hours	Auditor I	Auditor II	Internal Auditor	Internal Auditor	Chief Auditor	Total Audit Staff Hours	Difference in Actual vs Estimate for Completed Projects	Other KPPA Staff Audit Hours Spent on Project (estimated)	Non-audit staff time as a percent of audit staff time		
Procurement and Office Services	2025-8	Review the inventory process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure inventory is properly tracked and disposed.	100	0.00	21.50	0.00	1.75	90.50	113.75	(13.75)	46.25	14%		
Investments	2026-1	Review the tier 3 GAINR calculation process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure proper calculation and appropriate interest.	120	0.00	0.00	0.00	87.00	25.50	112.50	7.50	19.25	17%		
Communications	2026-2	Review the process for updating the KPPA website. Confirm controls are established to ensure the website reflects accurate information.	250	207.00	2.00	0.00	21.50	31.50	262.00	(12.00)	17.50	7%		
Board of Trustees	2026-3	Review the process for making payments to Trustees and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.	300	0.00	8.50	315.50	38.00	50.00	412.00	(112.00)	38.75	9%		
Retiree Payroll	2026-4	Review the member benefit payment process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure payments are not made to deceased members.	350	0.75	65.50	568.25	14.25	20.00	668.75	(318.75)	4.25	1%		
Disability and Survivor Benefits	2026-5	Review the disability benefit payment process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure disability payments are properly calculated, made timely and accurately, and paid to the proper individual.	350	0.75	331.50	0.00	5.50	19.00	356.75	(6.75)	11.00	3%		
Procurement and Office Services	2026-6	Review the procurement process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure services match the contract, are properly procured, monitored, and best value for the agency.	400	576.00	1.50	3.50	9.00	67.25	657.25	(257.25)	19.75	3%		
Membership Support	2026-7	Review the process for when a member opts into Tier 3, including the removal of interest, and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper interest amount is removed and process is completed timely.	500	0.00	452.00	0.00	9.25	34.25	495.50	4.50	16.75	3%		
Executive Management	2026-8	Review the process for making payments to hearing officers and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.	300	0.00	260.00	0.00	8.00	21.25	289.25	10.75	4.00	1%		
Quality Assurance	2026-9	Review the post-retirement audit process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure post-retirement audits are completed timely and accurately.	250	0.00	38.50	0.00	172.00	17.75	228.25	21.75	22.75	10%		
Corporate Governance	2026-10	Ensure a back-up has been established for executive and division functions. Ensure process documentation is on file for each division.	450	291.75	0.00	82.00	18.25	44.00	436.00	14.00	28.00	6%		
ERCE	2026-11	Review the employer audit process (specific to House Bill 8) and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are audited as required and that audits are completed timely.	650	0.00	2.50	410.00	14.50	44.50	471.50	178.50	4.00	1%		
Retiree Health Care	2026-12	Review the process for annually verifying dependents for hazardous members and ensure compliance with statutes/ regulations/ policies. Confirm controls are established to ensure support is provided for each dependent.	250	0.00	0.00	11.00	78.00	7.00	96.00	154.00	7.50	8%		
Human Resources	2026-13	Review training provided to staff regarding various types of leave. Ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure staff are properly trained on leave procedures as well as required leave documentation.	300	0.00	0.00	0.00	69.50	6.25	75.75	224.25	21.25	28%		
IT	2026-14	Review the system build process and ensure compliance with statutes/regulations/policies. Confirm controls are established to sufficiently test the changed and identify errors. Confirm controls are established to ensure errors are corrected prior to changes being put into production.	400	0.00	19.50	0.00	182.00	18.50	220.00	180.00	26.25	12%		
Retiree Health Care	2026-15	Review the manual remittance process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure manual remittance is processed accurately and timely.	500	63.50	70.25	0.00	1.00	1.50	136.25	363.75	5.00	4%		
Legal Services	2026-16	Review the process to update administrative regulations. Confirm controls are established to ensure regulations comply with statutes and are not expired.	75	0.00	0.00	5.00	3.00	37.75	45.75	29.25	1.50	3%		
Board of Trustees	2026-20	KERS Trustee Election	100	0.00	22.00	0.00	0.00	100.25	122.25	(22.25)	24.75	20%		
Internal Audit	2026-21	FY 2027 Risk Assessment and Audit Plan	125	0.00	0.00	0.00	0.00	48.25	48.25	76.75	2.00	4%		
Internal Audit	2026-22	Open Audit Recommendation Review	25	0.00	7.00	0.00	0.00	18.75	25.75	(0.75)	19.75	77%		
Internal Audit	2026-23	Staff Performance Evaluations	200	40.25	3.00	1.00	95.25	86.50	226.00	(26.00)	-	-		
Internal Audit	2026-24	ACFR/SAFR Review	30	0.00	12.00	0.00	0.00	13.75	25.75	4.25	-	-		
Internal Audit	2027-17	SPRS Trustee Election	14	0.00	0.00	1.00	4.50	2.75	8.25	-	-	-		

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Fiscal Year 2026 Audits/Projects				1,957.50	1,959.50	1,959.50	1,955.50	1,959.50	FY 2025 Hours Available				
	Division	Audit Number	Audit Name	Estimated Audit Hours	Auditor I	Auditor II	Internal Auditor	Internal Auditor	Chief Auditor	Total Audit Staff Hours	Difference in Actual vs Estimate for Completed Projects	Other KPPA Staff Audit Hours Spent on Project (estimated)	Non-audit staff time as a percent of audit staff time
		2026-25	<b>Special Projects</b>										
24	Executive Management	2026-25.1	KPPA Executive Requests	25	0.00	0.00	0.00	3.50	31.00	34.50		-	-
25	Board of Trustees	2026-25.2	CERS Requests	120	23.00	0.00	0.00	19.00	77.25	119.25		-	-
26	Board of Trustees	2026-25.3	KRS Requests	5	0.00	0.00	0.00	0.00	0.00	0.00		-	-
27	Internal Audit	2026-25.4	FY 2026 Audit Project Setup	10	0.00	0.00	0.00	0.00	3.75	3.75		-	-
28	Internal Audit	2026-25.5	Election Batch and Process Update	20	0.00	0.00	0.00	0.00	16.75	16.75		-	-
29	Internal Audit	2026-25.6	Key Performance Indicators and Monthly Reports	36	0.00	0.00	0.00	0.00	26.25	26.25		-	-
30	Internal Audit	2026-25.7	Process Documentation and Template Updates	200	0.00	0.00	0.00	131.50	60.50	192.00		-	-
31	Internal Audit	2026-25.8	Quarterly Open Recommendations Report	4	0.00	0.00	0.00	0.00	3.00	3.00		-	-
32	Internal Audit	2026-25.9	Security Access Review	2	0.00	0.00	0.00	0.00	1.50	1.50		-	-
33	Internal Audit	2026-25.10	Charter and Policy Updates	4	0.00	0.00	0.00	0.25	0.50	0.75		-	-
34	Internal Audit	2026-25.11	APPPA Conference	30	12.50	1.00	1.00	17.50	1.00	33.00		-	-
35	Internal Audit	2026-25.12	Election Administrative Regulation Update	20	0.00	0.00	0.00	0.00	15.00	15.00		-	-
36	Internal Audit	2026-25.13	KPPA Inventory Project	4	0.00	0.00	0.00	0.00	1.50	1.50		-	-
37	Internal Audit	2026-25.14	Review of Office Space Utilization	30	0.00	0.00	0.00	0.00	0.00	0.00		-	-
		2026-30	<b>Board and Committee Meetings</b>										
38	Board of Trustees	2026-30.1	Audit Committee Meetings and Preparation	56	5.00	4.00	1.00	5.00	24.50	39.50	16.50	-	-
39	Board of Trustees	2026-30.2	KPPA Board Meetings	40	7.50	6.50	1.00	2.50	10.50	28.00	12.00	-	-
40	Board of Trustees	2026-30.3	CERS Board and Committee Meetings	75	16.00	20.00	1.00	8.50	24.75	70.25	4.75	-	-
41	Board of Trustees	2026-30.4	KRS Board and Committee Meetings	35	5.00	10.00	2.00	7.50	8.50	33.00	2.00	-	-
		2026-31	<b>Non-Board Meetings</b>										
42	Internal Audit	2026-31.1	Internal Audit Meetings	490	95.00	60.50	10.75	17.50	98.50	282.25	207.75	-	-
43	Executive Management	2026-31.2	KPPA Executive Meetings	50	0.50	0.00	0.00	1.00	46.50	48.00	2.00	-	-
44	Board of Trustees	2026-31.3	Meetings with CEOs	75	0.00	1.00	0.00	0.00	52.75	53.75	21.25	-	-
45	Executive Management	2026-31.4	Meetings with KPPA Staff	40	0.00	0.00	0.00	0.00	25.00	25.00	15.00	-	-
46	Executive Management	2026-31.5	Quarterly Director's Meetings	4	0.00	0.00	0.00	0.00	1.00	1.00	3.00	-	-
47	Executive Management	2026-31.6	Quarterly All Employee Meetings	10	2.00	2.00	0.00	1.00	2.00	7.00	3.00	-	-
48	Executive Management	2026-31.7	IT Governance	4	0.00	0.00	0.00	0.00	0.00	0.00	4.00	-	-
49	Executive Management	2026-31.8	Employer Outstanding Invoices Work Group	5	0.00	0.00	0.00	0.00	1.00	1.00	4.00	1.00	100%
50	Internal Audit	2026-31.9	External Meetings	68	9.00	13.50	8.50	7.50	18.25	56.75	11.25	-	-
51	Internal Audit	2026-32	Continuing Professional Education	200	4.75	113.50	14.50	17.00	23.00	172.75	27.25	-	-
52	Internal Audit	2026-33	On-The-Job Staff Training	350	0.00	84.00	57.00	225.25	0.00	366.25	(16.25)	-	-
53	Internal Audit	2026-34	KPPA Leadership Program	15	0.00	0.00	0.00	7.00	6.00	13.00	2.00	-	-
54	Internal Audit	2026-35	Internal Audit Staff Hiring	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-
55	Internal Audit		Other Administration	350	10.00	12.50	5.00	26.25	140.50	194.25	155.75	-	-
56	Internal Audit		Other Leave	875	337.00	75.00	212.25	388.75	235.25	1,248.25	(373.25)	-	-
57	Internal Audit		Holiday	500	86.25	86.25	86.25	86.25	86.25	431.25	68.75	-	-
Scheduled hours for FY 2026				9,791	1,793.50	1,807.00	1,797.50	1,805.00	1,849.00	9,052.00		341.25	6%
Reserve Hours for Unplanned Projects				0.50	164.00	152.50	162.00	150.50	110.50				



# KPPA

Kentucky Public Pensions Authority

**2026-9**  
**Review of Post-Retirement Audit Process**  
**Audit Report**

*Lead Auditor: Madeline Evans*

*Issue Date: March 18, 2026*

**Acronyms**

The following acronyms will be used throughout the report:

1. KPPA – Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KRS – Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO – Chief Executive Officer
6. CFO – Chief Financial Officer
7. KPPA Executive Management Team – KPPA Executive Director, KPPA Deputy Executive Director, and
8. KPPA CFO
9. Quality Assurance – KPPA Division of Quality Assurance
10. Retiree Payroll – KPPA Division of Retiree Payroll
11. LOB – Line of Business

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**Overall Opinion**

The process generally complies with relevant laws, regulations, policies and procedures. Internal controls are established and working effectively and efficiently.

**Strategic Risk Addressed (Objective)**

Review the post-retirement audit process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure post-retirement audits are completed timely and accurately.

**Audit Scope**

The Review of Post-Retirement Audit Process audit was conducted from December 15, 2025 to February 27, 2026. The scope of the audit was benefit recalculations completed in fiscal year 2025.

**Summary of Findings, Observations, and Opportunities for Improvement**

No findings, observations, or opportunities for improvement were noted as a result of this audit.

### **Commendations**

We would like to thank Quality Assurance and Retiree Payroll staff for their assistance and cooperation during this audit. As a part of the audit, we ensured the following processes were operating in compliance with statutes, regulations, policies, and procedures. We also reviewed the processes to ensure they were operating effectively and efficiently.

1. Benefit recalculations were made when needed and were properly supported.
2. Benefit recalculations were prepared by one Quality Assurance staff member and reviewed by another.
3. Side-by-side comparison that is automatically generated after the recalculation properly matched the Account Details screen in LOB.
4. The new benefit amount and any related over or under payment was reviewed by Retiree Payroll staff.
5. The over or under payment was properly calculated.
6. Underpayments were paid to members during the next payroll after the recalculation.
7. Overpayments were properly collected in a timely manner.
8. Overpayments on refunds were properly invoiced.

We also reviewed the adjustment letters sent to members to ensure the information in the letter accurately reflected the adjustment made to the members' account. We found two instances where the letter did not correctly communicate the change made to the member's account. Immediately upon learning about these discrepancies, Retiree Payroll staff took corrective action to ensure these discrepancies do not occur in the future. Since corrective action has already been taken, an issue is not being reported in this audit because no additional action is needed by staff. We commend staff for their quick response to address the discrepancy reported during the audit.

### **Recommendations for Future Audits**

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

- Qualified Domestic Order processing for initial benefits and recalculations
- Legacy recalculations
- Pension Spiking
- Offset Calculations
- Disability Reinstatements
- Survivor Benefit adjustment notification
- Review of member invoices. There are approximately 47 open invoices going back at least to 2009 totaling \$196,455. This review would also ensure that these are presented to trustees like outstanding employer invoices.

### **Audit Standards**

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

### **Use of Report**

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; and the Divisions of Quality Assurance and Retiree Payroll. This report is not intended to be, and should not be, used by anyone other than the specified parties. All final reports are subject to Open Records Requests.

## Appendix A – Control Matrix

Internal Audit requested a list of all recalculations completed in fiscal year 2025. The original population was \$6,402,534 for 4,607 calculations. Recalculations were removed that met at least one of the following criteria: deceased member, approved for Worker’s Compensation or Social Security Disability and needing an offset calculation, disability benefits reinstated, members with a Qualified Domestic Order on file, Pension Spiking and Legacy recalculations (members with retirement dates before August 2011). All these recalculation types will be reviewed in separate audits. The remaining testable population was \$4,263,850 for 3,263 calculations. All 13 calculations with manual adjustments were judgmentally selected and 62 other calculations were randomly selected to ensure proportional representation of each employer type that makes up the original population. A total of 75 calculations were selected for testing.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	<p><b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.</p> <p><b>Control Activity:</b> Management implements control activities through policies.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.</p>	Quality Assurance branch managers are expected to review procedures posted to SharePoint periodically to ensure they are up to date. There is no scheduled time to review for updates aside from after a legislative session to make sure any changes to how benefits are calculated are captured. Quality Assurance staff are also encouraged to let management know that procedures are outdated if an issue is found while performing the procedures.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are up to date on SharePoint for both Quality Assurance and Retiree Payroll.
2.	Post-retirement audits may not be completed	LOB automatically launches audits two months after effective retirement cate	<p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.</p> <p><b>Monitoring:</b> Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.</p>	LOB automatically runs a Non-Zero Balance (NZB) batch on all retirements two months after the member's retirement date unless the member is retiring from a school board agency. School board retirement audits are launched at year end after the averaging batch has run to ensure the last year of service is valid. If the NZB detects any difference at all, then a work item is created and assigned by the Quality Assurance branch manager to a post-retirement counselor. A recalculation request may also be launched manually by member request or by a sperate process completed by other divisions requiring a recalculation. If everything used in the initial calculation was correct and there are no updates to wages, sick leave or anything else that impacts the monthly benefit, no work item is launched to prompt further review.	<ol style="list-style-type: none"> <li>1. Compared the initial calculation against the recalculation and source documentation to ensure everything that needed to be updated was captured in the recalculation.</li> <li>2. Confirmed that all changes made in the recalculation were supported by documentation on file.</li> </ol>	<ol style="list-style-type: none"> <li>1. All 75 sampled recalculations had updates made when needed.</li> <li>2. All 75 sampled recalculations were properly supported.</li> </ol>

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Retiree payments use outdated information	A journal comment documents details of the audit	<p><b>Control Activity:</b> Management implements control activities through policies.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization’s objectives.</p>	<p>The Branch Manager assigns calculations based on employer. For example, if there are two members from the same employer, those two members will go to the same post-retirement counselor because it is likely that both members have the same problem with their calculation. This also cuts down on emails to the reporting official if additional information or clarification is needed because the one post-retirement counselor can ask about both people at the same time.</p> <p>During the post-retirement audit, the assigned counselor compares all data used in the initial calculation with the finalized information reported by the employer through the monthly reporting process. Any discrepancies between the projected and actual reported information that result in differences in the monthly benefit or health insurance coverage—and cannot be explained by trailing wages, approved bonuses, approved sick leave programs, or other existing documentation—will be documented by the counselor. This documentation will include uploading relevant email correspondence or other records from the reporting official to library manager.</p> <p>The preparer of the post-retirement audit makes a journal comment stating what caused the benefit to change. If the member selected a refund or Partial Lump Sum Option, the original and new amounts are stated along with what is due to the member (underpayment) or what the member owes (overpayment).</p> <p>A second post-retirement auditor follows the same review process as the preparer and reviews the journal comment left by the preparer. If the reviewer agrees, then the audit is approved, and a journal comment is left stating approval. If something needs to be fixed, that is stated as well in the journal comment of the post-retirement audit thread.</p>	<ol style="list-style-type: none"> <li>1. Reviewed Quality Assurance journal comments to ensure all updated elements of the benefit calculation were documented.</li> <li>2. Compared the user ID of the preparer and reviewer of each sampled calculation and ensured preparation and review were performed by two different individuals.</li> </ol>	<ol style="list-style-type: none"> <li>1. For the 75 sampled members, all elements of the benefit calculation that changed were documented in the journal comment left by Quality Assurance staff.</li> <li>2. All 75 sampled recalculations were prepared and checked by two different Quality Assurance counselors.</li> </ol>

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
4.	Manual adjustments are made inappropriately	Only Quality Assurance management can prepare and approve manual adjustments	<p><b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.</p> <p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p>	<p>Occasionally, LOB does not zero out a retiree's account after a recalculation has been completed and approved. Post-retirement audit counselors escalate these cases to the Quality Assurance Post-Retirement Audit Branch Manager who then adjusts the account balance shown on the summary tab to \$0 by entering the opposite value (positive or negative) of contributions LOB is retaining in error. A comment must be made explaining what was updated. Once the approver reviews work completed and enters the adjustment, a comment is automatically posted to the journal with the preparer's comment but the approver's username. Only branch managers and above have the capability to manually adjust an account.</p> <p>Manual adjustments are common for members who participate in two systems, have pension spiking issues, and rounding issues during refunds. There are other reasons why a manual adjustment is needed but these are expected cases.</p>	Reviewed LOB and confirmed that only the Quality Assurance Division Director, Assistant Director and/or Post-Retirement Branch Manager approved manual adjustments.	Of the 3,263 testable recalculations completed in fiscal year 2025, only 13 had manual adjustments and all 13 adjustments were approved by the Quality Assurance Division Director, Assistant Director and/or Post-Retirement Branch Manager.
5.	Future monthly payments do not match the approved recalculation	Retiree Payroll compares the side-by-side calculation against the account details screen	<p><b>Control Activity:</b> Management implements control activities through policies.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.</p>	<p>After the post-retirement audit is completed and checked, the associated work item is assigned in work manager to Retiree Payroll counselors who review the journal comment left by Quality Assurance staff and the side-by-side comparison that is automatically created in the post-retirement process.</p> <p>The assigned Retiree Payroll counselor ensures that the details on the side-by-side comparison match details in the Account Info screen and that the amount due to the member or owed by the member documented in the Quality Assurance journal comment was calculated correctly.</p> <p>If all is correct, the Retiree Payroll approval will indicate this in a journal comment. If something does not match or the under/over payment was calculated incorrectly, the Retiree Payroll counselor will ask for clarification or correction to be documented in the journal comment.</p> <p>This work is checked by a second Retiree Payroll counselor.</p>	<ol style="list-style-type: none"> <li>1. Compared the side-by-side comparison to the account details screen and ensured the information matched.</li> <li>2. Compared the user ID of preparer and reviewer of each sampled calculation and ensured preparation and review were performed by two different individuals.</li> </ol>	<ol style="list-style-type: none"> <li>1. The following was noted related to the 75 sampled side-by-side comparisons: <ol style="list-style-type: none"> <li>a. 67 side-by-side comparisons matched the account details screen.</li> <li>b. 7 recalculations did not have to be adjusted because the difference between the initial and recalculated benefit was less than \$2 for non-refund options or less than \$100 for refund options.</li> <li>c. One benefit had to be manually adjusted by Quality Assurance, which did not create a side-by-side benefit to test, but the account details screen shows the correct information.</li> </ol> </li> <li>2. Correspondence for all 75 sampled recalculations were prepared and approved by two separate Retiree Payroll counselors.</li> </ol>

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
6.	Members and beneficiaries are not notified of changes appropriately	Templated letters explaining adjustments with pre-approved language are sent to members	<p><b>Control Activity:</b> Management implements control activities through policies.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization’s objectives. Management communicates necessary information externally.</p>	The assigned Retiree Payroll counselor generates an adjustment letter in the correspondence module and selects each templated bullet point to explain why changes were made to the member’s monthly benefit. Portions of the templated language are updated to match the member’s information. It is then reviewed and approved by a second Retiree Payroll counselor. This can be mailed or sent to the member via Instant Messaging Center.	Compared the Quality Assurance journal comment documenting what changed about a member’s benefit to the adjustment letter sent to member and ensured the letter properly reflected the information that was updated.	<p>Of the 75 sampled members, two adjustment letters did not correctly notify the members of what caused the change to their benefit payment. Staff took immediate corrective action upon being notified of these discrepancies.</p> <p>Additional recommendations are not needed, so an issue will not be created. (see <b>Commendations Section of report</b>).</p>
7.	Retirement eligible refunds are not invoiced correctly	Overpayments on refunds are invoiced	<p><b>Control Activity:</b> Management implements control activities through policies.</p>	<p>If a post-retirement audit reveals that a member was overpaid and selected the retirement eligible refund option, the difference will be invoiced when the correspondence about the change is approved by the second Retiree Payroll counselor.</p> <p>The approving Retiree Payroll counselor creates the invoice on the same day they approve the adjustment letter to ensure that both pieces of correspondence are sent together to the member. The preparer of the letter then checks the invoice created by the checker. Payment is due 30 days after the invoice date.</p> <p>The processes to monitor invoices and escalate unpaid invoices to the Office of Legal Services will be reviewed in a future audit.</p>	Confirmed that invoices created by Retiree Payroll matched the amount owed calculated during the post-retirement audit process.	Of the 70 refunds reviewed, only three members had an overpayment. All three overpayments were invoiced for the correct amount.

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
8.	Overpayments and underpayments are not recovered or dispersed	LOB automatically calculates the next payment	<b>Control Activity:</b> Management designs the entity's information system and control activities.	<p>Most members are found to have been underpaid during a post-retirement audit because initial calculations are conservative. If the member was underpaid, the difference between what they should have been paid for months before the recalculation, and the new monthly benefit will be added to the next monthly benefit.</p> <p>If the member was overpaid and the difference between what was paid before the recalculation and the new monthly benefit is 20% or less of the gross payment, a one-time lump sum will be withheld from the payment issued 60 days after the recalculation is approved. This gives the member time to appeal or to financially prepare to pay the difference. If the difference owed is more than 20% of the gross monthly payment, a reduce remainder or recurring monthly withholding will be set up to recover the total owed. The reduced remainder and beginning date are automatically set by LOB which can be seen on the payee tab of the maintain benefits screen. The Retiree Payroll counselor assigned to the adjustment letter work item reviews these automated details to determine how many months are needed to recover the total owed by dividing the total by 2, 3, etc. until each month has the same value withheld to ensure clarity for the member. The adjusted reduce remainder is keyed into the maintain payee module and LOB will automatically cease the monthly withholding when the total amount owed has been recovered. The adjusted reduce remainder and recovery period are keyed into the adjustment letter and checked by a second retiree payroll counselor.</p> <p>If a member contacts KPPA stating that they cannot afford the monthly reduction, the call center launches a work item notifying Retiree Payroll that an adjustment is needed. The assigned Retiree Payroll counselor will call the member to determine what is affordable. The details of the call and what the member can manage are documented in a journal comment. The manual adjustment is made in the payee tab, and an adjustment letter is prepared to show the new payment plan. A second retiree payroll counselor reviews the manual adjustment and letter.</p> <p>If the account type is a retirement eligible refund, the amount due to the member is paid by check to the mailing address on file. If an amount is owed the invoice is sent to the mailing address on file.</p> <p>If the member chooses a refund option and the difference is \$100 or less, or if the member chooses a non-refund option and the difference is \$2 or less then the difference is written off.</p>	Auditor recalculated amount over or under paid to the member and ensured this agreed to the amount calculated by LOB.	All 75 over/under payments were calculated correctly by LOB.



# **KPPA**

Kentucky Public Pensions Authority

**2026-16**

## **Administrative Regulation Update Process**

### **Audit Report**

*Lead Auditor: Kristen Coffey*

*Issue Date: April 1, 2026*



**Acronyms**

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA CFO, and KPPA Executive Director of Legal Services
8. Legal Services – KPPA Office of Legal Services
9. Internal Audit – KPPA Division of Internal Audit
10. LRC – Legislative Research Committee

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**Overall Opinion**

The process generally complies with relevant laws, regulations, policies and procedures. Internal controls are established and working effectively and efficiently.

**Strategic Risk Addressed (Objective)**

Review the process to update administrative regulations. Confirm controls are established to ensure regulations comply with statutes and are not expired.

**Audit Scope**

The Administrative Regulation Update Process audit was conducted from March 4, 2026 to March 16, 2026. The scope of the audit was administrative regulations active as of March 1, 2026.

**Summary of Findings, Observations, and Opportunities for Improvement**

No findings, observations, or opportunities for improvement were noted as a result of this audit.

### **Commendations**

This process is well documented. Legal Services staff provided responses to questions on the same day the questions were received. The quick responses, good documentation, and efficient process resulted in this audit being completed in twelve calendar days. We appreciate staff's diligent work on this process and their willingness to assist the audit team on this review.

As a part of this audit, Internal Audit staff ensured the following were operating in compliance with statutes, regulations, policies, and procedures. We also reviewed the process to ensure it was operating effectively and efficiently.

1. Administrative regulations were approved by the appropriate Board.
2. Administrative regulations were created/amended when necessary.
3. Administrative regulations were not expired.
4. Administrative regulations were filed with LRC after approval by the appropriate Board.

### **Audit Standards**

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

### **Use of Report**

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; and the KPPA Office of Legal Services. This report is not intended to be, and should not be, used by anyone other than the specified parties. All final reports are subject to Open Records Requests.

Appendix A – Control Matrix

Sampling was not used. All active administrative regulations were tested.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Trustees do not receive accurate, complete, or timely information	Information is presented quarterly to Board of Trustees	<p><b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.</p> <p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.</p>	<p>KPPA administrative regulations are presented for approval to the KPPA Ad-hoc Regulation Committee and to the KPPA Board for ratification. CERS-only administrative regulations are presented to the CERS Board of Trustees for review and approval. KRS-only administrative regulations are presented to the KRS Board of Trustees for review and approval.</p> <p>The Policy Specialist contacts the KPPA Executive Director's Executive Assistant to schedule a KPPA Ad-hoc Committee meeting or get added to the agenda for the upcoming CERS or KRS Board meeting. The Policy Specialist prepares the memorandum for the KPPA Ad-hoc Committee or CERS/KRS Board meeting and emails the memo and related materials to the KPPA Executive Director's Staff Assistant. After approval (or ratification) by the KPPA, CERS, or KRS Board, the KPPA Executive Director then signs the regulation. Governor signature is also needed for an emergency regulation.</p>	Reviewed applicable meeting minutes and ensured administrative regulations were approved.	<p>No exceptions noted.</p> <ul style="list-style-type: none"> <li>• 36 of 46 Administrative Regulations were approved by the appropriate the Board.</li> <li>• 6 of 46 Administrative Regulations are in the process of being reviewed. These will be presented for approval at a later date.</li> <li>• 1 of 46 Administrative Regulations is scheduled to be repealed.</li> <li>• 1 of 46 Administrative Regulations is no longer needed and will be allowed to expire.</li> <li>• 2 of 46 Administrative Regulations were recertifications, which do not require Board approval.</li> </ul>
2.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	<p><b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.</p> <p><b>Control Activity:</b> Management implements control activities through policies.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.</p>	Procedures are updated as changes are made to Kentucky Revised Statutes 13A. Since staff are not always notified of changes to 13A in a timely manner, the procedures do not include specific deadlines and templates, instead there is a reference to Kentucky Revised Statutes 13A. This ensures the most current information is documented in the procedures.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are up-to-date and available to staff.

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Administrative Regulations may not be created or updated when necessary	Compensating: Agency staff follow-up with Legal Services staff if a regulation is not created or updated as needed	<p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p> <p><b>Information and Communication:</b> Management uses quality information to achieve the organization’s objectives.</p> <p><b>Monitoring:</b> Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.</p>	<p>Office of Legal Services staff are made aware of the need for a new regulation or an update to a regulation in a couple of ways:</p> <ol style="list-style-type: none"> <li>1. Statute change.</li> <li>2. Staff have run into an issue, and they need an update to the regulation. For example, a division requests a legal opinion on a process or situation that warrants an update to the regulation.</li> </ol> <p>When a regulation needs to be created or amended, the Staff Attorney Supervisor (Non-advocacy) assigns the regulation and completes the following:</p> <ol style="list-style-type: none"> <li>1. Documents details on the subject matter that need to be included in the regulation.</li> <li>2. Adds the anticipated date to present to KPPA Board and add this to the Regulation Tracking spreadsheet.</li> <li>3. Updates Regulation Tracking spreadsheet throughout the process.</li> </ol> <p>For new regulations, the Policy Specialist drafts an outline of the regulations and requests a regulation number from LRC. For amendments, the Policy Specialists downloads the engrossed regulations from the LRC website. In both cases, the current statutes, regulations, and recent legislation are reviewed to determine the parameters of the draft regulation/amendment. Templates provided by LRC are used for the drafts to ensure adherence to LRC guidelines. The Policy Specialists will make known changes to the draft – grammar changes, legislative changes, etc. Once the draft is prepared, it is sent to the Staff Attorney Supervisor for feedback. Sometimes the details of the process can get lost in language updates, so the Staff Attorney Supervisor reviews to make sure the draft does not have any unintentional changes to the process.</p> <p>After the Staff Attorney Supervisor has completed his review of the regulation, the Policy Specialist sends the draft to the KPPA division that owns the process and other division directors as directed by agency management related to the new/amended regulation. The Policy Specialist will schedule meetings with this team as needed. During this meeting, the Policy Specialist gathers additional information and/or obtains answers to questions posed during drafting stage. Staff from the KPPA division are allowed to make edits/comments/suggestions on the draft regulation. Policy Specialist updates the draft based on feedback received during the meeting. The updated draft is sent to the impacted KPPA divisions for review. If additional feedback is received, the update and review process continues until all questions/comments/suggestions from the impacted KPPA divisions are addressed. The regulation is then sent to the Staff Attorney Supervisor for an additional review. Once the Staff Attorney Supervisor approves the draft, it is shared with Legal Services staff and the KPPA executives for review and comment. If there are major changes, the draft is sent back to the impacted division for review.</p> <p>Policy Specialist creates the Regulatory Impact Analysis and Tiering Statement which is a nine-question form that must be attached to all filed regulations. As part of this process, Policy Specialist schedules a public hearing date and reserves the Hearing Room.</p>	Reviewed the Regulation Tracking spreadsheet maintained by the Office of Legal Services and ensured all administrative regulations were being tracked, including new regulations and those that needed to be amended.	<p>No exceptions noted.</p> <p>Office of Legal Services is tracking all administrative regulations, including new regulations and those that need to be amended.</p>

KPPA Audit Committee - KPPA Audit Committee Administrative Updates

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
4.	KPPA Administrative Regulations may be expired	Staff Attorney Supervisor ensures amendment or recertification is filed prior to expiration date	<p><b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives.</p> <p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p>	The Regulation Tracking spreadsheet is used to track the status of all KPPA related administrative regulations. The LRC expiration date is one of the items tracked. Regulations that are within a year of their expiration date are highlighted. The Staff Attorney Supervisor notifies the Policy Specialist who determines if an update is needed or if the regulation only needs to be recertified. If a recertification is all that is needed, the respective Board is notified of the recertification, and a Recertification Letter is filed with LRC.	<ol style="list-style-type: none"> <li>1. Recalculated expiration date and ensure it matched the expiration date posted on the LRC website.</li> <li>2. Determined if any Administrative Regulations had expired and, if so, ensured an updated regulation was filed prior to the expiration date.</li> </ol>	<p>No exceptions noted.</p> <ul style="list-style-type: none"> <li>• 46 of 46 auditor calculated expiration dates matched the LRC stated expiration date.</li> <li>• 41 of 46 Administrative Regulations have not yet reached their expiration date. Nine expire within a year.</li> <li>• 5 of 46 Administrative Regulations expired on March 5, 2026. However, an updated regulation was filed with LRC prior to the expiration date.</li> </ul>
5.	Administrative Regulation may not be filed with LRC	Staff Attorney Supervisor ensures Policy Specialist files regulation timely	<p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p>	<p>After the Board approves the regulation, the Policy Specialist files the administrative regulation with the LRC; it must be filed prior to noon on the 15th day of the month. The regulation is added to the LRC register for the following month and assigned to the agenda of the Administrative Regulation Subcommittee meeting approximately three months later. Simultaneously, a two-month comment period is opened to the public. The 60-day public comment period begins on the 1st day of the month following filing with LRC and ends on the last day of the 2nd month. If comments are received, KPPA notifies LRC that comments were received and the regulation is removed from the Subcommittee's agenda and placed on the next month's agenda. KPPA then determines if the administrative regulation needs to be updated in response to the comments. The KPPA Executive Director makes this decision with input from Legal Services and the management team.</p> <p>Once comment period closes and the regulation is updated (or statement provided on why comments will not be addressed in regulation), if needed, the regulation appears on the agenda for the next Administrative Regulation Review Subcommittee meeting. If approved by that Subcommittee, the update is referred to a second committee for review (either an interim or standing committee). The second committee has 90 days to either place the regulation on an agenda of that committee for consideration (and after the adjournment of the meeting the regulation becomes effective), or the regulation becomes effective after the expiration of the 90 days.</p>	Reviewed Legislative Research Committee website and applicable Board meeting minutes and ensured all regulations were filed with LRC, after obtaining Board approval.	<p>No exceptions noted.</p> <ul style="list-style-type: none"> <li>• 36 of 46 Administrative Regulations were filed with LRC and approved by the appropriate Board before being filed.</li> <li>• 8 of 46 Administrative Regulations are in the process of being reviewed. These will be filed with LRC at a later date. Two have already been approved by the appropriate Board.</li> <li>• 1 of 46 Administrative Regulations is scheduled to be repealed.</li> <li>• 1 of 46 Administrative Regulations is no longer needed and will be allowed to expire.</li> </ul>