

**Kentucky Public Pensions Authority
Quarterly Meeting
June 26, 2025, at 10:00 a.m. EST
Live Video Conference/Facebook Live
AMENDED AGENDA**

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|---|----------------|
| 1. Call to Order | Keith Percy |
| 2. Legal Opening Statement | Michael Board |
| 3. Roll Call | Sherry Rankin |
| 4. Public Comment | Sherry Rankin |
| 5. Approval of Minutes – April 4, 2025 and April 23, 2025* | Keith Percy |
| 6. Closed Session** | Keith Percy |
| 7. KPPA Audit Committee Recommendations* | Kristen Coffey |
| 8. FY26 Administrative Budget, FY26 Hybrid Percentage,
FY26 Investment Budget, and FY26 Board Separation Expenses* | Michael Lamb |
| 9. Investment Department Update | Steve Willer |
| 10. KPPA Update | Ryan Barrow |
| 11. Strategic Plan Update* | Rebecca Adkins |
| 12. Adjourn | Keith Percy |

**Board Action Required*

***Board Action May Be Required*

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
SPECIAL-CALLED BOARD MEETING
APRIL 4, 2025, AT 11:30 A.M. EST
VIA LIVE VIDEO TELECONFERENCE**

At the April 4, 2025, Special-Called Meeting of the Kentucky Public Pensions Authority held in conjunction with the County Employees Retirement System and Kentucky Retirement System Boards, the following Members were present: Keith Percy (Vice Chair), George Cheatham, Dr. Merl Hackbart, Lynn Hampton, Prewitt Lane, William O'Mara, and William Summers V. Staff members present: Ryan Barrow, Michael Board, Rebecca Adkins, Michael Lamb, Erin Surratt, Phillip Cook, Sandy Hardin, and Sherry Rankin. Other members present: CERS CEO Ed Owens III and KRS CEO John Chilton.

1. Mr. Percy called the meeting to order.
2. Mr. Board read the Legal Opening Statement.
3. Ms. Rankin called roll.
4. Mr. Percy introduced agenda item ***Public Comment*** (Video 00:06:10 to 00:06:14). Ms. Rankin indicated no public comment was submitted.
5. Mr. Percy introduced agenda item ***Closed Session.*** (Video 00:06:14 to 00:06:57) Dr. Hackbart made a motion a to enter closed session to discuss pending litigation. Ms. Hampton seconded the motion. The motion passed unanimously.

Mr. Percy read the following closed session statement: A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter closed session to consider litigation matters, pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the KPPA's litigation strategy and preserving any available attorney-client privilege.

All other attendees exited the meeting.

Closed Session. (Video: 00:00:31 to 00:01:6:00) Mr. Percy called the meeting back to open session.

Mr. Percy requested a motion to approve the settlement agreement between the trustees and officers involved in the hedge fund litigation, as discussed in the closed session. Ms. Hampton moved to approve the settlement agreement, and Mr. Cheatham seconded the motion. The motion was unanimously approved.

6. There being no further business, Mr. Percy ***adjourned*** the meeting.

Copies of all documents presented are incorporated as part of the Minutes of the KPPA held April 4, 2025, except documents provided during a closed session conducted pursuant to the Open Meetings Act and exempt under the Open Records Act.

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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Board on the various items considered by it at this meeting. Further, I certify that all requirements of KRS61.805-61.850 were met in conjunction with this meeting.

Recording Secretary

We, the Chair of the Kentucky Public Pensions Authority and Executive Director, do certify that the Minutes of Meeting held on April 4, 2025, were approved on June 26, 2025.

KPPA Board Chair

Executive Director

I have reviewed the Minutes of the April 4, 2025, Kentucky Public Pensions Authority Meeting for content, form, and legality.

Executive Director, Office of Legal Services

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
ANNUAL BOARD MEETING
VIA LIVE VIDEO TELECONFERENCE
APRIL 23, 2025, AT 10:00 AM EST**

At the meeting of the Kentucky Public Pensions Authority held on April 23, 2025, the following members were present: Keith Percy, George Cheatham, Dr. Merl Hackbart, Lynn Hampton, Prewitt Lane, William O'Mara, William Summers V, and Dr. Patricia Carver. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens III, Ryan Barrow, Rebecca Adkins, Erin Surratt, Michael Lamb, Kimberly Leet, Victoria Hale, Leigh Ann Davis, Connie Davis, Steve Willer, Anthony Chiu, Brian Caldwell, Ashley Gabbard, Phillip Cook, Sandy Hardin, and Sherry Rankin.

1. Mr. Percy called the meeting to order.
2. Ms. Hale read the Legal Opening Statement.
3. Ms. Rankin called roll.
4. Mr. Percy introduced agenda item ***Public Comment***. Ms. Rankin indicated that there were no public comments.
5. Mr. Percy introduced agenda item ***Approval of Minutes –KPPA Board for March 20, 2025 (Video 00:08:19 to 00:08:41)***. Ms. Hampton made a motion to approve the March 20, 2025, minutes as presented. Mr. O'Mara seconded the motion. The motion passed unanimously.
6. Mr. Percy introduced agenda item ***Election of Chair (Video 00:08:41 to 00:09:49)***. Mr. Barrow initiated the process by opening the floor to nominations. Ms. Hampton nominated Mr. Keith Percy for Chair of KPPA. With no other nominations presented, Ms. Hampton made a motion to approve Mr. Percy as Chair of KPPA for the next year. Mr. Summers V seconded the motion. The motion passed unanimously.

7. Mr. Percy introduced agenda item ***Election of Vice Chair and Committee Assignments*** (Video 00:09:49 to 00:11:22). Mr. Percy initiated the process by opening the floor for nominations for Vice Chair of KPPA. Mr. Lane put forth the nomination of Mr. William O'Mara. With no other nominations presented, Mr. Lane made a motion to approve Mr. O'Mara as Vice Chair of KPPA for the next year. Mr. Cheatham seconded the motion. The motion passed unanimously.

Regarding committee assignments, Mr. Percy stated that he and Mr. O'Mara would review the current committee structure to determine if any changes were needed. Mr. Percy expressed his intent to evaluate these assignments further and provide updates as necessary.

8. Mr. Percy introduced agenda item ***GASB 68 and GASB 75 Proportionate Share Audits*** (Video 00:11:22 to 00:12:32). Mr. Lamb noted that during the previous meeting, a second motion for these audit reports had not been received, requiring the matter to be revisited as a technicality. Mr. Lamb recalled that Blue & Company had previously presented their audit opinion, confirming no changes to the reports or the opinion. He further emphasized that the audit reports had been made available on the website as published documents. The matter was reopened to secure a motion and vote for final approval.

Ms. Hampton made a motion to approve the GASB 68 and GASB 75 Proportionate Share Audits as presented, and to authorize KPPA staff to publish the audits on the KPPA website. Mr. Cheatham seconded the motion. The motion passed unanimously.

9. Mr. Percy introduced agenda item ***FY 2026 Hybrid Percentage*** (Video 00:12:32 to 00:23:56). Mr. Lamb provided a detailed background, explaining the history and the methodology behind the hybrid percentage allocation, which determines the administrative costs of KPPA between the CERS and KRS systems. For FY 2026, the proposed hybrid percentage allocates 64.35% to CERS and 35.65% to KRS. While some Board members were satisfied with the methodology, others suggested revisiting certain line-item allocations for equity. Two options were proposed: forming a budget work group to review the methodology or approving the current calculation effective July 1, 2025, with the possibility of revisiting it

next year. The proposal was left open for discussion and questions. The Board commended Mr. Lamb and his staff for their clear and comprehensive presentation on the hybrid percentage methodology. Mr. O'Mara proposed a three-part process: first, to approve the hybrid percentage calculation as presented, effective July 1, 2025; second, to assign staff to research specific issues that had been raised; and third, if necessary, to form a work group in the future for further discussions. He emphasized that such in-depth conversations would require time and multiple meetings. Dr. Hackbart sought clarification on whether the additional suggestions were part of the motion, which was confirmed as not being included. With no further discussion, Mr. O'Mara made the motion to approve the FY26 hybrid percentage of 64.35% for the CERS and 35.65% for the KRS to be applied to the administrative expenses of KPPA and to continue to allow the CERS and KRS Boards to determine the split for the plans under their administrative purview as presented. Ms. Hampton seconded the motion. The motion passed unanimously.

10. Mr. Percy introduced agenda item ***KPPA Strategic Plan*** (Video 00:23:56 to 00:31:12). Rebecca Adkins provided an update on the KPPA Strategic Plan, detailing its implementation progress over the past year. The plan focuses on four areas: organizational excellence, customer service delivery, infrastructure, and key resources. Various initiatives within these areas were highlighted, including enhanced director training, improved customer service processes, effective use of surveys, exploration of artificial intelligence for efficiency, and leadership mentoring programs. Ms. Adkins also mentioned the issuance of a Request for Proposal (RFP) for a technical assessment to identify improvements in KPPA's operations.
11. Mr. Percy introduced agenda item ***KPPA Update*** (Video 00:31:12 to 00:31:46). Mr. Barrow provided a concise update on the KPPA, noting that the main Strategic Plan update had already been covered in Rebecca Adams' presentation. The remaining updates had been previously addressed in prior meetings and were included in the meeting packet for reference. The brevity of the update was acknowledged and appreciated, with no questions or further comments raised.

12. Mr. Peercy introduced agenda item ***KPPA Service Recognition Awards*** (Video 00:31:46 to 00:34:30). Ms. Kimberly Leet, Assistant Director of Human Resources, presented the KPPA Service Recognition Awards. Since the last annual meeting, 34 employees have reached significant employment milestones, reflecting their dedication and the positive work environment at KPPA. An award ceremony was scheduled for later that day to honor these employees with certificates, service pins, and a celebratory gathering. The milestones recognized included: 5 years (6 employees), 10 years (6 employees), 15 years (5 employees), 20 years (2 employees), 25 years (10 employees), 30 years (3 employees), and 35 years (1 employee). The presentation highlighted the importance of recognizing and celebrating the longevity and contributions of KPPA staff.
13. Mr. Peercy introduced agenda item ***New Business*** (Video 00:34:30 to 00:34:50). No new business was brought forward for discussion.
12. Mr. Peercy introduced agenda item ***Closed Session*** (Video 00:34:50 to 00:35:12). Mr. Peercy informed the Board that, following discussions with Mr. Michael Board, there was no perceived need for a closed session. Unless any Board members felt otherwise, a closed session would not be held. No objections were raised, and the meeting proceeded without a closed session.
13. There being no further business, Mr. Peercy ***adjourned*** the meeting.

Copies of all documents presented are incorporated as part of the Minutes of the KPPA held April 23, 2025, except documents provided during a closed session conducted pursuant to the Open Meetings Act and exempt under the Open Records Act.

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CERTIFICATION

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Recording Secretary

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KPPA Board Chair

Executive Director

I have reviewed the Minutes of the April 23, 2025, Kentucky Public Pensions Authority Meeting for content, form, and legality.

Executive Director, Office of Legal Services



Kentucky Public Pensions Authority

Division of Internal Audit



To: Kentucky Public Pensions Authority Board

From: William O'Mara, Chair
KPPA Audit Committee

Kristen N. Coffey, CICA
KPPA Chief Auditor

Date: June 26, 2025

Subject: Summary of KPPA Audit Committee Meeting

The KPPA Audit Committee held a regularly scheduled meeting on May 29, 2025.

1. Presented separately at KPPA Meeting:

- a. Review of the Chief Auditor Contract

2. Requested actions by the Authority*

- a. Ratify approval of the budget for the Division of Internal Audit.
- b. Ratify approval of the Annual Risk Assessment and Audit Plan.
- c. Ratify acceptance of the issued internal audits/open audit findings. Authorize KPPA staff to implement corrective action.
 - i. 2025-7 Follow-up on Open Audit Recommendations: For audits completed by the end of calendar year 2024, there were 23 recommendations with an expected implementation date of December 31, 2024 or earlier – 17 of the recommendations have been fully implemented and six remain open. KPPA staff (non-audit) requested additional time to complete the implementation of the six open items.
 - ii. 2025-5 Disability Appeal Process
 - iii. 2025-6 Hiring Process
 - iv. 2025-10 Travel Process

3. The following other items were also discussed during the Audit Committee meeting. These were presented for informational purposes only.

- a. Update on the External Auditor contract process – *Mike Lamb indicated that this contract is still in the confidentiality phase, but KPPA is hopeful the contract will be in place by July 1, 2025.*
- b. Information disclosures – *Three disclosures identified, effecting three members.*
- c. Anonymous Tips – *Seven open cases. Seven closed since last meeting – two referred to KPPA Division of Employer Reporting, Compliance, and Education for potential employer audit.*
- d. Update on Internal Audit Staff – *Madeline Evans special detailed as Internal Audit Supervisor. James Westbay brought on full-time as Internal Auditor (previously in interim position).*
- e. Internal Audit Budget – *40.76% of budget remaining through March 31, 2025. Expense for IT software had not yet been paid for the fiscal year.*
- f. Status of current internal audits –

1. *18 audits were scheduled for fiscal 2025, three remain open and one was deferred to fiscal year 2026.*
 - i. *Of the three open, two are expected to be issued in early-mid June. The final one will carry over to fiscal year 2026 based on availability KPPA staff outside of internal audit.*
2. *17 audit projects were scheduled for fiscal year 2025. All will be completed by June 30, 2025.*

***Authority action may be required**



Kentucky Public Pensions Authority

Division of Internal Audit



To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA
Chief Auditor

Date: May 29, 2025

Subject: Fiscal Year 2026 Proposed Internal Audit Budget

Account Number	Account Name	2025 Actual as of March 31, 2025	FYE 2026 Requested Budget	FYE 2025 Requested Budget	Percentage Change of Budget Requested
111	Salaries ¹	\$ 225,891.29	\$ 400,000.00	\$ 350,000.00	14%
121	Employer Paid FICA ¹	\$ 16,799.27	30,600.00	26,775.00	14%
122	Employer Paid Retirement ²	\$ 94,712.39	169,372.36	166,481.25	2%
123	Employer Paid Health Insurance	\$ 25,942.66	50,000.00	50,000.00	0%
124	Employer Paid Life Insurance	\$ 33.00	60.00	60.00	0%
259T	Conference Expenses ³	\$ 1,899.08	4,000.00	5,000.00	-20%
361T	Travel - In State	\$ -	1,000.00	1,000.00	0%
362T	Travel - Out State	\$ -	3,000.00	3,000.00	0%
381T	Dues & Subscriptions	\$ 1,120.00	1,500.00	1,000.00	50%
399T	Miscellaneous	\$ -	-	200.00	-100%
847T	Computer Equipment	\$ -	16,500.00	15,000.00	10%
	Total	\$ 366,397.69	\$ 676,032.36	\$ 618,516.25	9%

1. Salary line items includes proposed 3% pay increase for all state employees as well as estimates for potential reclassification opportunities.

2. Estimated salary for intern is removed from calculation of estimated employer retirement line item, since retirement is not paid for this individual.

3. Removed Line Item 133T (Employee Training) since this is not a line item used by audit staff. The estimated budget for this line item was included with line item 259T, which is where expenses related to employee training is recorded.

KPPA Board Meeting - KPPA Audit Committee Recommendations

FY 2026 and 2027 Audit Plan

Fiscal Year 2026 Audits/Projects				1,957.50	1,957.50	1,957.50	1,957.50	1,957.50	9,787.50		FY 2026 Hours Available		
Division(s)	Audit Number	Audit Name	Total Risk Score	Auditor I	Auditor II	Internal Auditor	Internal Audit Supervisor	Chief Auditor	Budgeted Hours	Actual Hours	Difference in Budgeted vs Actual Hours	Other KPPA Staff Audit Hours Spent on Project	Estimated Start Month
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.	40	0	15	0	25	60	100	100	0	20	July
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.	28	0	0	0	250	50	300	300	0	60	July
Communications	2026-2	Review the process for updating the KPPA website. Confirm controls are established to ensure the website reflects accurate information.	8	0	0	200	0	50	250	250	0	50	July
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.	12	200	0	0	0	50	250	250	0	50	July
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 made timely and accurately. Confirm controls are established to ensure payments are not made to deceased members.	28	0	60	270	0	20	350	350	0	70	August
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.	28	0	270	60	0	20	350	350	0	70	August
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.	24	320	0	0	0	80	400	400	0	80	September
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.	20	20	0	400	0	80	500	500	0	100	September
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.	12	0	250	0	0	50	300	300	0	60	September
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.	20	0	0	0	200	50	250	250	0	50	November
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.	40	200	0	0	0	50	250	250	0	50	December
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.	42	20	20	20	260	30	350	350	0	123	February
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.	30	0	200	0	0	50	250	250	0	50	March
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.	16	250	0	0	0	50	300	300	0	60	March
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.	12	0	0	310	70	20	400	400	0	80	April
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.	20	0	375	0	100	25	500	500	0	100	May
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.	12	200	0	40	0	10	250	250	0	50	May

KPPA Board Meeting - KPPA Audit Committee Recommendations

Board of Trustees	2026-20	KERS Trustee Election		0	75	0	0	25	100	100	0	-	July
Executive Management	2026-21	Office Space Utilization Review	24	0	0	0	0	30	30	30	0	-	TBD
Various	2026-22	Open Audit Recommendation Review		0	40	0	10	0	50	50	0	-	January
Internal Audit	2026-23	Charter and Policy Updates		0	0	5	0	10	15	15	0	-	January
Various	2026-24	Annual Comprehensive Financial Report/Summary Annual Financial Report Review		0	25	0	0	50	75	75	0	-	August
Internal Audit	2026-25	FY 2027 Risk Assessment and Audit Plan		0	0	0	50	75	125	125	0	-	January
Internal Audit	2026-26	Internal Audit Key Performance Indicators		0	0	0	0	24	24	24	0	-	July
Internal Audit	2026-27	Internal Audit Process Documentation and Updates		0	0	0	0	75	75	75	0	-	July
Internal Audit	2026-28	Miscellaneous KPPA Group Participation/Projects		10	25	25	25	75	160	160	0	-	July
Internal Audit	2026-30	Board/Committee Meetings		40	40	40	60	120	300	300	0	-	July
Internal Audit	2026-31	Internal Audit Meetings		100	100	100	90	100	490	490	0	-	July
Internal Audit	2026-32	KPPA (non-Board) Meetings		20	20	20	20	100	180	180	0	-	July
Internal Audit	2026-33	Continuing Professional Education		40	40	40	40	40	200	200	0	-	July
Internal Audit	2026-34	On-The-Job Staff Training		15	15	15	55	0	100	100	0	-	July
Internal Audit	2026-35	Staff Performance Evaluations		15	0	0	30	15	60	60	0	-	July
Internal Audit	2026-36	KPPA Leadership Program		0	0	0	25	25	50	50	0	-	July
Internal Audit	2026-37	Internal Audit Staff Hiring		10	10	10	25	5	60	60	0	-	July
Internal Audit		Other Administration		50	50	50	100	100	350	350	0	-	July
Internal Audit		Holiday		100	100	100	100	100	500	500	0	-	July
Internal Audit		Other Leave		100	100	100	350	225	875	875	0	-	July
Scheduled hours for FY 2026				1,710	1,830	1,805	1,885	1,939	9,169	9,169	0	1,123	
Unscheduled Hours - Reserved for contingency				248	128	153	73	19	619				

Fiscal Year 2027 Audits/Projects				330.00	1,957.50	1,957.50	1,957.50	1,957.50	1,957.50	10,117.50		FY 2027 Hours Available		
Division(s)	Audit Number	Audit Name	Total Risk Score	Intern	Auditor I	Auditor II	Internal Auditor	Retirement Investment Specialist	Chief Auditor	Budgeted Hours	Actual Hours	Difference in Budgeted vs Actual Hours	Other KPPA Staff Audit Hours Spent on Project	Estimated Start Month
Board of Trustees	2027-1	Review CERS and KRS policies, bylaws, and procedures related to required Trustees training hours. Confirm controls are established to ensure Trustees attend required training hours.	8	0	0	0	50	0	100	150	150	0	0	July
Quality Assurance	2027-2	Review the pre-retirement audit process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure post-retirement audits are completed timely and accurately.	20	30	170	0	0	10	40	250	250	0	0	July
Accounting	2027-3	Review the service purchases process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure service purchase are properly calculated, paid, and applied to member accounts.	24	0	0	0	280	20	50	350	350	0	0	August
Human Resources	2027-4	Review the time reporting process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure timesheets reflect proper leave usage, accurate overtime, proper approval, and timely submission.	12	40	0	160	0	0	50	250	250	0	0	August
Procurement and Office Services	2027-5	Review the document imaging process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure all received mail is imaged and timely provided to the proper division.	8	0	320	0	0	0	80	400	400	0	0	September
IT	2027-6	Review process in place to monitor personal use of KPPA accounts and equipment. Ensure policies and controls are established to address personal use of KPPA accounts and equipment.	16	0	0	200	0	0	50	250	250	0	0	October
Membership Support	2027-7	Review the process for changing a member's beneficiary and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper approval is received from member prior to changing a beneficiary and that changes are made timely.	20	0	0	0	320	60	20	400	400	0	0	November
Executive Director	2027-8	Review process for receiving cash and/or checks and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure cash and checks received are properly recorded, stored, and deposited.	20	0	0	120	0	340	90	550	550	0	0	November

KPPA Board Meeting - KPPA Audit Committee Recommendations

Investments	2027-9	Review the capital call process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure capital calls are accurate, approved, properly allocated, and timely.	28	0	0	250	0	40	10	300	300	0	0	January
Member Services	2027-10	Review member correspondence process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure member correspondence is properly disseminated.	20	0	320	0	0	0	80	400	400	0	0	January
ERCE	2027-11	Review the employer contribution receipt process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure contributions are received accurately and timely and split properly between systems. Confirm controls are established to ensure employer information is accurately posted. Ensure Employer Self-Service is operating properly to allow for timely submission of employer reports.	20	0	0	0	415	70	15	500	500	0	0	March
Disability and Survivor Benefits	2027-12	Review the disability benefit approval process, including in-line and duty related benefits and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disability benefits are properly calculated and approved. Confirm controls have been established to ensure benefits are not improperly continued or discontinued.	24	0	0	280	0	50	20	350	350	0	0	March
Legal Services	2027-13	Review the Qualified Domestic Relations Order process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure QDRO amounts are accurate and paid timely.	12	30	220	0	0	10	40	300	300	0	0	April
Corporate Governance	2027-14	Review the employee onboarding and on-going training processes, including training on emergency procedures. Ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure staff are properly trained to perform their job tasks.	20	30	0	220	0	10	40	300	300	0	0	June
Retiree Payroll	2027-15	Review the retiree payroll (monthly and supplemental) payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retiree payroll is accurate and run timely.	28	30	0	0	290	0	80	400	400	0	0	June
Board of Trustees	2027-20	SPRS Trustee Election		0	0	0	30	20	10	60	60	0	-	July
Various	2027-21	Open Audit Recommendation Review		0	0	10	35	0	5	50	50	0	-	January
Internal Audit	2027-22	Charter and Policy Updates		0	0	0	0	10	5	15	15	0	-	January
Various	2027-23	Annual Comprehensive Financial Report/Summary Annual Financial Report Review		0	0	0	25	35	15	75	75	0	-	August
Internal Audit	2027-24	FY 2027 Risk Assessment and Audit Plan		0	0	0	0	60	60	120	120	0	-	January
Internal Audit	2027-25	Internal Audit Key Performance Indicators		0	0	0	0	12	12	24	24	0	-	July
Internal Audit	2027-26	Internal Audit Process Documentation and Updates		0	0	0	0	25	25	50	50	0	-	July
Internal Audit	2027-27	Miscellaneous KPPA Group Participation/Projects		0	10	25	25	50	50	160	160	0	-	July
Internal Audit	2027-30	Board/Committee Meetings		15	40	40	40	90	90	315	315	0	-	July
Internal Audit	2027-31	Internal Audit Meetings		10	100	100	100	100	100	510	510	0	-	July
Internal Audit	2027-32	KPPA (non-Board) Meetings		0	20	20	20	50	70	180	180	0	-	July
Internal Audit	2027-33	Continuing Professional Education		0	40	40	40	40	40	200	200	0	-	July
Internal Audit	2027-34	On-The-Job Staff Training		50	0	0	0	50	0	100	100	0	-	July
Internal Audit	2027-35	Staff Performance Evaluations		0	15	15	15	60	15	120	120	0	-	July
Internal Audit	2027-36	Internal Audit Staff Hiring		0	10	10	10	15	0	45	45	0	-	July
Internal Audit		Other Administration		20	50	50	50	100	100	370	370	0	-	July
Internal Audit		Holiday		24	100	100	100	100	100	524	524	0	-	July
Internal Audit		Other Leave		0	100	100	100	150	225	675	675	0	-	July
Scheduled hours for FY 2027				279	1,515	1,740	1,945	1,577	1,687	8,743	8,743	0	0	
Unscheduled Hours - Reserved for contingency				51	443	218	13	381	271	1,375				

Risks Addressed as a Part of All Audits

Review division procedures addressing the following risks:
(a) Procedures not established to document business processes.
(b) Procedures do not comply with statutes/regulations/policies
(c) Segregation of duties
(d) Staff do not follow established internal controls.
(e) Staff knowingly or unknowingly violate statutes/regulations/policies.

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Internal Audit Risk Assessment Fiscal Year 2026

Risk Number	Division(s)	Risk Title	Total Risk Score
1	ERCE	Review the employer contribution receipt process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure contributions are received accurately and timely and split properly between systems. Confirm controls are established to ensure employer information is accurately posted. Ensure Employer Self-Service is operating properly to allow for timely submission of employer reports.	42
2	Corporate Governance	Review executive and division procedures for establishing a succession plan (e.g. clearly established back-ups) to ensure critical agency functions will continue.	40
3	Procurement and Office Services	Review the inventory process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure inventory is properly tracked and disposed.	40
4	ERCE	Review the employer invoicing process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure invoices are properly prepared and collected timely.	36
5	ERCE	Review the employer audit process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are audited as required and that audits are completed timely.	32
6	ERCE	Review the employer balancing process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are balanced accurately and timely.	30
8	Investments	Review the tier 3 calculation process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure proper calculation and appropriate interest.	28
9	Disability and Survivor Benefits	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.	28
10	Retiree Services Payroll	Review the member benefit payment process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure payments are made timely and accurately. Confirm controls are established to ensure payments are not made to deceased members.	28
11	Retiree Services Payroll	Review the retiree payroll (monthly and supplemental) payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retiree payroll is accurate and run timely.	28
12	Board of Trustees	Review relationship with Perimeter Park West and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure PPW revenue and expenses are properly monitored, and dividends are properly paid.	24
13	Executive Director	Review telecommuting process and ensure compliance with statutes/regulations/policies, including proper taxation of telecommuting employees. Determine office space utilization of all KPPA buildings (Frankfort and Louisville). Confirm controls are established to monitor productivity for staff utilizing telecommuting.	24
14	Accounting	Review the service purchases process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure service purchase are properly calculated, paid, and applied to member accounts.	24
15	Accounting	Review member overpayment process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure overpayments are collected timely and properly reported (including on financial statements).	24
16	ERCE	Review the hazardous duty classification process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure hazardous duty classification is properly reviewed and approved.	24
17	ERCE	Review the employer error correction process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure errors are corrected properly and timely and adjustments made to employer account are accurate.	24
18	ERCE	Review the employer training process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure new employers are trained, ongoing training is provided, and follow-up is conducted for continual reporting errors.	24
19	Procurement and Office Services	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.	24
20	Disability and Survivor Benefits	Review the disability benefit approval process, including in-line and duty related benefits and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disability benefits are properly calculated and approved. Confirm controls have been established to ensure benefits are not improperly continued or discontinued.	24
21	Disability and Survivor Benefits	Review the process for calculating in-line and duty related benefits for dependent children and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure dependents are properly verified and qualified for the benefits. Confirm that benefits are properly calculated and paid timely.	24
22	Corporate Governance	Review the employee onboarding and on-going training processes, including training on emergency procedures. Ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure staff are properly trained to perform their job tasks.	20
23	Executive Director	Review process for receiving cash and/or checks and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure cash and checks received are properly recorded, stored, and deposited.	20
24	Investments	Review process to analyze the proportion of manager and performance fees paid in relation to the returns received. Ensure this ration is comparable to industry standard and similarly sized pension systems.	20
25	Accounting	Review the pension spiking process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure pension spiking is calculated accurately and paid by the correct entity.	20
26	Membership Support	Review the process for changing a member's beneficiary and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper approval is received from member prior to changing a beneficiary and that changes are made timely.	20

Internal Audit Risk Assessment Fiscal Year 2026

Risk Number	Division(s)	Risk Title	Total Risk Score
27	Membership Support	Review the process for removing interest when a member opts into Tier 3 and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper interest amount is removed and process is completed timely.	20
28	Quality Assurance	Review the pre-retirement audit process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure pre-retirement audits are completed timely and accurately.	20
29	Quality Assurance	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.	20
30	Member Services	Review the member retirement process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure retirement calculations are accurate and the process is efficient.	20
31	Member Services	Review member correspondence process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure member correspondence is properly disseminated.	20
7	Member Services	Review the new PLSO option, effective January 1, 2024. Confirm controls are established to ensure members are properly notified (writing and phone) and new calculations are accurate.	20
32	Retiree Health Care	Review the process for verifying dependents and ensure compliance with statutes/ regulations/ policies. Confirm controls are established to ensure support is provided for each dependent. For hazardous members, confirm that annually dependent verification is on file.	20
33	ERCE	Review the service averaging process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure member averages proper number of hours per month to earn a month of service.	20
34	Disability and Survivor Benefits	Review process to update a member's death status and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure a member's death is properly verified.	20
35	Retiree Health Care	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.	20
36	Corporate Governance	Review the process to establish agency policies and ensure compliance with statutes/regulations. Confirm controls are established to ensure policies are documented, approved, up-to-date, and shared with staff. Ensure compliance with policies.	18
37	Corporate Governance	Review the agency Strategic Plan. Ensure it was properly approved and shared with staff. Confirm controls are established to monitor compliance with the plan and report issues to Executive Management.	18
38	Corporate Governance	Review the process to establish agency risk assessment and ensure the process is documented. Confirm controls are established to monitor risks and report issues to Executive Management.	18
39	Accounting	Review account reconciliation process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure custodial bank, Great Plains, and eMARS are properly reconciled and variances are resolved timely.	18
40	Corporate Governance	Review division procedures and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure business processes are documented, effective and efficient, and followed. Ensure staff have not knowingly or unknowingly violate statutes, regulations, or policies. Ensure staff are following established internal controls, including segregation of duties.	16
41	Corporate Governance	Review the process related to Open Meetings and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure staff and Trustees are made aware of the Open Meeting requirements, including discussing public business via personal devices.	16
42	Corporate Governance	Review the process related to Open Records and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure Open Record responses are sufficient and timely. Also ensure controls are established to ensure staff and Trustees are made aware of the Open Records requirements, including public records that may be maintained on personal devices.	16
43	Executive Director	Review KPPA process for implementing audit findings and ensure compliance with policies. Confirm controls are established to ensure audit recommendations are thoroughly investigated and implemented within the established time frame.	16
44	Investments	Review the process for monitoring investment fees (administrative, manager, and performance) and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure fees are accurate, paid timely, and properly reported. Confirm that reconciliation process is sufficient.	16
45	Human Resources	Review use of EEO, ADA, and FMLA and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure staff are properly trained on procedures related to EEO, ADA, and FMLA.	16
46	Accounting	Review the accrual process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accruals are properly supported, reversed, and approved.	16
47	Accounting	Review accounts receivable process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure receivables are properly tracked, recorded, coded, allocated, and reconciled. Ensure process is effective and efficient	16
48	Accounting	Review the journal entry process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure journal entries are accurate, supported, approved, and timely.	16
49	Accounting	Review process to apply interest to member accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure interest is applied accurately and timely. Ensure proper interest is reported on financial statements.	16
50	Accounting	Review the excise tax process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the excise tax is properly calculated and paid.	16
51	Accounting	Review the reciprocity process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure reciprocity is properly applied.	16
52	Accounting	Review the employer penalty invoice waiver process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure waivers are properly applied and approved.	16
53	Accounting	Review the process related to unclaimed accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure unclaimed accounts are properly paid and reported (including on financial statements).	16

Internal Audit Risk Assessment Fiscal Year 2026

Risk Number	Division(s)	Risk Title	Total Risk Score
54	Enterprise and Technology Services	Review process in place to monitor personal use of KPPA accounts and equipment. Ensure policies and controls are established to address personal use of KPPA accounts and equipment.	16
55	Enterprise and Technology Services	Review the process to secure mission critical systems and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure operations can continue in the event of a cyberattack.	16
56	Retiree Services Payroll	Review the process for calculating offsets, specifically related to worker's compensation and social security and ensure compliance with statutes/regulations/policies. Confirm offsets are calculated properly and applied accurately and timely.	16
57	Corporate Governance	Review the process for creating financial statement and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accuracy of the reports and timely completion.	14
58	Board of Trustees	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.	12
59	Corporate Governance	Review the record retention process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure agency records are properly secured. Specifically review requirement for investment records to be retained indefinitely.	12
60	Corporate Governance	Review the process for reporting information to the Board of Trustees. Ensure relevant information is reported to the Board of Trustees. Confirm that controls are established to ensure accurate information is reported timely.	12
61	Executive Director	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.	12
62	Executive Director	Review the budgetary process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the budget is properly prepared, approved, and monitored.	12
63	Investments	Review daily cash projection process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure the daily cash projection is accurate and communicated timely.	12
64	Investments	Review the capital call process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure capital calls are accurate, approved, properly allocated, and timely.	12
65	Investments	Review the process to establish new investment accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accounts are set up accurately and timely.	12
66	Investments	Review the investment distribution process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure distributions are accurate, approved, properly allocated, and timely.	12
67	Investments	Review the investment repo process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure repos are accurate, approved, properly allocated, and timely.	12
68	Investments	Review the proxy voting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proxy voting is completed in accordance with CERS and KRS requirements.	12
69	Investments	Review investment procurement process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure investment services match the contract, are properly procured, and are not provided by multiple vendors.	12
70	Investments	Review investment due diligence process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure investment staff properly and timely perform due diligence of all managers.	12
71	Legal Services	Review the process to update administrative regulations. Confirm controls are established to ensure regulations comply with statutes and are not expired.	12
72	Legal Services	Review the Qualified Domestic Relations Order process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure QDRO amounts are accurate and paid timely.	12
73	Human Resources	Review the time reporting process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure timesheets reflect proper leave usage, accurate overtime, proper approval, and timely submission.	12
74	Accounting	Review use of non-custodial accounts and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure proper account access, accurate transfers, and proper reconciliation. Ensure account balances are not excessive.	12
75	Enterprise and Technology Services	Review process to replace/upgrade IT systems/equipment/software. Confirm controls are established to ensure operations continue in the event of a system/equipment/software failure.	12
76	Enterprise and Technology Services	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.	12
77	Enterprise and Technology Services	Review IT data available to divisions and ensure it is accurate and reliable for internal analysis. Determine who uses the reports. Ensure duplicate reports do not exist. Determine controls in place for creating new reports - is a review conducted to ensure the information is not available on an already established report.	12
78	Enterprise and Technology Services	Review business rules established in Line of Business and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure business rules are operating as intended.	12
79	Enterprise and Technology Services	Review the IT helpdesk ticket resolution process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure tickets are resolved timely and workarounds are not used unnecessarily.	12
80	Membership Support	Review the process for answering member calls and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure calls are answered timely and issues are properly resolved or escalated.	12
81	Membership Support	Review the process for utilizing certified mail and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure certified mail is used when required.	12
82	Disability and Survivor Benefits	Review the disability appeal process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure documentation is on file and appeals are completed timely.	12

Internal Audit Risk Assessment Fiscal Year 2026

Risk Number	Division(s)	Risk Title	Total Risk Score
83	Disability and Survivor Benefits	Review medical review vendor contract and ensure compliance with the contract and ensure the vendor is cost beneficial to KPPA.	12
84	Retiree Services Payroll	Review the Electronic Fund Transfer Return process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure EFT returns are processed timely and accurately.	12
85	Retiree Health Care	Review the open enrollment process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure system updates are completed accurately and timely. Additionally, ensure member qualifies for selected plan.	12
86	Retiree Health Care	Review the retiree insurance process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure accurate insurance files, accurate premium payments, proper member plan, and timely changes.	12
87	Corporate Governance	Review the process to report disclosures of PII and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disclosures are reported properly and timely.	10
88	Executive Director	Review the process to secure member data and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member information is not released without proper authorization.	10
89	Executive Director	Review the process for updating member information and ensure compliance with statutes/regulations/policies. Confirm controls are established to prevent unauthorized changes to member accounts	10
90	Legal Services	Review the retired/re-employed process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure retired/re-employed requests are properly reviewed and approved.	10
91	Member Services	Review member refund process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure refunds are properly calculated and approved.	10
92	Board of Trustees	Review CERS and KRS policies, bylaws, and procedures related to required Trustees training hours. Confirm controls are established to ensure Trustees attend required training hours.	8
93	Executive Director	Review the procurement card (ProCard) process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure ProCard use is allowable and approved and that expenses are supported.	8
94	Executive Director	Review the travel process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure travel is properly approved, supported, and reimbursed.	8
95	Communications	Review the process for updating the KPPA website. Confirm controls are established to ensure the website reflects accurate information.	8
96	Accounting	Review the accounts payable process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.	8
97	Procurement and Office Services	Review the document imaging process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure all received mail is imaged and timely provided to the proper division.	8
98	Procurement and Office Services	Review process related to preventing unauthorized building access and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure contractors, vendors, visitors, etc. are monitored while on site.	8
99	Enterprise and Technology Services	Review the system access process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure employees have only the minimal system access required to complete their job tasks (both internal and external systems). Specifically: includes database management. Who has access to the database and what controls are in place regarding editing data.	8
100	Retiree Services Payroll	Review 1099-R process to ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure 1099-Rs are prepared accurately, provided to required members, and mailed timely.	8
101	Executive Director	Review legislative implementation process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure approval of proposed legislation, tracking of relevant legislation, and timely implementation.	6
102	Enterprise and Technology Services	Review IT batch run process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure batches run timely and accurately and that system generated data cannot be altered.	6
103	Retiree Health Care	Review Medicare as a Secondary Payer process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure KPPA follows proper processes related to Medicare as a Secondary Payer.	6
104	Investments	Review Office of Investments policies and ensure they have been documented and approved. Confirm controls are established to monitor compliance with policies and report issues of non-compliance to Executive Management and Trustees.	4
105	Communications	Review the process to create and update forms and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure forms are accurate and user friendly and the form submission process is efficient.	4
106	Human Resources	Review the hiring process and ensure compliance with statutes/regulations/policies. Confirm controls are established to review and address KPPA staffing levels and to ensure vacancies are filled timely.	4
107	Enterprise and Technology Services	Review the IT security training process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employees properly complete required training.	4

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
1	Board of Trustees	Review relationship with Perimeter Park West and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure PPW revenue and expenses are properly monitored, and dividends are properly paid.	6	6	4	24	2020
2	Board of Trustees	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.	4	2	4	12	Proposed 2026-3
3	Board of Trustees	Review CERS and KRS policies, bylaws, and procedures related to required Trustees training hours. Confirm controls are established to ensure Trustees attend required training hours.	2	2	4	8	Proposed 2027
AVERAGE BOARD OF TRUSTEES RATING			4	3	4	15	-
	Corporate Governance	Perform a Corporate Governance Review to assess and review the agency's governance structure, protocols, and operations. This may be more easily conducted by performing smaller audits:	-	-	-	-	-
4	Corporate Governance	Review executive and division procedures for establishing a succession plan (e.g. clearly established back-ups) to ensure critical agency functions will continue.	4	6	8	40	Proposed 2026-10
5	Corporate Governance	Review the employee onboarding and on-going training processes, including training on emergency procedures. Ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure staff are properly trained to perform their job tasks.	6	4	4	20	Proposed 2027
6	Corporate Governance	Review the process to establish agency policies and ensure compliance with statutes/regulations. Confirm controls are established to ensure policies are documented, approved, up-to-date, and shared with staff. Ensure compliance with policies.	2	4	6	18	N/A
7	Corporate Governance	Review the agency Strategic Plan. Ensure it was properly approved and shared with staff. Confirm controls are established to monitor compliance with the plan and report issues to Executive Management.	2	4	6	18	N/A
8	Corporate Governance	Review the process to establish agency risk assessment and ensure the process is documented. Confirm controls are established to monitor risks and report issues to Executive Management.	2	4	6	18	N/A
9	Corporate Governance	Review division procedures and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure business processes are documented, effective and efficient, and followed. Ensure staff have not knowingly or unknowingly violate statutes, regulations, or policies. Ensure staff are following established internal controls, including segregation of duties.	4	4	4	16	Continual
10	Corporate Governance	Review the process related to Open Meetings and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure staff and Trustees are made aware of the Open Meeting requirements, including discussing public business via personal devices.	2	6	4	16	N/A
11	Corporate Governance	Review the process related to Open Records and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure Open Record responses are sufficient and timely. Also ensure controls are established to ensure staff and Trustees are made aware of the Open Records requirements, including public records that may be maintained on personal devices.	2	6	4	16	N/A

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
12	Corporate Governance	Review the process for creating financial statement and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accuracy of the reports and timely completion.	10	4	2	14	N/A
13	Corporate Governance	Review the record retention process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure agency records are properly secured. Specifically review requirement for investment records to be retained indefinitely.	2	4	4	12	N/A
14	Corporate Governance	Review the process for reporting information to the Board of Trustees. Ensure relevant information is reported to the Board of Trustees. Confirm that controls are established to ensure accurate information is reported timely.	2	4	4	12	N/A
15	Corporate Governance	Review the process to report disclosures of PII and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disclosures are reported properly and timely.	2	8	2	10	2019
16	Executive Director	Review telecommuting process and ensure compliance with statutes/regulations/policies, including proper taxation of telecommuting employees. Determine office space utilization of all KPPA buildings (Frankfort and Louisville). Confirm controls are established to monitor productivity for staff utilizing telecommuting.	4	8	4	24	Proposed 2026-8
17	Executive Director	Review process for receiving cash and/or checks and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure cash and checks received are properly recorded, stored, and deposited.	6	4	4	20	Proposed 2027
18	Executive Director	Review KPPA process for implementing audit findings and ensure compliance with policies. Confirm controls are established to ensure audit recommendations are thoroughly investigated and implemented within the established time frame.	4	4	4	16	Annual
19	Executive Director	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.	4	2	4	12	N/A
20	Executive Director	Review the budgetary process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the budget is properly prepared, approved, and monitored.	4	2	4	12	N/A
21	Executive Director	Review the process to secure member data and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member information is not released without proper authorization.	2	8	2	10	N/A
22	Executive Director	Review the process for updating member information and ensure compliance with statutes/regulations/policies. Confirm controls are established to prevent unauthorized changes to member accounts	2	8	2	10	N/A
23	Executive Director	Review the procurement card (ProCard) process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure ProCard use is allowable and approved and that expenses are supported.	4	4	2	8	2025
24	Executive Director	Review the travel process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure travel is properly approved, supported, and reimbursed.	4	4	2	8	2025

Possible 2026-8

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
25	Executive Director	Review legislative implementation process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure approval of proposed legislation, tracking of relevant legislation, and timely implementation.	2	4	2	6	2024
AVERAGE EXECUTIVE DIRECTOR RATING			3	5	4	16	-
26	Investments	Review the tier 3 calculation process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure proper calculation and appropriate interest.	8	6	4	28	Proposed 2027
27	Investments	Review process to analyze the proportion of manager and performance fees paid in relation to the returns received. Ensure this ration is comparable to industry standard and similarly sized pension systems.	6	4	4	20	Proposed 2026-1
28	Investments	Review the process for monitoring investment fees (administrative, manager, and performance) and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure fees are accurate, paid timely, and properly reported. Confirm that reconciliation process is sufficient.	4	4	4	16	2025
29	Investments	Review daily cash projection process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure the daily cash projection is accurate and communicated timely.	4	2	4	12	2022
30	Investments	Review the capital call process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure capital calls are accurate, approved, properly allocated, and timely.	4	2	4	12	N/A
31	Investments	Review the process to establish new investment accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accounts are set up accurately and timely.	4	2	4	12	N/A
32	Investments	Review the investment distribution process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure distributions are accurate, approved, properly allocated, and timely.	4	2	4	12	N/A
33	Investments	Review the investment repo process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure repos are accurate, approved, properly allocated, and timely.	4	2	4	12	N/A
34	Investments	Review the proxy voting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proxy voting is completed in accordance with CERS and KRS requirements.	2	4	4	12	N/A
35	Investments	Review investment procurement process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure investment services match the contract, are properly procured, and are not provided by multiple vendors.	4	2	4	12	N/A
36	Investments	Review investment due diligence process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure investment staff properly and timely perform due diligence of all managers.	4	2	4	12	N/A
37	Investments	Review Office of Investments policies and ensure they have been documented and approved. Confirm controls are established to monitor compliance with policies and report issues of non-compliance to Executive Management and Trustees.	2	2	2	4	2025
AVERAGE INVESTMENTS RATING			4	3	4	13	-

Possible 2026-1

Potential for 2027

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
38	Legal Services	Review the process to update administrative regulations. Confirm controls are established to ensure regulations comply with statutes and are not expired.	2	4	4	12	Proposed 2026-16
39	Legal Services	Review the Qualified Domestic Relations Order process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure QDRO amounts are accurate and paid timely.	4	8	2	12	Proposed 2027
40	Legal Services	Review the retired/re-employed process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retired/re-employed requests are properly reviewed and approved.	2	8	2	10	N/A
AVERAGE LEGAL SERVICES RATING			3	7	3	12	-
41	Communications	Review the process for updating the KPPA website. Confirm controls are established to ensure the website reflects accurate information.	2	6	2	8	Proposed 2026-2
42	Communications	Review the process to create and update forms and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure forms are accurate and user friendly and the form submission process is efficient.	2	2	2	4	N/A
AVERAGE COMMUNICATIONS RATING			2	4	2	6	-
43	Human Resources	Review use of EEO, ADA, and FMLA and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure staff are properly trained on procedures related to EEO, ADA, and FMLA.	2	6	4	16	Proposed 2026-13
44	Human Resources	Review the time reporting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure timesheets reflect proper leave usage, accurate overtime, proper approval, and timely submission.	2	4	4	12	Proposed 2027
45	Human Resources	Review the hiring process and ensure compliance with statutes/regulations/policies. Confirm controls are established to review and address KPPA staffing levels and to ensure vacancies are filled timely.	2	2	2	4	2025
AVERAGE HR RATING			2	4	3	10	-
46	Accounting	Review the service purchases process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure service purchase are properly calculated, paid, and applied to member accounts.	6	6	4	24	Proposed 2027
47	Accounting	Review member overpayment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure overpayments are collected timely and properly reported (including on financial statements).	6	6	4	24	N/A
48	Accounting	Review the pension spiking process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure pension spiking is calculated accurately and paid by the correct entity.	4	6	4	20	N/A
49	Accounting	Review account reconciliation process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure custodial bank, Great Plains, and eMARS are properly reconciled and variances are resolved timely.	4	2	6	18	N/A
50	Accounting	Review the accrual process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accruals are properly supported, reversed, and approved.	6	2	4	16	N/A

Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
51	Accounting	Review accounts receivable process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure receivables are properly tracked, recorded, coded, allocated, and reconciled. Ensure process is effective and efficient	6	2	4	16	N/A
52	Accounting	Review the journal entry process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure journal entries are accurate, supported, approved, and timely.	6	2	4	16	N/A
53	Accounting	Review process to apply interest to member accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure interest is applied accurately and timely. Ensure proper interest is reported on financial statements.	8	8	2	16	2025
54	Accounting	Review the excise tax process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the excise tax is properly calculated and paid.	6	2	4	16	N/A
55	Accounting	Review the reciprocity process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure reciprocity is properly applied.	6	2	4	16	N/A
56	Accounting	Review the employer penalty invoice waiver process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure waivers are properly applied and approved.	4	4	4	16	2022
57	Accounting	Review the process related to unclaimed accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure unclaimed accounts are properly paid and reported (including on financial statements).	4	4	4	16	N/A
58	Accounting	Review use of non-custodial accounts and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure proper account access, accurate transfers, and proper reconciliation. Ensure account balances are not excessive.	4	2	4	12	2023
59	Accounting	Review the accounts payable process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.	6	2	2	8	2025
AVERAGE ACCOUNTING RATING			5	4	4	17	-
60	ERCE	Review the employer contribution receipt process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure contributions are received accurately and timely and split properly between systems. Confirm controls are established to ensure employer information is accurately posted. Ensure Employer Self-Service is operating properly to allow for timely submission of employer reports.	8	6	6	42	Proposed 2027
61	ERCE	Review the employer invoicing process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure invoices are properly prepared and collected timely.	8	4	6	36	2025
62	ERCE	Review the employer audit process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are audited as required and that audits are completed timely.	4	4	8	32	Proposed 2026-11
63	ERCE	Review the employer balancing process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are balanced accurately and timely.	6	4	6	30	N/A

originally in 2025, but scope adjusted and moved to 2026 plan

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
64	ERCE	Review the hazardous duty classification process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure hazardous duty classification is properly reviewed and approved.	4	8	4	24	N/A
65	ERCE	Review the employer error correction process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure errors are corrected properly and timely and adjustments made to employer account are accurate.	6	2	6	24	N/A
66	ERCE	Review the employer training process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure new employers are trained, ongoing training is provided, and follow-up is conducted for continual reporting errors.	4	4	6	24	N/A
67	ERCE	Review the service averaging process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure member averages proper number of hours per month to earn a month of service.	4	6	4	20	N/A
AVERAGE ERCE RATING			6	5	6	29	-
68	Procurement and Office Services	Review the inventory process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure inventory is properly tracked and disposed.	6	4	8	40	2025
69	Procurement and Office Services	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.	6	6	4	24	Proposed 2026-6
70	Procurement and Office Services	Review the document imaging process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure all received mail is imaged and timely provided to the proper division.	2	2	4	8	Proposed 2027
71	Procurement and Office Services	Review process related to preventing unauthorized building access and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure contractors, vendors, visitors, etc. are monitored while on site.	2	6	2	8	2019
AVERAGE PROCUREMENT/OFFICE SERVICES RATING			4	5	5	19	-
72	Enterprise and Technology Services	Review process in place to monitor personal use of KPPA accounts and equipment. Ensure policies and controls are established to address personal use of KPPA accounts and equipment.	2	6	4	16	Proposed 2027
73	Enterprise and Technology Services	Review the process to secure mission critical systems and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure operations can continue in the event of a cyberattack.	4	4	4	16	Annual - 3rd Party
74	Enterprise and Technology Services	Review process to replace/upgrade IT systems/equipment/software. Confirm controls are established to ensure operations continue in the event of a system/equipment/software failure.	4	2	4	12	N/A
75	Enterprise and Technology Services	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.	4	2	4	12	Proposed 2026-14
76	Enterprise and Technology Services	Review IT data available to divisions and ensure it is accurate and reliable for internal analysis. Determine who uses the reports. Ensure duplicate reports do not exist. Determine controls in place for creating new reports - is a review conducted to ensure the information is not available on an already established report.	4	2	4	12	N/A

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
77	Enterprise and Technology Services	Review business rules established in Line of Business and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure business rules are operating as intended.	4	2	4	12	N/A
78	Enterprise and Technology Services	Review the IT helpdesk ticket resolution process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure tickets are resolved timely and workarounds are not used unnecessarily.	4	2	4	12	N/A
79	Enterprise and Technology Services	Review the system access process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure employees have only the minimal system access required to complete their job tasks (both internal and external systems). Specifically: includes database management. Who has access to the database and what controls are in place regarding editing data.	4	4	2	8	2022
80	Enterprise and Technology Services	Review IT batch run process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure batches run timely and accurately and that system generated data cannot be altered.	4	2	2	6	N/A
81	Enterprise and Technology Services	Review the IT security training process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employees properly complete required training.	2	2	2	4	N/A
AVERAGE IT RATING			4	3	3	11	-
82	Membership Support	Review the process for changing a member's beneficiary and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper approval is received from member prior to changing a beneficiary and that changes are made timely.	2	8	4	20	Proposed 2027
83	Membership Support	Review the process for removing interest when a member opts into Tier 3 and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper interest amount is removed and process is completed timely.	2	8	4	20	Proposed 2026-7
84	Membership Support	Review the process for answering member calls and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure calls are answered timely and issues are properly resolved or escalated.	2	4	4	12	N/A
85	Membership Support	Review the process for utilizing certified mail and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure certified mail is used when required.	2	4	4	12	N/A
AVERAGE MEMBERSHIP SUPPORT RATING			2	6	4	16	-
86	Quality Assurance	Review the pre-retirement audit process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure pre-retirement audits are completed timely and accurately.	4	6	4	20	Proposed 2027
87	Quality Assurance	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.	4	6	4	20	Proposed 2026-9
AVERAGE QUALITY ASSURANCE RATING			4	6	4	20	-

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
88	Member Services	Review member correspondence process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member correspondence is properly disseminated.	2	8	4	20	Proposed 2027
89	Member Services	Review the new PLSO option, effective January 1, 2024. Change allows any member whose retirement benefits began in January 2024 or after should be offered the PLSO option, including members with retro retirement dates who had not yet completed all required paperwork. Specific concern - staff had to recalculate the benefits to include the PLSO. These had to be completed manually until programming was in place to handle the retro retirement dates. Staff called these members to explain why they were receiving a new Form 6010, explain the process for starting their retirement benefits and answered any questions. This manual calculation was only done for 25 members or less, and programming has been completed for this.	4	6	4	20	N/A
90	Member Services	Review the member retirement process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retirement calculations are accurate and the process is efficient.	4	6	4	20	2024
91	Member Services	Review member refund process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure refunds are properly calculated and approved.	4	6	2	10	2025
AVERAGE MEMBER SERVICES RATING			4	6	3	17	-
93	Disability and Survivor Benefits	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.	6	8	4	28	Proposed 2026-5
94	Disability and Survivor Benefits	Review the disability benefit approval process, including in-line and duty related benefits and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disability benefits are properly calculated and approved. Confirm controls have been established to ensure benefits are not improperly continued or discontinued.	4	8	4	24	Proposed 2027
95	Disability and Survivor Benefits	Review the process for calculating in-line and duty related benefits for dependent children and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure dependents are properly verified and qualified for the benefits. Confirm that benefits are properly calculated and paid timely.	4	8	4	24	N/A
96	Disability and Survivor Benefits	Review process to update a member's death status and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure a member's death is properly verified.	2	8	4	20	2022
97	Disability and Survivor Benefits	Review the disability appeal process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure documentation is on file and appeals are completed timely.	4	8	2	12	2025
98	Disability and Survivor Benefits	Review medical review vendor contract and ensure compliance with the contract and ensure the vendor is cost beneficial to KPPA.	4	2	4	12	N/A
AVERAGE DISABILITY/SURVIVOR BENEFITS RATING			4	7	4	20	-

**Internal Audit Risk Assessment Fiscal Year 2026
By KPPA Department**

Risk Number	Division(s)	Risk Title	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Last Year Audited
99	Retiree Services Payroll	Review the member benefit payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure payments are made timely and accurately. Confirm controls are established to ensure payments are not made to deceased members.	6	8	4	28	Proposed 2026-4
100	Retiree Services Payroll	Review the retiree payroll (monthly and supplemental) payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retiree payroll is accurate and run timely.	6	8	4	28	Proposed 2027
101	Retiree Services Payroll	Review the process for calculating offsets, specifically related to worker's compensation and social security and ensure compliance with statutes/regulations/policies. Confirm offsets are calculated properly and applied accurately and timely.	6	2	4	16	N/A
102	Retiree Services Payroll	Review the Electronic Fund Transfer Return process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure EFT returns are processed timely and accurately.	4	2	4	12	N/A
103	Retiree Services Payroll	Review 1099-R process to ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure 1099-Rs are prepared accurately, provided to required members, and mailed timely.	2	6	2	8	2025
AVERAGE PAYROLL RATING			5	5	4	18	-
104	Retiree Health Care	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.	4	6	4	20	Proposed 2026-15
105	Member Services	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.	4	6	4	20	Proposed 2026-12
106	Retiree Health Care	Review the open enrollment process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure system updates are completed accurately and timely. Additionally, ensure member qualifies for selected plan.	4	8	2	12	N/A
107	Retiree Health Care	Review the retiree insurance process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure accurate insurance files, accurate premium payments, proper member plan, and timely changes.	6	6	2	12	2023
108	Retiree Health Care	Review Medicare as a Secondary Payer process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure KPPA follows proper processes related to Medicare as a Secondary Payer.	2	4	2	6	N/A
AVERAGE RETIREE HEALTH CARE RATING			4	6	3	14	-



KPPA
Kentucky Public Pensions Authority

2025-7

Open Audit Recommendations

Lead Auditor: Kristen Coffey



Issue Date

February 28, 2025

Strategic Risk Addressed (Objective)

Review KPPA process for implementing audit findings and ensure compliance with policies. Confirm controls are established to ensure audit recommendations are thoroughly investigated and implemented within the established time frame.

Summary of Results

Please see Appendix B for results.

Commendations

We commend management for the steps they have taken to implement the audit recommendations made during the past fiscal years. While there are still some open recommendations, management is actively working on a resolution for those items.

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Acronyms

The following acronyms will be used throughout the report:

1. KPPA – Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KERS – Kentucky Employees Retirement System
4. SPRS – State Police Retirement System
5. KRS – Kentucky Retirement Systems
6. Board(s) – Board of Trustees
7. CEO - Chief Executive Officer
8. CIO - Chief Investment Officer
9. CFO - Chief Financial Officer
10. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, KPPA Executive Director – Office of Legal Services, KPPA CIO, and KPPA CFO
11. Cash Management – KPPA Division of Accounting, Cash Management branch
12. DETS – KPPA Division of Enterprise and Technology Services
13. ERCE – KPPA Division of Employee Reporting, Compliance, and Education
14. Chase/non-custodial bank - JP Morgan Chase
15. BNY Mellon/custodial bank - Bank of New York Mellon
16. JV – Journal Voucher
17. NSF – Non-sufficient Funds
18. GANIR – Geometric Average Net Investment Return
19. TFS – Team Foundation Server
20. LOB – Line of Business

Audit Scope

The Open Audit Recommendations audit was conducted from January 13, 2025 to February 14, 2025. The scope of the audit was all open recommendations with an implementation date of December 31, 2024 or earlier.

Recommendations for Future Audits

Based on work conducted during this audit, the accuracy of printer invoices is recommended for review during a future audit.

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; and the KPPA Executive Management Team. 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

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Internal control/audit findings not thoroughly investigated	Audit Committee accepts internal audit findings and approves management's response. KPPA Board ratifies this decision.	Control Environment: Oversight body and management oversees entity's internal control system. Risk Assessment: Management clearly defines risk tolerances and identifies, analyzes, and responds to risks. Control Activity: Management designs control activities to achieve objectives and respond to risks. Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	The lead auditor for the project presents each finding to the audit client. Feedback is requested to ensure the finding is accurate and the recommendation is feasible. The lead auditor then presents the findings and recommendations to the Audit Committee. The Audit Committee may then accept the audit findings and approve management's responses or request additional information pertaining to the findings or management's responses. Once the Audit Committee accepts the findings and management responses, they are presented to the KPPA Board for ratification.	Reviewed Audit Committee and KPPA Board meeting minutes and ensured open audit recommendations were accepted by the Audit Committee. Ensured the acceptance was ratified by the KPPA Board.	Audit recommendations were presented to the Audit Committee and KPPA Board. Beginning in November 2023, the Audit Committee began accepting the results of the audit and management's responses. Additionally, KPPA began ratifying these actions.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
2.	Internal control/audit recommendations not implemented timely	An annual follow-up of open recommendations is conducted.	Control Environment: Oversight body and management oversees entity's internal control system. Risk Assessment: Management clearly defines risk tolerances and identifies, analyzes, and responds to risks. Control Activity: Management designs control activities to achieve objectives and respond to risks. Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	<p>In January of each year, the Chief Auditor runs the Open Audit Findings and Recommendations report from audit software to show all open recommendations as of December 31 of the prior year. For each open item internal audit staff reach out to the recommendation owner and inquire about the status of the recommendation. The status is updated in the audit software:</p> <ol style="list-style-type: none"> 1. In Progress: a new implementation date is requested from the recommendation owner. 2. Closed-Verified - if corrective action has been taken, supporting documentation is reviewed and the implementation is verified by internal audit staff. Detailed testing of the process is performed during a follow-up audit. 3. Closed-Management Accepts Risk: if management has decided not to implement corrective action, internal audit staff obtain documentation as to how this decision was made. 4. Closed-No Longer Applicable: this status is used if the process has been changed, and the recommendation no longer applies to the new process. <p>After the updated status has been obtained for each open item, the Chief Auditor manually updates the Open Audit Findings and Recommendations to reflect the new status. This report is then presented to the Audit Committee at the next regularly scheduled Audit Committee meeting.</p>	<ol style="list-style-type: none"> 1. Generated the Open Audit Findings and Recommendations report to show all open recommendations with an implementation date of December 31, 2024 or earlier. 2. Sent an email to the various recommendation owners and requested the current status of the open audit recommendations. Items noted as being completed were reviewed and verified by Internal Audit staff. A new implementation date was provided for items not yet completed. Updated the recommendation status in the audit tracking software system as well as on the Open Audit Findings and Recommendations report. 	<ol style="list-style-type: none"> 1. There were 23 recommendations with an estimated implementation date of December 31, 2024 or earlier. 2. See Appendix B for results.

Appendix B – Status of Open Audit Recommendations

Current Status of Recommendation

Still Open - New Implementation Date Provided

Closed - Corrective Action Verified

Number	Entity	Project Code	Project Name	Recommendation	Implementation Due Date	Days Overdue (as of 12/31/2024)	Status Update
1	Accounting	2022-1.1	Plan Liquidity - Phase 1	Reduce Balance of Funds Maintained in Chase Accounts	9/30/2024	(92)	Effective March 2024 the CFO established recommended Cash Balances at all Chase bank accounts as follows. This was established after reviewing the average activity, cash flow, and balances in each account over a 3-year period of time. Cash Management sends any money above these balances to BNY Mellon on a quarterly basis. 1. CERS \$250k 2. CERH \$25k 3. CERSINS \$100k 4. CERHINS \$50k 5. KERS \$250k 6. KERH \$25k 7. KERSINS \$100k 8. KERHINS \$50k 9. SPRS \$50k 10. SPRSINS \$50k
2	Accounting	2022-4	Review of Chase Accounts	Establish Procedure to Review Journal Entry Transactions	6/30/2024	(184)	For Payroll JVs, an additional step has been put into the process to have "another member of the cash management team" have all documents checked to the payroll reports to ensure the wires match the source documents, prior to sending the emails to be keyed (this was effective June 30, 2024). For Non-payroll JVs, the JV is entered by the cash management branch supervisor, and reviewed by a second person. In addition, through the Daily Cash reconciliation, performed by the Cash Management Graduate Accounting Manager, any differences or errors either the payroll or non-payroll JVs would be identified. (this was effective February 10, 2025).
3	Accounting	2022-4	Review of Chase Accounts	Boards Should Approve Funds to Remain in Non-custodial Accounts	6/30/2024	(184)	See item #1 above. While a "formal" request was not asked of the Boards, the CFO communicated the new balances in the in the quarter three Board meetings to CERS/KRS.
4	Accounting	2022-4	Review of Chase Accounts	Independent Individual Should Verify Accuracy of the Reconciliation	12/31/2024	0	This item is still open and a new implementation date of 9/30/2025 has been established. The method in which Chase accounts are reconciled is still under review. We have made some progress, However, the Accounting Division needs more time to fully review and implement.
5	Accounting	2022-4	Review of Chase Accounts	Develop Controls over Reconciliations	12/31/2024	0	This item is still open and a new implementation date of 9/30/2025 has been established. The method in which Chase accounts are reconciled is still under review. We have made some progress, However, the Accounting Division needs more time to fully review and implement.

KPPA Board Meeting - KPPA Audit Committee Recommendations

Number	Entity	Project Code	Project Name	Recommendation	Implementation Due Date	Days Overdue (as of 12/31/2024)	Status Update
6	Accounting	2022-4	Review of Chase Accounts	Determine Amount Owed to KERS Pension	12/31/2024	0	This item is still open and a new implementation date of 12/31/2025 has been established. No update from Prior year responses: 1. Effective July 1, 2023, the report that was causing NSF's related to other plans (CERS, CERS-hazardous, KERS-hazardous, and SPRS) to be funded from the KERS pension plan was corrected, preventing the issue from persisting. 2. The research and documentation performed by an intern (back to 2011) has yet to be reviewed and evaluated to determine full impact to the KERS pension plan.
7	Retiree Health Care	2022-5	Accuracy of Information Sent to Humana and DEI	Implement a Process for Overdue Items	6/30/2024	(184)	Suggested updates were added to the report in Fall 2024. Auditor reviewed the report and verified the additions.
8	Office of Investments	2024-1	Review of Investment Manager Fees	Document Management fee verification procedures	6/28/2024	(186)	This item is still open and a new implementation date of 9/30/2025 has been established. As the Investment team has been reviewing and approving Investment Management fees, we have been using the live data to evaluate appropriate tolerances for each asset category with the intent of setting tolerances that we believe are meaningful but aren't unreasonably tight for the asset class given methodologies and timing. The procedures themselves are fairly straightforward as they are documented in the legal agreements, and we hope to have the tolerances established and incorporated once we have completed the current quarterly billing cycle.
9	Accounting	2024-3	Review of Interest Applied to Member Accounts	Ensure LOB does not allow interest rates to be entered and approved in a single entry	8/31/2024	(122)	An Internal Audit staff member observed Accounting staff enter and approve the GANIR rates in LOB on Tuesday, July 30th, 2024 at 9:00 a.m. It was confirmed that the person who entered the rates could not "approve" the rates. This was a programming change implemented by DETS by WI 32388.
10	Accounting	2024-3	Review of Interest Applied to Member Accounts	Annually, validate interest journal entries with the newly created report	8/31/2024	(122)	For year-end member interest, the newly created report was used to validate the entry that was posted. This report is stored in the data warehouse and Internal Audit staff have read only access to the report.
11	Accounting	2024-3	Review of Interest Applied to Member Accounts	Seek clarification on rounding method to be utilized	8/31/2024	(122)	Corrective action was taken on 9/24/2024. Management concluded that the interest rate for the hybrid cash balance plan should be rounded to two decimals (e.g. 1.57%), consistent with how the calculation has been performed. DETS formally update the display of the rate in LOB and the business rules.
12	DETS	2024-3	Review of Interest Applied to Member Accounts	Update LOB to round tier three interest to six decimal places	8/31/2024	(122)	Guidance on rounding was approved by Executive Management and the Business Rules were updated on 9/24/2024 to clarify the use of the current rounding method. New Business Rules were provided and the updates were verified.

KPPA Board Meeting - KPPA Audit Committee Recommendations

Number	Entity	Project Code	Project Name	Recommendation	Implementation Due Date	Days Overdue (as of 12/31/2024)	Status Update
13	Executive Management Team	2024-5	Implementation of New Legislation	Establish a Back-Up for the Legislative Tracking Process	6/30/2024	(184)	Corrective action has been taken on 10/1/2024. The Director of Communications continued to retain, in their job duties, the primary responsibility of Legislative Tracking. The primary backup is the Information Office III. Additional redundancy exists with the new tracking system. Several other users have a license with full report-writing capability.
14	Executive Management Team	2024-5	Implementation of New Legislation	Consider Establishing a Government Relations Position	6/30/2024	(184)	See response to item #13.
15	Executive Management Team	2024-5	Implementation of New Legislation	Develop Procedures for Submitting Legislative Changes to a Bill Sponsor	12/31/2024	0	Corrective action has been taken on 6/30/2024. Procedures established 6/30/2024 to be effective with fiscal year 2025.
16	Executive Management Team	2024-5	Implementation of New Legislation	Update Procedures for Implementing Legislation Changes	12/31/2024	0	Corrective action has been taken on 6/30/2024. Procedures established 6/30/2024 to be effective with fiscal year 2025.
17	Executive Management Team	2024-5	Implementation of New Legislation	Track Implementation Status of Legislative Changes	12/31/2024	0	Corrective action was taken in February 2025. New Policy developed and approved to be effective with the calendar year 2025 general session.
18	Accounting	2024-6	Review of Employer Outstanding Invoices	Require a comment in LOB when invoice status is updated	12/31/2024	0	This item is still open and a new implementation date of 9/30/2025 has been established. For Cancelled or Disputed Invoices, a comment is required by the system. For Write-Offs, ERCE is manually making comments, until work item TFS 374031 is implemented by DETS.
19	Accounting	2024-6	Review of Employer Outstanding Invoices	Create an automatic journal comment	12/31/2024	0	This item is still open and a new implementation date of 9/30/2025 has been established. Work item TFS 374031 has been submitted to DETS but not yet prioritized.
20	ERCE	2024-6	Review of Employer Outstanding Invoices	Determine access level of ERCE staff to employer invoices	12/31/2024	0	Invoice permissions have been reviewed. ERCE staff has the ability to insert required comments as to why an invoice needs to be canceled or written off; however, only the Director and Assistant Director have access to cancel invoices in LOB.
21	ERCE	2024-7	Review of Employer Contributions	Remind staff of the current process requirements	12/31/2024	0	Most recent email was sent to staff on January 24, 2025
22	Office Services Branch	2024-8	Review of Disclosures During Correspondence	Recalculate Invoices	6/28/2024	(186)	Staff is actively working on a resolution to this item. Steps have been put into place to recalculate the invoices.
23	Office Services Branch	2024-8	Review of Disclosures During Correspondence	Analyze Actual Printer Usage	12/31/2024	0	Staff is actively working on a resolution to this item. Steps have been put into place to ensure actual printer usage can be analyzed.

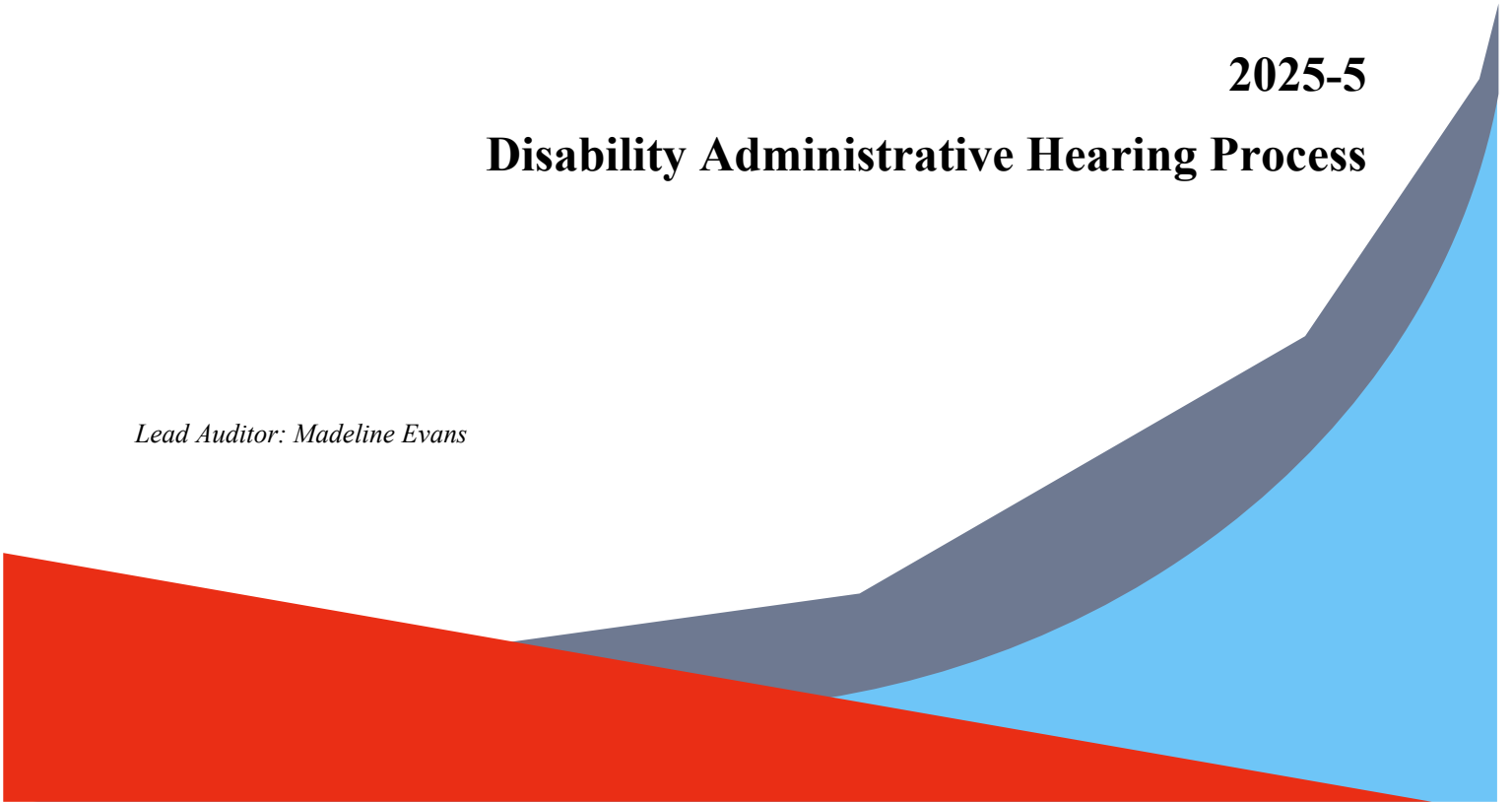


KPPA
Kentucky Public Pensions Authority

2025-5

Disability Administrative Hearing Process

Lead Auditor: Madeline Evans



Acronyms

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, KPPA Executive Director – Office of Legal Services, and KPPA CFO
8. DAC/AAC – Disability Appeals Committee/Administrative Appeals Committee
9. Legal Services – KPPA Office of Legal Services
10. ADA – Americans with Disabilities Act
11. MMRO – Managed Medical Review Organization
12. LM – Library Manager

Issue Date

March 31, 2025

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Strategic Risk Addressed (Objective)

Review the disability appeal process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure documentation is on file and appeals are completed timely.

Overall Opinion

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

Summary of Findings

No reportable findings were noted during the audit. We noted certain other matters that we communicated to KPPA management in a separate management letter dated March 31, 2025.

Commendations

The Administrative Appeals Coordinator provided detailed explanations and reports for testing. Division of Disability and Survivor Benefits staff worked closely with audit staff to clear testing deviations. Additionally, Division of Disability and Survivor Benefits reached out to the audit team and ask questions about the audit testing

process in an effort to learn more about the overall audit process. We appreciate these questions and encourage other staff to reach out to the Internal Audit group if they have questions about the audit process.

Audit Scope

The Disability Administrative Hearing Process audit was conducted from November 22, 2024 to February 27, 2025. The scope of the audit was fiscal year 2024.

Recommendations for Future Audits

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

1. Review disability approval/eligibility process.
2. Review of payments to contracted hearing officers.
3. Review per diem reimbursements to Trustees.
4. Review of the document imaging processes.
5. Review of the certified mail process.

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; the Office of Legal Services, and the Division of Disability and Survivor Benefits. 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

A total of 79 cases completed the administrative hearing process in fiscal year 2024. A case was determined to be completed if a decision of approved, denied, discontinued, continued, reinstatement or dismissed was issued. A proportional sample of 62 cases was taken based on type of review (initial or periodic) and the year the member submitted a request for a hearing. Cases in each sub-population were ordered numerically by case number and cases at the top of the list were selected first.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	DAC/AAC Committee may not receive complete administrative hearing documents in a timely manner	Due dates are loaded on the Legal Shared Calander and reminders are set	Control Environment: Oversight body and management oversees entity's internal control system. Control Activity: Management designs control activities to achieve objectives and respond to risks. Information and Communication: Management uses quality information to achieve the organization's objectives.	<p>DAC/AAC is split into two panels to best accommodate time spent on preparing and reviewing cases for both Trustees and staff. There is one meeting each month with the panels rotating every other month. The Committee's final order is due within 90 days of the hearing officer's recommended order or their order on remand. The non-advocacy General Counsel schedules which cases will be reviewed at either of the two DAC/AAC panels to ensure that the final order is issued by the 90-day deadline.</p> <p>The Administrative Appeals Coordinator and her staff prepare the hearing files for the scheduled meeting. These files are often prepped well in advance since documents are organized as they are received. Any additional information needed will be collected and uploaded so that Trustees have at least two weekends ahead of the scheduled meeting to review materials.</p> <p>The DAC/AAC Committee members are provided the entire administrative record, including any new information filed by the parties, any motions/responses and orders, the parties' briefs, the hearing officer's recommended order, and any exceptions filed. The administrative record is given to trustees at least two weekends before it is to be discussed in a committee meeting. The Non-Advocacy General Counsel sets due dates for the paralegal memo, the KPPA attorney memo and Box.com upload due date to ensure materials are available for trustee review. Holidays and other conflicting factors are considered when setting these deadlines. Trustees are notified of when materials will be uploaded to Box.com.</p>	Compared the date file was created in the DAC/AAC folder in Box.com to the date of the case was reviewed by DAC/AAC and ensured documents were provided to Trustees timely.	All 62 sampled cases had materials submitted at least 10 days before the DAC/AAC hearing date.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
2.	Disability administrative hearing policies/procedures/internal controls not established, documented, effective or efficient	Disability administrative hearing procedures reviewed annually and updated as needed	Control Environment: Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. Control Activity: Management implements control activities through policies. Information and Communication: Management uses quality information to achieve the organization's objectives.	Disability <ul style="list-style-type: none"> Division Director, or designee, performs a review as needed to ensure all procedures are included on SharePoint. Division staff review procedures on SharePoint as needed and make necessary updates. If a process changes, the procedures are updated at the time of the change. Legal <ul style="list-style-type: none"> Procedures are maintained on the division's drive and updated as needed by staff who are responsible for the task. 	Reviewed division procedures to ensure they were established, documented, up-to-date, effective, efficient, and available to staff.	<ol style="list-style-type: none"> Procedures about how members should request accommodations to participate in the hearing process are not documented, which impacts KPPA's ability to comply with Title II of the ADA (see item #2 in management letter). The DAC/AAC training for trustees does not specify who needs to approve the reimbursement form and who needs to receive the form for processing (recommended for review in future audit). Procedures to pay hearing officers are not documented (recommended for review in future audit). Administrative Appeals Coordinator Procedures need to be updated (see item #1 in management letter).

KPPA Board Meeting - KPPA Audit Committee Recommendations

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Disability appeals not conducted timely (backlog of appeals up to a year before hearing scheduled)	Administrative Appeals Coordinator enforces due dates	Information and Communication: Management uses quality information to achieve the organization's objectives.	<p>Upon being denied disability benefits or the added Duty Related (DR) or In-Line-of-Duty (ILOD) related benefits, members may appeal this decision either by submitting additional medical records and the Form 8001/8101 (initial/periodic reviews respectively) or by written request for an administrative hearing which may be submitted by fax or mail (document ID 2993). If member benefits are discontinued after a periodic review, the same appeal process is followed.</p> <p>In the case of a member requesting an administrative hearing, the member is not required to have an attorney but may retain one if desired. If the member wants to represent themselves, they will be held to the same conduct and standard of proof standards that apply to attorneys. Either option must be selected with proper documentation submitted within 180 days of denial letter date or within 60 days of the discontinuance letter date. If valid information is not received by the 180-day deadline, then the application will be voided, granted benefits will be terminated, or the appeal for DR/ ILOD benefits will be voided.</p> <p>Once the non-advocacy Administrative Appeals Coordinator receives the affidavit, it is notarized and uploaded to LM through the file doc process. The Administrative Appeals Coordinator or other Administrative Specialist then builds the hearing file based on what is uploaded to LM and what is uploaded in the member's file from the MMRO. The case is assigned to a Hearing Officer, and the telephonic pre-hearing conference is scheduled. The Legal Services Advocacy branch then starts the litigation process. The Administrative Appeals Coordinator and her staff remain involved in the administrative hearing process throughout to process documents, record hearings, and serve as primary agency contact for the parties and Hearing Officer.</p> <p>The assigned Hearing Officer, the member and the member's attorney (if applicable) will set the schedule for status update meetings. The assigned KPPA attorney and opposing counsel will agree on what action to take next. Not all cases will have a hearing, but all cases will have a hearing officer's recommended order that will be presented to DAC/AAC for a final order.</p> <p>The litigation process is the lengthiest part of the process. This is when depositions, discovery, or both may happen prior to or even after the hearing. There's considerable motion practice, arguments and pleadings to resolve evidentiary issues, issues in the case, and issuance of subpoenas. The actual hearing is held prior to a briefing schedule, including taking testimony and admitting additional exhibits, oral arguments before the Hearing Officer on occasion, and submission of rebuttal evidence as needed. At the conclusion of the hearing, the parties will discuss necessary next steps, which could include additional records being sought, supplemental hearings, or proceeding to a briefing schedule.</p> <p>A briefing schedule has the following deadlines:</p> <ol style="list-style-type: none"> 1. Position statements are generally set for a 30-day time period after the closing of the administrative record, not necessarily at the end of the hearing itself. That time frame can be set for a longer time as requested by the parties or hearing officer. Extensions can be requested. 	Auditor created a detailed timeline for each sampled case and ensured all hearing documents were uploaded by the required due date.	<ol style="list-style-type: none"> 1. Position statements: Of the 62 sampled cases, only 35 cases had position statements submitted, and all were submitted on time. 2. Replies: Of the 62 sampled cases, only 30 had replies submitted and all were submitted on time. 3. Recommended orders: Of the 62 sampled cases, 43 were submitted by the original due date, 19 were submitted by the extended due date. 4. Exceptions: Of the 62 sampled cases, only 33 cases had exceptions submitted and all were submitted on time. 5. DAC/AAC final order: Of the 62 sampled cases, all were issued by the due date.

KPPA Board Meeting - KPPA Audit Committee Recommendations

				<p>2. Replies are due 15 days after position statements are filed but parties can agree on a different time frame. Parties may also request extensions of deadlines if needed.</p> <p>3. Recommended orders are due 60 days after replies are filed but the hearing officer may request an extension. This is set by Kentucky Revised Statutes 13B.110(1-3)</p> <ol style="list-style-type: none"> 1. Extension are approved by the agency head and may not be more than 30 days. 2. General counsel for Non-Advocacy tentatively schedules when cases will be presented to DAC/AAC at this point. These follow a "first in first out" scheduling methodology. <p>4. Exceptions are due within 15 days after the hearing officer's order is mailed. The DAC/AAC date is scheduled to happen after this 15-day time period. This is set by KRS 13B.110(4)</p> <p>5. DAC/AAC must issue a final order within 90 days of the hearing officer's recommended order. This is set by KRS 13B.120</p> <ol style="list-style-type: none"> 1. The General Counsel of Non-Advocacy or some other Non-Advocacy staff attorney presents a summary of the facts and applicable laws to the DAC/AAC Trustees. General Counsel or other Non-Advocacy staff at the meeting will answer questions about cases during the closed session and advise on how the law should be applied. The Office of Benefits Executive Director and the Division Director of Disability and Survivor Benefits also attend these meetings and will answer questions about the case. 2. DAC/AAC may accept, reject or remand the hearing officer's order. All decisions must be issued in a final order which is drafted by the Non-Advocacy team. The Administrative Appeals Coordinator forwards the final decision to all appropriate individuals and Disability management to process benefits accordingly. <p>Members can appeal the case to the Franklin Circuit Court within 30 days of when the final order was mailed.</p>		
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Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
4.	Disability appeal affidavits are not prepared accurately or timely	<ol style="list-style-type: none"> 1. Work manager keeps track of deadlines for requests 2. Affidavit is prepared, checked and notarized by three different people 	<p>Control Activity: Management designs control activities to achieve objectives and respond to risks.</p> <p>Information and Communication: Management uses quality information to achieve the organization's objectives.</p>	<p>After a valid hearing request is received, the administrative hearing request is assigned to a disability counselor through Work Manager. The assigned counselor prepares an affidavit for Legal Services by confirming the following information, which is then put into the affidavit template and checked by another disability counselor:</p> <ol style="list-style-type: none"> 1. Months of service, service purchases made or previously available, breaks in service explained. 2. Membership date, re-employment date if needed, and last day of paid employment. <p>Approved affidavits are signed by the preparing counselor and sent to Legal Services via inter-office mail.</p>	<ol style="list-style-type: none"> 1. For initial cases, auditor compared the denial letter date to the request date and ensured the request was made within 180 of the denial letter. For periodic cases, auditor compared the discontinuance letter date to the request date and ensured the request was made within 60 days of the discontinuance letter. 2. For sampled items, auditor reviewed journal comments in the member's profile and ensured affidavits were prepared and approved by different individuals. 	<ol style="list-style-type: none"> 1. All 62 sampled cases had requests for administrative hearing submitted on time. 2. Of the 62 sampled cases, only one affidavit doesn't have an approving journal comment in LOB (see item #3 in management letter).

KPPA Board Meeting - KPPA Audit Committee Recommendations

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Members may not be provided with accommodations that allow them to participate in the disability administrative hearing process	KPPA attorney forwards request to ADA Coordinator	Control Activity: Management implements control activities through policies. Information and Communication: Management communicates necessary information externally.	<p>In-house and contract hearing officers have been notified about KPPA's responsibilities under Title II of the Americans with Disabilities Act to provide people with disabilities, as it's defined under the ADA, with an equal opportunity to participate in and benefit from all KPPA programs, services, and activities, including the administrative hearing process. The hearing officers have been notified about Title II ADA requirements which include making reasonable accommodations/modifications for people with a variety of disabilities and providing effective communication with people who have communication disabilities to ensure those individuals have an equal opportunity to fully participate in and benefit from the administrative hearing process. KPPA must take appropriate steps to ensure that communications with hearing participants with disabilities are as effective as communications with others. The KPPA attorneys have been instructed to contact KPPA's ADA Coordinator when an accommodation is needed to ensure that a hearing participant can participate in the process (Note: staff indicated this process will be changing in the future, but did not have additional details on the expected change).</p> <p>There are no written procedures or a standardized format to ensure that all members are made aware of their right to be accommodated to fully participate in the hearing process.</p>	Reviewed member accommodation requests that were received during the scope of the audit.	<p>Based on the conversation with the ADA coordinator. There are no standard procedures for the following (see item #2 in management letter):</p> <ol style="list-style-type: none"> Ensuring that members are aware that they can request accommodations Instructions on how to apply for accommodations A list of accommodations KPPA can provide. <p>ADA coordinator stated that the current process of the KPPA attorney notifying her of a member needing accommodations may change because this process is being reviewed.</p>

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
6.	Disability administrative hearing documents may not be kept secure	Box.com is used to securely share disability administrative hearing documents	Control Environment: Oversight body and management oversees entity's internal control system. Information and Communication: Management communicates necessary information externally. Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	<p>105 KAR 1:215 Section 2 states, "The agency shall provide a unique method for approved parties to access the administrative record, including hearing recordings, memorandums, and any other relevant documentation related to administrative hearings held in accordance to KRS [Kentucky Revised Statutes] Chapter 13B for the matter in which they are directly involved, in the agency portal."</p> <p>Legal Services uses Box.com to securely share only the specific member's folder with the member, their counsel, the Advocacy attorney, Non-Advocacy attorney and DAC/AAC members.</p> <p>Members and counsel may be exempt from utilizing box.com, upon request. In these instances, certified mail is used to communicate confidential information. The use of certified mail impacts more than just this process and will be recommended for a future audit.</p>	For sampled cases, auditor reviewed staff access in Box.com to ensure it was reasonable.	<p>Of the 62 sampled cases, only 19 had access in Box.com to review. Appropriate access was granted to 11 of the 19 cases, 2 members were granted an exemption to use Box.com, 3 cases where a linked timed out due to a member passing during the litigation process and 3 cases had access removed from a hearing officer who is not contracted with KPPA anymore.</p> <p>The remaining 43 cases of 62 sampled were initiated before January 2023 when Box.com was implemented so no access was available to be reviewed.</p>

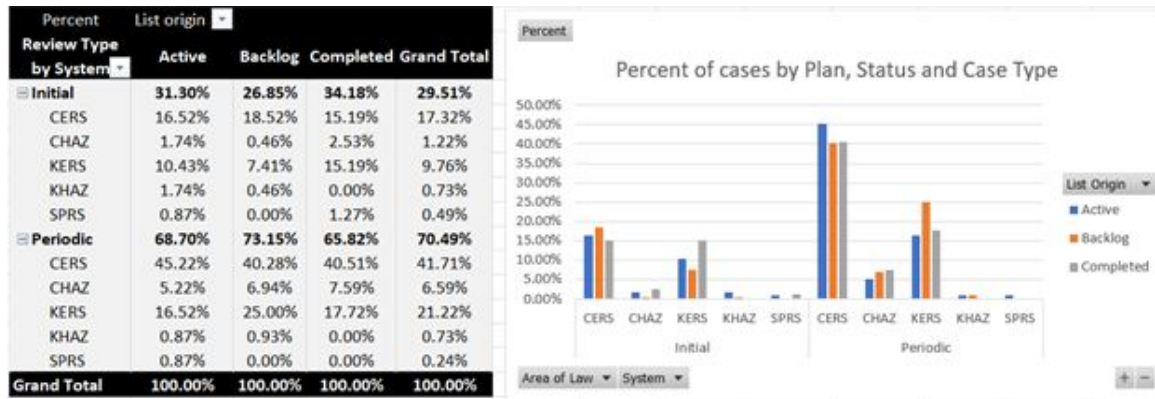
Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
7.	Disability benefits are not processed appropriately after the hearing process concludes	Disability adheres to the DAC/AAC final order	Control Activity: Management designs control activities to achieve objectives and respond to risks. Information and Communication: Management uses quality information to achieve the organization's objectives.	<p>Once DAC/AAC issues its final order, the Administrative Appeals Coordinator or her staff kicks off a workflow for disability in work manager and sends the decisions for each case to disability management. Based on the decision, disability benefits will be approved, terminated, or reinstated.</p> <ol style="list-style-type: none"> If benefits are approved, the disability retirement calculation is launched. If benefits are terminated and the member is eligible for early retirement, the disability benefit is recalculated to the early retirement amount. If the member is not eligible for early retirement, retiree payroll is notified and instructed to suspend disability payments. 	Auditor compared the DAC/AAC decision against the member's benefit status and confirmed that the member's benefit was treated correctly according to the final decision.	<p>Benefits for all 62 sampled members matched the DAC/AAC decision.</p> <p>Informational</p> <ol style="list-style-type: none"> For members who were approved or reinstated, KPPA had to pay \$629,693 in back pay either to the member's last day of employment (approval) or when they requested a hearing (reinstatement). For members who were denied or discontinued, KPPA paid \$91,476 in benefits while the member was going through the administrative hearing process.

				3. If benefits are reinstated, the member receives back pay from the time reinstatement is approved to the month following the member's valid application for reinstatement. If the member was on early retirement, the benefit is recalculated to the disability amount. If the member is not on early retirement, retiree payroll is notified and instructed to restart up disability payments.		
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Appendix B – Disability Administrative Hearing Timeline Analysis

As of December 9, 2024 there were 410 cases which were considered as the population for this audit: 115 active cases, 79 completed cases, and 216 backlog cases.

Among the statuses (active, completed and backlog) and the review types (initial or periodic), CERS takes up most of the population which is not unexpected since CERS members make up the majority of members of plans administered by KPPA.



The initial backlog for hearings was noted during the COVID pandemic. During the shutdown, hearings were not able to be scheduled. Once agencies were opened back up for business, a change was made to the hearing process to account for hearings being conducted virtually.

During this same time (2021), MMRO began performing reviews. MMRO was able to perform more thorough inspections during periodic reviews than those previously performed. As a result, a higher number of cases were recommended for discontinuance. This added to the already established backlog of hearing requests.



Auditor calculated the average wait time by finding the difference in months between the day KPPA received the member's request for a hearing and when the pre-hearing meeting was scheduled. The total time in months was calculated by finding the difference in months between the request date and when DAC/AAC issued a final order such as approved, denied, continuance, discontinuance, reinstatement and dismissal.

Case Status	Average of Wait time in months	Average of Total time in months
Active	17	30
2019	2	62
2020	4	53
2021	8	42
2022	17	30
2023	21	24
Backlog	14	14
2022	27	27
2023	18	18
2024	8	8
Completed	9	24
2020	3	40
2021	7	26
2022	12	22
Grand Total	14	20

Wait time for backlog cases was calculated to show how long members have waited to have a pre-hearing meeting scheduled as of February 14, 2025. Currently, members on the back log list have been waiting at least two years to have their pre-hearing conference scheduled.

The total time for both active and backlog cases was calculated to show how long a case has been ongoing as of February 14, 2025. The longest ongoing case is the one requested in 2019 for In-Line-Of-Duty benefits. This case is now complete, but it took five years to move through the entire process because it was put in abeyance for an administrative hearing on the member's periodic review of Hazardous Benefits.

Officers	Active Count	%	Backlog Count	%	Completed Count	%	Total Count	Total %
-		0.00%	216	100.00%		0.00%	216	52.68%
Erica Roland	29	25.22%		0.00%	2	2.53%	31	7.56%
Lori Eisele	16	13.91%		0.00%	20	25.32%	36	8.78%
Otto D. Wolff		0.00%		0.00%	1	1.27%	1	0.24%
Roland Merkel		0.00%		0.00%	24	30.38%	24	5.85%
Sammie Pigg	22	19.13%		0.00%	32	40.51%	54	13.17%
Stafford Easterling	26	22.61%		0.00%		0.00%	26	6.34%
Thomas Donkin	22	19.13%		0.00%		0.00%	22	5.37%
Grand Total	115	100.00%	216	100.00%	79	100.00%	410	100.00%

There were three main hearing officers who worked with disability cases until 2024. At that time two new hearing officers were added, but two left.

Conclusion

The Office of Legal Services is currently drafting an informal settlement process to help alleviate the backlog since most people on the backlog requested an appeal based on the results of their periodic review. The informal settlement process will be used with members who have requested an administrative hearing after being recommended for discontinuance on a periodic review and are close to normal retirement age. Staff indicated the reasoning for implementing this process is that members close to retirement age will most likely reach normal retirement age before completing the litigation process. Upon reaching normal retirement age, even if the member's disability benefit was recommended to be discontinued, there would be no change to the benefit being received by the member.

Disability staff indicated they have already seen a reduction in discontinuances from periodic reviews. Staff believes this is due, in part, to receiving better quality reviews during the initial determination phase as MMRO contracts with specialists and provides a quality assurance review of reports that did not exist previously. The corresponding result from this should be fewer hearing requests.

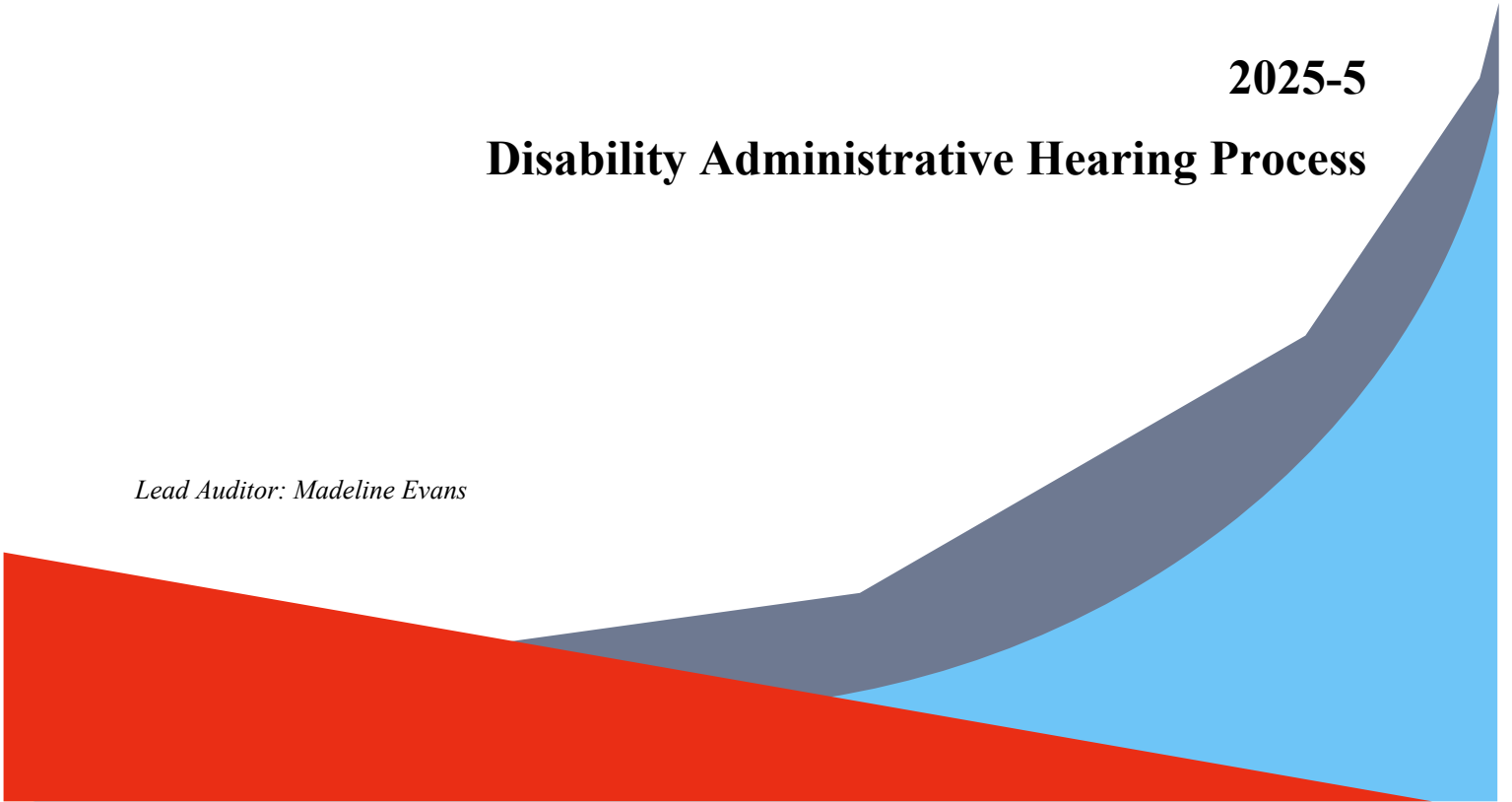


KPPA
Kentucky Public Pensions Authority

2025-5

Disability Administrative Hearing Process

Lead Auditor: Madeline Evans



Issue Date

March 31, 2025

Strategic Risk Addressed

Review the disability appeal process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure documentation is on file and appeals are completed timely.

Audit Scope

The Disability Administrative Hearing Process audit was conducted from November 22, 2024 to February 27, 2025. The scope of the audit was fiscal year 2024. We noted four recommendations that we wanted to communicate to management. These items may be reviewed during follow-up engagements and/or during a review of open recommendations.

Acronyms

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, KPPA Executive Director – Office of Legal Services, and KPPA CFO
8. ADA – Title II Americans with Disabilities Act
9. KAR – Kentucky Administrative Regulation
10. LOB – Line of Business

Recommendations

Recommendations:	<p>The Office of Legal Services should consider making the following updates to the Administrative Appeal Coordinator procedures:</p> <ol style="list-style-type: none"> 1. Consider removing procedures that are no longer performed by the Administrative Appeal Coordinator. 2. Update the remaining procedures so they reflect the current process.
Finding Information:	<p>During testing, no exceptions were noted related to the process overseen by the Administrative Appeal Coordinator, indicating the current process and controls are operating effectively and efficiently. However, we noted that the Administrative Appeal Coordinator procedures have not been updated to reflect the current process.</p> <p>The manual was developed for one position that has been held by the same person for many years. When some processes changed and responsibilities began being shared with the Administrative Specialist, staff did not update the procedures to reflect the changes because separate training materials were created for cross training on these responsibilities.</p>

	200 KAR 38:070 states, “(2) Each fiscal officer shall develop and document internal controls...(3) an internal control plan shall include...(f) Detailed procedures to be followed in the performance of job duties and functions....”
Management Response:	Some of the duties of the Administrative Appeals Coordinator regarding creation of the Administrative Record for Administrative Hearings were transitioned to another staff position to accelerate the process of creating Administrative Records. Initial training material was created for the new staff position in the fall of 2024, but the process documentation was not completely updated until after this audit. The Administrative Appeals Coordinator has reviewed the procedures manual, removed any outdated processes, and inserted references to newly created additional process documentation.

Recommendations:	<p>3. The KPPA Executive Management team should determine who will be responsible for officially documenting procedures for ADA accommodations. Once this has been determined, the procedures should be documented and made available to staff.</p> <p>4. The KPPA Executive Management Team should consider if it would be beneficial to also develop informational printed media and social media postings to inform members about how to request accommodations when attending administrative hearings and/or meeting with benefit counselors.</p>
Finding Information:	<p>Requests for accommodations under Title II of The Americans with Disabilities Act (ADA) are infrequent. We tested all three accommodations requests received during the scope of the audit. No exceptions were noted, indicating the current process and controls are operating effectively and efficiently. However, we did note that there are no written procedures to provide guidance on how to ensure members are made aware of ADA accommodations options.</p> <p>Title II of The Americans with Disabilities Act § 35.160 states, “A public entity shall take appropriate steps to ensure that communications with applicants, participants, members of the public, and companions with disabilities are as effective as communications with others.” Requests for accommodations have been infrequent in the past so staff did not think it was necessary to document the procedures. However, now that requests have increased, KPPA Executive Management has started discussions on documenting the official process.</p>
Management Response:	KPPA fully adheres to the requirements outlined under Title II of the Americans with Disabilities Act (ADA). Although member requests for accommodations are infrequent, whenever a request is received, it is promptly escalated to management for review and fulfillment, under the ADA. We have always complied with the law and made necessary accommodations. The KPPA Executive Management Team agrees and recognizes that these procedures should be formally documented, and the process of documenting these procedures has been initiated to ensure consistency moving forward.

Recommendations:	Since this item did not represent a process or controls failure, no recommendation is necessary. However, the Division of Disability and Survivor Benefits management indicated they would consider adding a step to procedures instructing the preparer of the affidavit to ensure the checker left a journal comment in the member's LOB profile.
Finding Information:	From an audit perspective, this item is not considered a process failure. Additionally, one exception in a sample of 62 still indicates that controls are working effectively and efficiently. This item is being reported for informational purposes only.

	<p>One of 62 sampled affidavits did not include a journal comment showing who approved (e.g. performed the quality control review) of the affidavit. The "Affidavit Training" disability procedures state, "Send affidavit to QC [Quality Control] in WM [Work Manager]. Make a journal comment - Completed affidavit. Sent to QC in WM. Once the affidavit is approved you will sign and send to [name redacted] in the KRS legal department via interoffice mail and move the work item to Affidavit Complete."</p> <p>Management indicated that comments can be easy to forget. Additionally, staff may forget to click save after entering the comment.</p>
Management Response:	<p>Disability and Survivor Benefits management will communicate to staff to add a step for the original preparer of the affidavit to ensure the checker made a journal comment in LOB. Additionally, on March 21, 2025, staff updated process documentation to reflect the same change in process.</p>

Audit Standards

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

Use of Report

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



KPPA
Kentucky Public Pensions Authority

2025-6
Review of the Hiring Process

Lead Auditor: William Prince

Issue Date: April 15, 2025

Acronyms

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
8. HR – KPPA Division of Human Resources
9. KHRIS – Kentucky Human Resource Information System
10. MQR – Minimum Qualification Review
11. MyPurpose – name of the system utilized by Personnel Cabinet for various personnel actions

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Overall Opinion

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

Strategic Risk Addressed (Objective)

Review the hiring process and ensure compliance with statutes/regulations/policies. Confirm controls are established to review and address KPPA staffing levels and to ensure vacancies are filled timely.

Audit Scope

The Hiring Process audit was conducted from January 15, 2025 to March 28, 2025. The scope of the audit was July 1, 2023 - January 21, 2025.

Summary of Findings

No findings or observations were noted as a result of this audit.

Commendations

We would like to thank the Division of Human Resources. They quickly responded to all questions and provided the documentation needed to complete testing.

Audit Standards

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

Use of Report

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

HR staff provided a list of all new hires from July 1, 2023 to January 31, 2025. This list contained 55 individuals. All individuals who did not follow the 18A hiring process - interims, interns, and contracted employees - were removed from the testing population. Additionally, the employees hired within the Division of Internal Audit were removed for independence purposes. This left 39 individuals in the population. Each of these individuals was reviewed to ensure consistent hiring practices were followed by various KPPA departments.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Hiring process policies/procedures/internal controls not established, documented, effective or efficient	Agency related hiring procedures reviewed annually and updated as needed	Control Environment: Oversight body and management oversees entity's internal control system. Control Activity: Management implements control activities through policies. Information and Communication: Management uses quality information to achieve the organization's objectives.	HR follows the hiring procedures and guidelines issued by the Personnel Cabinet in addition to utilizing internal KPPA hiring procedures. The documents and guidelines for these procedures are found on the HR team site.	Auditor inquired about existence of procedures related to the internal hiring process followed by KPPA staff.	HR follows guidance established by the Personnel Cabinet. Documentation of internal procedures was underway at the time of the audit and was completed in March 2025.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
2.	Hiring records may not be maintained in accordance with state record retention policy	HR retains all documents related to the hiring process either on-site or in underground storage	Control Activity: Management designs control activities to achieve objectives and respond to risks.	HR collects and stores all documents related to the hiring process for each hire. These documents are audited for completeness by HR and then stored at KPPA or the underground storage facility used by KPPA in accordance with state record retention policy. Records are sent to underground storage once a year in the early spring. KPPA keeps current year and previous year hiring records on site.	Reviewed all hiring related documents and ensured KPPA maintained a complete file in accordance with the state record retention policy.	All 39 hiring files were complete and were maintained in accordance with the state record retention policy.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Internal request to fill vacancy may not be properly supported	Personnel Cabinet ensures all documents are received prior to posting job vacancy	Information and Communication: Management communicates necessary information externally.	<p>When it is determined that there is a need to fill a vacancy (either upon manager request or an individual leaving KPPA), the HR Division Director has a conversation with the KPPA Executive Director to ensure HR can move forward with filling or backfilling the vacancy.</p> <p>When a job is posted, the following documents are required:</p> <ul style="list-style-type: none"> Position Description Request to establish position (if creating a new position) Job Posting Request Form <p>The first step to posting a job is to determine if the position is already established or if it is a new position. If the position is already established, the process is more straightforward. The hiring manager completes the Job Posting Request (an internally required form), updates the job description, if applicable, and submits the information to HR. If a new position must be established, the hiring manager creates a position description and submits it to HR. Then HR submits the request to establish a position, which includes uploading the position description, to the Personnel Cabinet through KHRIS. Some positions, such as the Counselor I have preapproved position descriptions (or a Position Description Template), which allows KPPA to create a new position using the preapproved position descriptions. Any updates to the position description for a preapproved job must be approved by the Personnel Cabinet. After the position is established or the position description is approved, the manager will fill out a job posting request form. The Personnel Cabinet will not allow a vacancy to be posted if all required documents are not submitted. Since the Job Posting Request Form is an internal document, the Personnel Cabinet does not require it to be submitted prior to posting a vacancy.</p>	Reviewed hiring file and ensured it contained the job posting request form, position description, and request for position (if a new position was created).	All 39 hiring files were properly supported with consistent documentation.

KPPA Board Meeting - KPPA Audit Committee Recommendations

				Once the Personnel Cabinet has approved the job for posting, the job is posted according to the length of time determined by the KPPA hiring manager and noted on the Job Posting Request. Five days is the standard recommended by the Personnel Cabinet, but the posting can be extended up to 30 days, based on individual need.		
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Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
4.	Internal request to fill vacancy may not be properly approved	Internal requests to fill vacancies are approved by the Personnel Cabinet	Information and Communication: Management communicates necessary information externally.	A member of HR will review all internal job posting request documents prior to entering the information into KHRIS. The entry updates overnight and is received by the Personnel Cabinet the next day. The Personnel Cabinet has three days to review but typically responds the next business day. If the Personnel Cabinet has any questions, the comments are sent to KPPA. Minor items (formatting, typo) can be changed by Personnel Cabinet staff without providing feedback to KPPA. The Personnel Cabinet sends an email to HR staff indicating whether updates are needed or if the position has been approved.	Reviewed email from Personnel Cabinet and ensured Personnel Cabinet approved the position description and job posting.	All 39 hiring files contained approval from the Personnel Cabinet for the position descriptions and job postings.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Selection panel may not include appropriate individuals	HR reviews selection panel members prior to interviews	Control Activity: Management designs control activities to achieve objectives and respond to risks.	The hiring manager determines the members of the selection panel. The selection panel is made up of a minimum of three members; the only required member is the immediate supervisor for the posted position. The selection panel may also include another supervisor/manager, departmental employee assigned to different unit with similar duties, and/or an HR representative. It is not recommended that the selection panel include employees in the same position and same unit as the posted job. No candidate's family members or persons of a similar relationship can serve on the selection panel.	Reviewed selection panel members and ensured the make-up of the panel followed guidance provided by the Personnel Cabinet - a minimum of three panelist, including the posted position's direct supervisor.	All 39 selection panels followed Personnel Cabinet guidance - consisted of a minimum of three members and contained the position's direct supervisor.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
6.	Hiring manager may not be properly trained	HR ensures all hiring managers have received proper training	Control Environment: Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals. Control Activity: Management designs control activities to achieve objectives and respond to risks.	When HR receives the list of the selection panel members, the HR Assistant Director reviews training transcripts in MyPurpose to ensure the hiring manager has completed the Governmental Services Center Hiring and Selection Process training. If the hiring manager has not completed the training, HR Assistant Director assigns it to the individual through MyPurpose.	Auditor verified that every hiring manager in testing population had completed all required training before serving on the interview panel.	All 39 hiring managers completed the required trainings.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
7.	Interview panelists may have conflict of interest with interviewees	HR ensures all selection panelist sign a Conflict of Interest form	Control Environment: Oversight body and management demonstrate a commitment to integrity and ethical values. Risk Assessment: Management clearly defines objectives to identify risks. Control Activity: Management designs control activities to achieve objectives and respond to risks.	Each selection panelist member must complete a Conflict of Interest Form indicating they do not have a conflict with any of the interviewees. An HR team member ensures the Conflict of Interest Form is received for all selection panelist prior to scheduling interviews. Additionally, an HR staff member performs a cursory review of the selection panelist and the interviewees to look for a potential family relationship to ensure a change does not need to be made to the selection panel prior to scheduling interviews. However, the selection panelists are ultimately responsible for ensuring they do not have a conflict with any interviewees.	Reviewed hiring file and ensured a signed Conflict of Interest form was obtained from each selection panelists.	All selection panelists reviewed had signed the Conflict of Interest form.

KPPA Board Meeting - KPPA Audit Committee Recommendations

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
8.	Screening criteria may not be properly established	Personnel Cabinet ensures candidates meet minimum job qualifications	Control Activity: Management designs control activities to achieve objectives and respond to risks. Information and Communication: Management communicates necessary information externally.	Prior to a job closing, HR can request to extend the job posting if the hiring manager would like to allow more time for additional candidates to apply for the vacancy. While the job is posted, the hiring manager determines the minimum skills and knowledge required for the job (as noted in the job posting) and adds these items to the Screening Criteria Worksheet. As applications are received, the hiring manager compares the candidate's skills to the Screening Criteria Worksheet to determine if the individual appears to meet the minimum qualifications. Individuals who do not meet the minimum qualifications do not have to be interviewed for the vacancy. If after completing the Screening Criteria Worksheet there are no qualified candidates, HR can close the position without filling it so it can be posted at a later date.	Compared the Screening Criteria Worksheet to the minimum job requirements established in the job posting and ensured hiring managers screened candidates based on relevant criteria.	All 39 Screening Criteria Worksheets matched the minimum job requirements.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
9.	Interview preference may not be properly granted to service members	HR ensures interviews are offered to service members as required	Control Environment: Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals. Control Activity: Management designs control activities to achieve objectives and respond to risks.	The Commonwealth of Kentucky requires interview preference for current service members, honorably or generally discharged former service members, and members' spouses, surviving spouses, and dependent parents to a competitive classified position for which he or she meets the minimum qualifications established for a vacancy to which they applied. If an individual meets the requirements for veteran's preference, their application will be flagged by the Personnel Cabinet. If less than five individual who apply for a vacancy are deemed to have veteran's preference, all individuals meeting the status must be offered an interview. If five or more individuals who apply for a vacancy are deemed to have veteran's preference, then interviews must be offered to at least five of the individuals. HR reviews the candidate register and the listing of candidates selected for interview to ensure interviews are properly offered to those with veteran's preference. Additionally, the Personnel Cabinet ensures interviews were properly offered to those with Veteran's Preference during the Minimum Qualification Review process.	Initially, auditor planned to review the hiring file and ensure proper interview preference was given to service members who applied for the job vacancy. However, it was determined the Veteran's Preference flags are not saved once the job posting is closed and in order to get this information, every candidate for every sampled position would have to be pulled separately. This would be labor intensive for HR staff, and it was determined the results would not be cost beneficial to the agency. Instead, auditor worked with HR to determine which of the job postings in the testing population had known veteran applicants. From that list, one job posting was reviewed to ensure proper interview preference was provided. Since no issues were noted with the reviewed item and Veteran's Preference is closely monitored by the Personnel Cabinet it was determined that additional testing was not necessary.	Veterans were properly offered interviews according to veteran's preference guidelines.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
10.	Internal hiring recommendation memorandum may not be properly supported	HR reviews the Hiring Recommendation Memorandum and supporting documents	Control Activity: Management designs control activities to achieve objectives and respond to risks.	Upon completion of the interviews, the selection panel submits interview questionnaires, application, internal mobility form, and performance evaluations for all candidates to HR. The hiring manager submits up to three candidates for the MQR. HR provides those individuals to the Personnel Cabinet via MyPurpose. If the Personnel Cabinet has questions about qualifications, they work directly with the candidate to clarify or resolve the issues. KPPA staff are not allowed to counsel candidates on the information that needs to be provided to the Personnel Cabinet. Once the MQR is completed, the Personnel Cabinet will let KPPA know which candidates meet the minimum qualifications. KPPA cannot move forward with any candidate not approved by the Personnel Cabinet. After the MQR is complete, the hiring manager submits the top two candidates to HR for a background	Reviewed hiring file and ensured the proper supporting documents were submitted with the Hiring Recommendation Memorandum - Recommended Candidate's Application, Internal Mobility Form (if a current state employee), Performance Evaluations (if a current state employee), and Reference check forms.	All 39 Hiring Recommendation Memorandums were submitted with all required documentation.

KPPA Board Meeting - KPPA Audit Committee Recommendations

				<p>check. HR then submits the individuals to the Personnel Cabinet who completes the background check. The Personnel Cabinet notifies HR if the candidate successfully passed the background check. If anything other than a minor traffic violation is reported on the background check, HR works with KPPA Office of Legal Services to determine if the information exempts the individual from employment with KPPA. While the MQR and background checks are being conducted, the hiring manager is encouraged to complete reference checks on the selected candidates. After the MQR, background check, and reference checks are completed, the selection panel can move forward with recommending an individual to fill the vacancy.</p> <p>Based on information received from the selection panel, the hiring manager prepares a Hiring Recommendation memorandum and submits it to the Appointing Authority. Along with the Hiring Recommendation memorandum, the recommended candidate's resume is also provided to the Appointing Authority. At a minimum, the following documents must be submitted to HR when a candidate is recommended for a position:</p> <ul style="list-style-type: none"> • Recommended candidate's application • Internal Mobility Form, for current state employees • Performance Evaluations • Reference Check Forms 		
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Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
11.	Internal hiring recommendation memorandum may not be properly approved	Personnel Cabinet ensures candidate approved by the Appointing Authority	<p>Control Environment: Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals.</p> <p>Control Activity: Management designs control activities to achieve objectives and respond to risks.</p> <p>Information and Communication: Management communicates necessary information externally.</p>	The Appointing Authority reviews the Hiring Recommendation Memorandum and attached information. If there are questions, the Appointing Authority will discuss the concerns with HR, and potentially the selection panel. If the Appointing Authority does not agree with the recommendation, HR will be informed. HR will reach out to the selection panel and have them determine if a new recommendation will be made or if the job will be recommended for closing without being filled. If the Appointing Authority approves the recommendation, he or she signs the memorandum and sends it to HR via email. At this point, a conditional offer of employment, including salary and proposed start date, can be made to the candidate, with the understanding that the Personnel Cabinet has final approval. The Personnel Cabinet will approve the recommendation unless compliance issues with laws, policies, and/or procedures are discovered.	Reviewed the Hiring Recommendation Memorandum and ensured it was properly signed by the appointing authority.	All 39 Hiring Recommendation Memorandums were properly signed by the Appointing Authority.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
12.	Hiring process may not be completed timely	Personnel Cabinet tracks and reports the time it takes to fill vacancies	<p>Information and Communication: Management communicates necessary information externally.</p> <p>Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.</p>	The time taken to fill open positions is monitored by the Personnel Cabinet who provides HR with a quarterly report detailing how long it takes to fill each position. The report includes the Requisition Number, Job Title, Agency Name, Department Name, Job Posters Name, Appointed Candidate Name, Posting Date, Closure Date and Number of Days to Fill.	Created a timeline for each milestone of the process. Determined the average time spent on each step of the process as well as the overall time taken to fill each position.	See Appendix B – Hiring Process Timeline

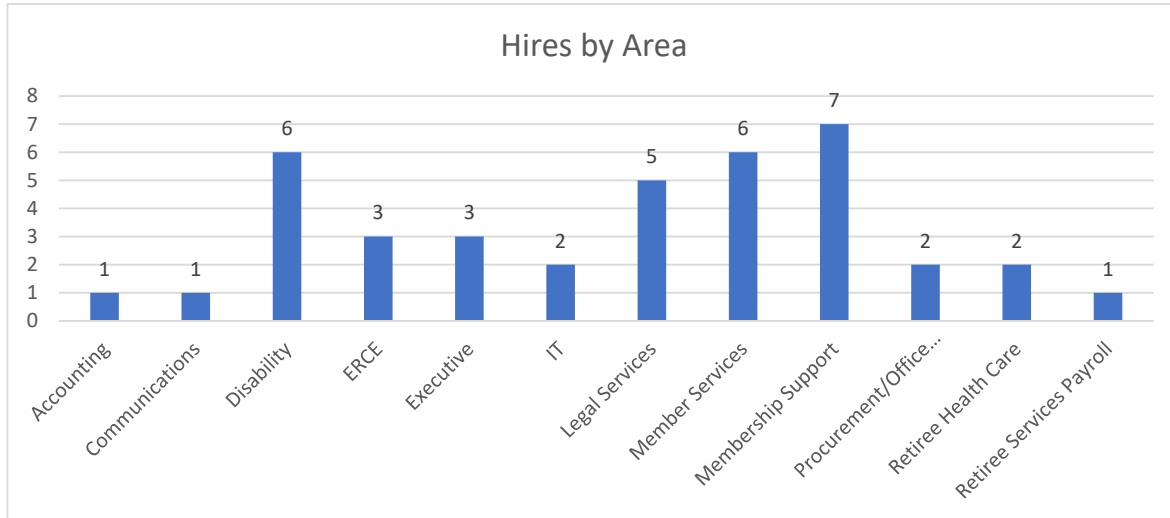
KPPA Board Meeting - KPPA Audit Committee Recommendations

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
13.	Staffing levels may not be appropriate to ensure the agency's key objectives are completed timely	KPPA Executive Management team reviews current staffing levels to ensure they are sufficient	Control Environment: Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals. Control Activity: Management designs control activities to achieve objectives and respond to risks. Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	The HR Division Director has a bi-weekly meeting with the KPPA Executive Management team to discuss agency headcount and current vacancies. During these meetings there are also discussions concerning whether current staffing levels are sufficient. The Personnel Cabinet also provides turnover reports. Annually, the HR Division Director provides an explanation for any department with a turnover rate at or above 15%.	Reviewed HR reports provided to Executive Management and ensured information related to vacancies and staffing levels was communicated.	HR provides KPPA Executive Management with reports on agency vacancies and staffing levels.

Appendix B – Hiring Process Timeline

As part of audit 2025-6 Review of the Hiring Process, a timeline was created to show the time required by both the process as a whole and the individual steps of the process. Thirty-nine hires were included as the population for this analysis. The individual steps included as part of the hiring process are as follows: date the position was submitted to be posted, date the posting was approved, date the posting stopped accepting applicants, date Minimum Qualification Reviews (MQR) were requested for candidates, date MQR results were returned, date background check requests were submitted, date background check results were returned, date hiring memo was created, date hiring memo was submitted, date hiring memo was approved, date the posting closed, and date the register expired.

The hires comprising the sample come from a variety of areas within KPPA with the following breakdown:



After collecting dates for each milestone, auditor calculated the total time involved in the hiring process from the date the request was submitted to Personnel to the date the successful candidate was approved to be hired. Results are as follows:

Total Time to Hire (in days)	
Average	47
Maximum	77
Minimum	23

Auditor then examined the time taken to complete each step of the hiring process with the goal of determining how KPPA and the Personnel Cabinet worked together to complete the hiring process and to show how time is split between KPPA and Personnel.

- Time job was posted and open to applicants: Average time the posting was open was 9.85 days closely matching the guidance from Personnel Cabinet to post jobs for 10 days. *Note: Personnel Cabinet adjusted their guidance to five days during the sampling period.*
- Conducting interviews: Average time to conduct interviews was 12.36 days indicating that KPPA was efficiently scheduling and interviewing candidates.
- Time to complete MQR: Average time for MQR to be completed was 1.5 days. This is a step performed by the Personnel Cabinet.

- Time to complete Background Check: Average time for background checks to be completed was 1.77 days. This step is also performed by the Personnel Cabinet.
- Time to approve candidate for hiring: Once the background checks are completed, it took an average of 1.5 days to create and submit the hiring memo. It took an average of 2.6 days for the hiring memo to be approved.

In relation to the hiring process, KPPA is responsible for the process from the time the vacancy opens to the time the MQRs request is submitted and then from the time the background checks are completed to the time the selected candidate is approved. The average time for these stages is 22 days and 6.5 days, respectively. On average, KPPA staff spend 29 days on the hiring process.

In relation to the hiring process, the Personnel Cabinet is responsible for approving the job posting and conducting the MQR and background checks. The average time to approve a job posting is one day. The average time to complete the MQRs and background checks is 10 days each. On average, Personnel staff spend 11 days on the hiring process.



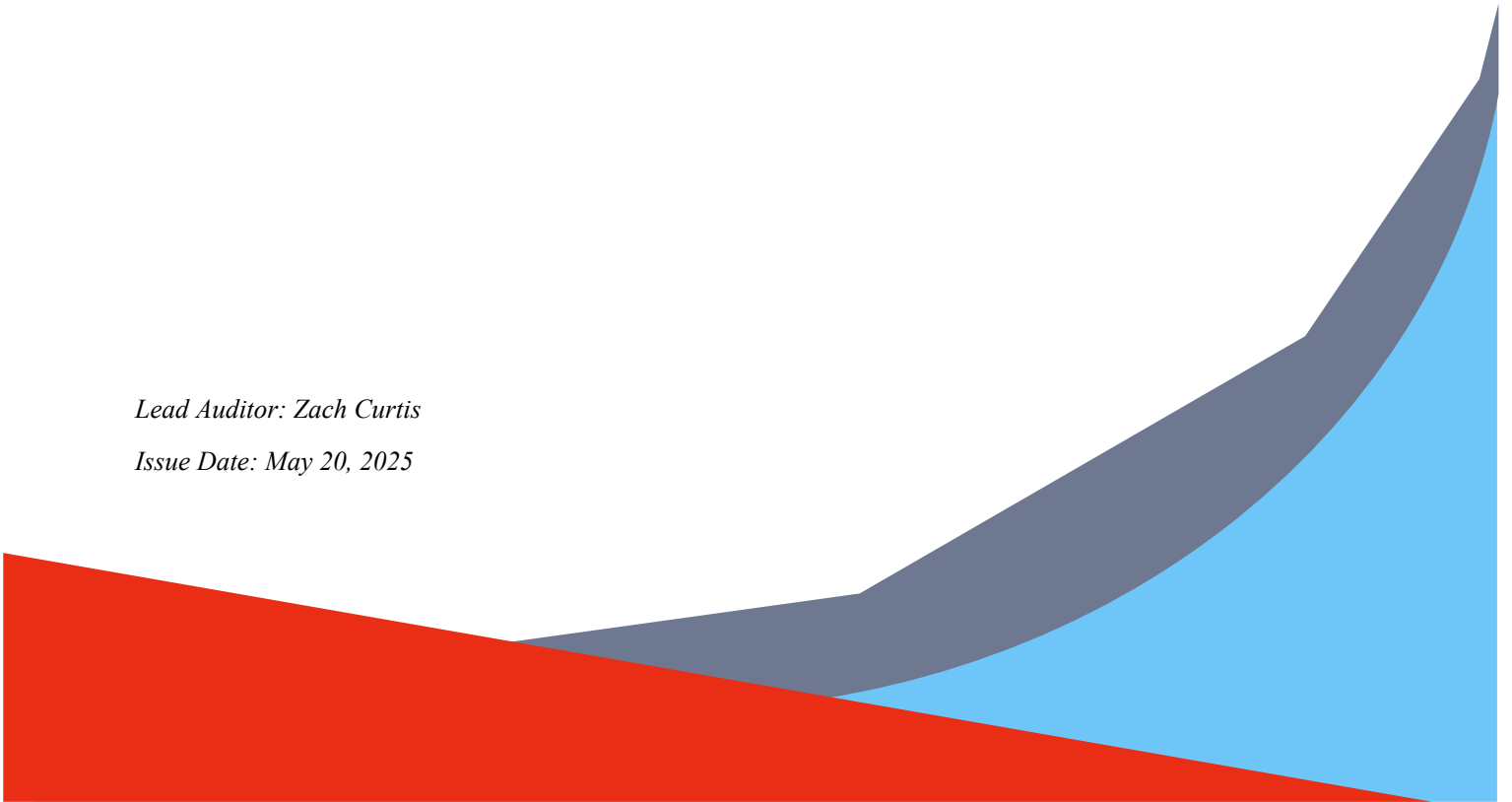
KPPA
Kentucky Public Pensions Authority

2025-10

Review of the Travel Process

Lead Auditor: Zach Curtis

Issue Date: May 20, 2025



Acronyms

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
8. Accounting – KPPA Division of Accounting
9. Procurement – KPPA Division of Procurement and Office Services
10. Human Resources or HR – KPPA Division of Human Resources
11. FAC – Finance and Administration Cabinet
12. WHD – Web Help Desk

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Overall Opinion

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

Strategic Risk Addressed (Objective)

Review the travel process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure travel is properly approved, supported, and reimbursed.

Audit Scope

Our Review of the Travel Process was conducted from February 13, 2025 to April 18, 2025. The scope of the audit was July 1, 2023 through January 31, 2025.

Summary of Findings and Observations

One finding was noted during our review. This item represents a partial breakdown of a process. Additional details related to the finding, including the corresponding recommendations can be found in Appendix A.

1. Meals reimbursed without overnight stay not treated as taxable benefit

We noted other opportunities for improvement that we communicated to the KPPA Executive Management Team in a separate letter dated May 20, 2025.

Commendations

Auditors would like to commend the Accounting, Procurement, Human Resources, and the Deputy Executive Director for their assistance and prompt responses to questions related to this project.

Audit Standards

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

Use of Report

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

Appendix A – Audit Results

Findings

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

1. Meals reimbursed without overnight stay not treated as taxable benefit	
Recurring Issue:	Yes
Condition:	45 of 50 travel reimbursements reviewed involved an overnight stay. Of the remaining five, all included meals that were reimbursed without an overnight stay. Two of these meals were not treated as a table fringe benefit.
Criteria:	Internal Revenue Service (IRS) Revenue Manual Part 1.32.1.11 states, "Taxable travel reimbursements for local travel include...(b) Subsistence for less than 24 hours without a night's lodging..."
Cause:	Oversight by staff led to these two individuals not being added to the Taxable Meal Reimbursement.
Effect:	Incorrect reporting of fringe benefits can expose employers to significant penalties related to filing incorrect information and failing to withhold and deposit the correct taxes. Penalties for improperly reporting W-2 information range from \$60 to \$310 per form. Failing to properly withhold and deposit taxes on taxable fringe benefits can result in additional penalties, starting at 2% for deposits made 1-5 days late and reaching up to 15% for deposits more than 10 days late.
Recommendations:	<ol style="list-style-type: none"> 1. HR staff should review the occurrences noted in the finding and make adjustments to current paychecks, if necessary, to include the taxable fringe benefits. 2. HR management has indicated that HR staff will send a quarterly reminder to Procurement staff requesting verification of the accuracy of the Taxable Meal Reimbursement spreadsheet. Previously, this step was only being conducted on an annual basis. 3. KPPA Executive Management should consider adding a secondary review of the Taxable Meal Reimbursement – potentially Accounting could review this when approving the reimbursement for payment.
Management Response:	<p>Management agrees with the recommendations.</p> <ol style="list-style-type: none"> 1. HR has corrected the two occurrences that were not treated as a taxable fringe benefit. The total additional taxes that have been withheld from paychecks related to this finding are \$10.56. 2. HR began the quarterly reminders process in May 2025. 3. The Deputy Executive Director is establishing a secondary review process.
Implementation Date:	<ol style="list-style-type: none"> 1. Completed by May 20, 2025 2. Completed in May 2025 3. To be established by December 31, 2025

Observations – None noted during the audit

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

Appendix B – Control Matrix

Auditor judgmentally determined to test one travel reimbursement for each KPPA employee (excluding KPPA Trustees & Hearing Officers) who received a travel reimbursement during the scope of the audit. Auditor selected to test the largest dollar amount reimbursed for each employee who received a travel reimbursement between July 1, 2023 through January 31, 2025. A sample size of 50 travel reimbursements were selected for testing.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Travel policies/procedures/internal controls not established, documented, effective or efficient.	Travel procedures are reviewed annually and updated as needed.	Control Environment: Oversight body and management oversees entity's internal control system. Control Activity: Management implements control activities through policies. Information and Communication: Management uses quality information to achieve the organization's objectives. Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	KPPA follows the travel procedures established by statute and the Finance and Administration Cabinet. Updates to these items fall outside the scope of KPPA staff. However, KPPA does have various checklists and other information available to staff to help them complete travel requests and reimbursements. These documents are maintained on the KPPA SharePoint Travel site and are updated by the Staff Assistant to the KPPA Deputy Executive Director.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are established, documented, up-to-date, effective, efficient, and available to staff. However, there were a few potential opportunities for improvement noted: <ol style="list-style-type: none"> The procedures include references to old titles, such as Assistant Deputy Director and the former KRS. The procedures include references to steps that are no longer completed, such as Accounting printing out all documents and uploading to SharePoint (documents are now automatically uploaded to SharePoint). The Deputy Executive Director, who approves most travel items, indicated that there are certain criteria evaluated when approve travel (e.g. budget, resource availability, work performance, number of employees attending conferences, past conferences attended by the employee, etc.). However, these items are not documented as a part of the procedures so if someone else is reviewing travel they may not know to take these items into consideration. See management letter Opportunity for Improvements #1.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
2.	Employee may not receive approval prior to traveling.	Travel request is reviewed after submission for any additional approvals needed.	Control Environment: Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. Control Activity: Management implements control activities through policies. Information and Communication: Management uses quality information to achieve the organization's objectives. Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	When a need for travel is established, a WHD ticket is created by the Division Director of the traveler's department. The WHD ticket is routed to the KPPA Deputy Executive Director for approval. The request must include a completed Request for Travel document that provides a purpose for the travel as well as the estimated cost. To ensure the travel request contains all necessary information, KPPA has opted to utilize the Request for Out of State Travel form in all instances. This form requires more information than the Request for In-State Travel, which helps ensure the request is complete. The Deputy Executive Director reviews the request and takes multiple items into consideration prior to approving or denying the request - is	Reviewed travel documentation and ensured travel was pre-approved by the Deputy Executive Director (or backup). For out-of-state travel, ensured approval was also obtained from the Governor's Office.	Travel for all 50 items was pre-approved, as required.

KPPA Board Meeting - KPPA Audit Committee Recommendations

				<p>the money available in the budget, is the request for a business purpose/will there be a benefit to the agency, is the requested number of travelers reasonable (e.g. not sending an entire department to one training), etc. If the Deputy Executive Director has questions, she will contact the requesting director for clarification. If the request is denied, the ticket will be marked as denied and the requesting director will be notified.</p> <p>If the request is approved and is for Out of State or Out of Country Travel, the Deputy Executive Director requests the Administrative Assistant to complete the necessary request and forward it to the Governor's Office for approval (Note, during the scope of the audit, this was performed by the Staff Assistant). Once approval is received from the Governor's Office, it is attached to the WHD ticket. The Deputy Executive Director will then mark the ticket as approved, and it will then be routed to Procurement.</p> <p>Two exceptions:</p> <ul style="list-style-type: none"> • The Legal Services Investigator is sometimes required to travel with little to no notice. There is a blanket approval for this individual to complete in-state travel. • Pre-approval for travel between KPPA locations (Frankfort and Louisville) is not required. This is reimbursed at a set mileage distance. 		
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Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Travel may not have a business-related purpose.	Deputy Executive Director reviews travel request to ensure it is for a business purpose.	<p>Control Environment: Not Applicable</p> <p>Control Activity: Management implements control activities through policies.</p> <p>Monitoring: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.</p>	The Deputy Executive Director reviews the request and takes multiple items into consideration prior to approving or denying the request - is the money available in the budget, is the request for a business purpose/will there be a benefit to the agency, is the requested number of travelers reasonable (e.g. not sending an entire department to one training), etc. If the Deputy Executive Director has questions, she will contact the requesting director for clarification.	Reviewed travel reimbursement voucher and ensured travel was conducted for a business purpose.	Travel for all 50 items was completed for a KPPA business purpose.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
4.	Travel reimbursement form may not be properly completed.	Travel reimbursement voucher reviewed by supervisor and Procurement staff.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	<p>After the travel has been completed, the traveler completes the Travel Reimbursement form and submits it to their supervisor for approval. The supervisor performs the following review:</p> <ul style="list-style-type: none"> • Ensures travel form is completed properly. • Ensures all supporting documents (receipts, maps, etc.) are attached. • Recalculates the mileage using the provided maps and FAC established mileage reimbursement rate for the dates of the travel. • Ensures reimbursement only claimed for KPPA employees. • Verifies proper per diem rate was claimed. <p>If there are questions, the supervisor will reach out to the traveler.</p> <p>Once the travel reimbursement form and supporting documents are attached to a WHD ticket, Procurement staff performs the following review:</p> <ul style="list-style-type: none"> • Ensures proper travel form was completed. • Ensures support is provided for all expenses on the reimbursement claim. 	Reviewed travel reimbursement vouchers and ensured the forms were properly completed.	All 50 travel reimbursement vouchers were properly completed.

KPPA Board Meeting - KPPA Audit Committee Recommendations

				<ul style="list-style-type: none"> Recalculates the mileage using the provided maps and FAC established mileage reimbursement rate for the dates of the travel. Ensures reimbursement only claimed for KPPA employees. Verifies proper per diem rate was claimed. Ensures travel voucher is properly approved. <p>To ensure Procurement performs a thorough review of the travel reimbursement request, a checklist has been created that provides guidance on every item Procurement needs to review.</p>		
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Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Travel reimbursement may not be properly supported.	Travel reimbursement voucher reviewed by supervisor and Procurement staff.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	See "Staff Process to Mitigate Risk" noted for risk #4.	Reviewed travel reimbursement vouchers and ensured the requested expenses were properly supported.	All 50 travel reimbursement vouchers were properly supported.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
6.	Mileage reimbursement may not be properly calculated.	Supervisor and Procurement staff recalculate mileage reimbursement.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	See "Staff Process to Mitigate Risk" noted for risk #4.	Recalculated mileage reimbursement rate utilizing mileage on provided maps and mileage reimbursement rate set by the Finance and Administration Cabinet. Ensured recalculated rate agreed to rate claimed on travel reimbursement voucher.	Mileage was properly calculated on all 50 reimbursement vouchers reviewed.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
7.	Travel expenses for non-KPPA employees may be reimbursed by KPPA.	Travel reimbursement voucher reviewed by supervisor and Procurement staff.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	See "Staff Process to Mitigate Risk" noted for risk #4.	Reviewed travel reimbursement voucher to ensure no expenses related to non-KPPA employee were claimed.	All 50 travel voucher reimbursements only included expenditures related to KPPA employees.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
8.	Incorrect per diem rate may be utilized.	Travel reimbursement voucher reviewed by supervisor and Procurement staff.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	See "Staff Process to Mitigate Risk" noted for risk #4.	Reviewed travel reimbursement voucher and ensured proper per diem rate was used, based on rate issued by Finance and Administration Cabinet.	All 50 travel vouchers included the proper per diem rate.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
9.	Travel reimbursement form may not be properly approved.	Procurement staff ensure travel voucher is properly approved.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	<p>After the supervisor has completed their review of the travel reimbursement request and all questions are addressed, the form is signed to indicate approval. The supervisor emails the form to the Division Director, who then attaches the form and supporting documents to the WHD where the travel was initially requested. <i>Note: If the Division Director is the supervisor reviewing the travel reimbursement form, approval is noted by uploading the form to the WHD and a signature is not required on the form.</i></p> <p>See Procurement staff process outlined in the "Staff Process to Mitigate Risk" noted for risk #4.</p>	Reviewed travel reimbursement voucher and ensured it was properly approved by employee's supervisor.	One of 50 travel reimbursement vouchers did not contain the signature of the employee's supervisor. Travel was pre-approved, reimbursement claim agreed to pre-approved amount, travel was properly supported, and the reimbursement voucher was reviewed for accuracy by Procurement staff. See management letter Opportunity for Improvements #2.

KPPA Board Meeting - KPPA Audit Committee Recommendations

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
10.	Meals reimbursed without an overnight stay may not be properly treated as a taxable fringe benefit.	HR initials Taxable Meal Reimbursement spreadsheet when meal is added as taxable fringe benefit to employee.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	When Procurement staff is reviewing the travel reimbursement form and supporting documents, if they determine that the employee has requested reimbursement for a meal on a day that does not include an overnight stay, the Procurement employee will update the Taxable Meal Reimbursement spreadsheet. This includes the date of the travel, the employee, and the amount of the reimbursement. To ensure Procurement performs a thorough review of the travel reimbursement request, a checklist has been created that provides guidance on every item Procurement needs to review. Prior to each pay period, HR staff review this spreadsheet and include the meals as a taxable fringe benefit on the employee's next paycheck. HR staff make a note of the meal was processed.	Auditor obtained travel expenditure documents from eMARS. For each instance where a meal was reimbursed without an overnight stay, ensured the reimbursement was added to the Taxable Meal Reimbursement spreadsheet and was added to the employee's paycheck as a taxable fringe benefit.	45 of 50 travel reimbursements reviewed involved an overnight stay. Of the remaining five, meals were reimbursed for without an overnight stay. Two of these meals were not treated as a taxable fringe benefit. See Finding #1.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
11.	Employee may receive travel reimbursement that differs from the reimbursement claim submitted and approved.	Reviewer ensures payment matches reimbursement amount prior to approval.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	After Procurement staff have completed their review, they send an email to the Accounting SharePoint email address. This email includes one pdf document with the travel reimbursement form and all supporting documentation. When this email is sent, the attached document is automatically uploaded to the Accounting SharePoint site. The Graduate Accountant I creates a Travel Payment document in eMARS and attaches the travel reimbursement and supporting documents. When creating the eMARS document, the Graduate Accountant I must enter the department, vendor (e.g. the employee requesting reimbursement), amount of the reimbursement and the expense line-item code. The Graduate Accountant I then submits the payment for approval in eMARS. The Graduate Accountant I emails the individual who will approve the item and lets them know the travel reimbursement is ready for review. The Graduate Accountant II reviews the entry in eMARS and ensures the following: <ul style="list-style-type: none"> • Payment amount matches the amount requested on the reimbursement form. • Payment is coded to the proper expenses line item. If not, the payment is not approved, and it is sent back to the Graduate Accountant I for correction. If the amounts match and the payment is properly coded, the Graduate Accountant II approves the payment. The payment will be processed in the overnight batch run by the Finance and Administration Cabinet.	Compared travel reimbursement voucher to payment amount in eMARS and ensured the amounts matched.	All 50 travel reimbursement payments agreed to the amount on the associated travel reimbursement voucher.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
12.	Travel reimbursements may not be coded properly.	Reviewer ensures payment is coded to proper expense line item prior to approval.	Control Activity: Management designs control activities to achieve objectives and respond to risks.	See "Staff Process to Mitigate Risk" noted for risk #11.	Reviewed expenditure in eMARS and verified the line-item selected was the proper expenditure code.	All 50 travel expenditures were properly coded.



KPPA
Kentucky Public Pensions Authority

2025-10

Review of the Travel Process

Lead Auditor: Zach Curtis

Issue Date: May 20, 2025

Acronyms

The following acronyms will be used throughout the report:

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

Strategic Risk Addressed

Review the travel process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure travel is properly approved, supported, and reimbursed.

Audit Scope

Our Review of the Travel Process was conducted from February 13, 2025 to April 18, 2025. The scope of the audit was July 1, 2023 through January 31, 2025. In addition to the items included in that report, we noted two opportunities for improvement that we wanted to communicate to management.

Audit Standards

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

Use of Report

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

Opportunities for Improvement

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

1. Procedures related to the travel process are established, documented, up-to-date, and available to staff. We did note a few opportunities to enhance the procedures:
 - a. Update the titles in the procedures so that old titles/titles no longer utilized are not referenced such as Assistant Deputy Director and the former KRS.
 - Management Response: Procurement management is updating travel procedures to correct the issues.

- b. Update procedures to reflect current practices, including the automatic upload of documents to SharePoint. Remove reference to procedures that are longer completed.
 - Management Response: Procurement management is updating travel procedures to correct the issues.
 - c. Document the criteria used by the Deputy Executive Director when evaluating travel requests for approval (e.g. budget, resource availability, work performance, number of employees attending conferences, past conferences attended by the employee, etc.).
 - Management Response: The Deputy Executive Director is creating travel approval considerations documentation.
2. One of 50 travel reimbursement vouchers did not contain the signature of the employee's supervisor. However, for this item, the travel was pre-approved, reimbursement amount claimed agreed to pre-approved amount, travel was properly supported, and the reimbursement voucher was reviewed for accuracy by Procurement staff. After reviewing the procedures with the Procurement Branch Manager, staff agreed that supervisor approval should have been documented either on the travel reimbursement voucher or via the employee's supervisor uploading the voucher to the related Web Help Desk ticket. The Procurement Branch Manager indicated this would be reviewed with current Procurement staff as well as the new employee joining the team in April 2025.
- Management Response: Management agrees with the recommendation. All Procurement staff received clarification on this requirement including the new employee. Procurement management is reviewing procedures to ensure ongoing clarity on the requirement.



KENTUCKY PUBLIC PENSIONS AUTHORITY

Ryan Barrow, Executive Director

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To: Kentucky Public Pensions Authority (KPPA) Board
From: Mike Lamb, KPPA, Chief Financial Officer
Date: June 26, 2025
Subject: FY 2026 KPPA Administrative and Investment Budget

The FY 2026 KPPA Administrative and Investment budget has been finalized and the memo includes the following recommendations for the KPPA Board to review and consider for approval.

RECOMMENDATIONS:

1. Approve the FY 2026 KPPA administrative budget of \$49,969,700, as presented.
2. Approve the FY 2026 KPPA investment budget of \$11,823,225 as presented.
3. Form a Budget Workgroup to assist KPPA staff in preparing, reviewing and approving budget related items for the
 - Upcoming Commonwealth Biennium budget. (Due by October 1, 2025)
 - FY 2027 Hybrid%,
 - FY 2027 Administrative Budget,
 - FY 2027 Investment budget,
 - Other budget related items.

FY 2026 KPPA ADMINISTRATIVE BUDGET

The KPPA administrative budget is funded with restricted funds, meaning it is not a general fund appropriation. These restricted funds used for the administrative budget come from the pension trusts administered by KPPA, and not the insurance trust fund. The administrative expenses are allocated among pension funds based on the KPPA Board approved Hybrid %. The FY 2026 Hybrid % was approved by the KPPA Board during the April 23, 2025, Annual Board meeting at the following allocation: CERS 64.35% and KRS 35.65%. Furthermore, the CERS Board approved their individual plans breakdown during their June 9th, 2025, board meeting and the KRS Board approved their individual plans breakdown during their June 17th, 2025, board meeting as follows:

FY 2026 HYBRID %		
CERS Nonhazardous	59.15%	64.35%
CERS Hazardous	5.20%	
KERS Nonhazardous	31.266%	35.65%
KERS Hazardous	3.688%	
SPRS	0.696%	
Total	100.00%	100.00%

Despite the administrative budget being funded with restricted funds, KRS 61.505(11)(b), KRS 78.782(13) and KRS 61.645(13) require all KPPA, CERS and KRS administrative expenses be included in the Commonwealth's biennial budget. Before October 1st of odd years, executive branch agencies submit a two-year budget request to the Office of the State Budget Director (OSBD) and to the Legislative Research Commission (LRC). Prior to this submission the KPPA Board shall approve the biennial budget request (KRS 61.505(11)(b)).

OSBD assists the Governor's Office in developing a budget bill. Simultaneously, LRC assists the legislature in developing a budget bill, and during the General Assembly's session in even years, a biennial budget is passed. OSBD, LRC and the legislature can add to or subtract from the KPPA biennial budget request as the legislature deems necessary. For example, since KPPA staff are under the state's personnel system, OSBD may add funds to the request to allow for a raise for state employees, and in some cases, due to budget cuts, all agencies budget submissions may be reduced.

Historical Administrative Biennium Budget Amounts	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
KPPA Budget Amount Requested	\$ 47,613,500	\$ 48,327,600	\$ 47,702,500	\$ 47,702,500	\$ 48,255,100	\$ 48,801,700	\$ 52,478,300	\$ 53,504,154
Budget Bill Approved Amount	\$ 47,307,300	\$ 47,702,500	\$ 48,888,200	\$ 48,005,500	\$ 50,184,500	\$ 50,440,800	\$ 48,981,500	\$ 49,969,700
Difference	\$ (306,200)	\$ (625,100)	\$ 1,185,700	\$ 303,000	\$ 1,929,400	\$ 1,639,100	\$ (3,496,800)	\$ (3,534,454)

The proposed FY 2026 administrative budget total amount of \$49,969,700 has already been approved by the Commonwealth through this Biennium process. Today, a detailed administrative budget is being presented for the KPPA Board to approve for FY 2026.

KPPA management has reviewed historical spending by budget line item from FY 2019 through FY 2025, had multiple discussions on anticipated changes to existing expenditures and potential new expenditures, and performed detailed analysis on various line items in creating the FY 2026 administrative budget.

Immediately below is the proposed FY 2026 administrative budget, and presented further below are summarized explanations for significant line items:

ADMINISTRATIVE BUDGET (Page 1 of 2)

ADMINISTRATIVE EXPENSES		FY 2025 Admin Budget	FY 2026 PROPOSED ADMIN BUDGET	Budget Difference Year to Year	% Change Budget vs Budget	
PERSONNEL						
Salaries	\$	21,138,000	\$ 22,400,000	\$ 1,262,000	5.97%	1
Wages(Overtime)	\$	275,000	\$ 280,000	5,000	1.82%	
Wages(Block50)	\$	35,000	\$ 40,000	5,000	14.29%	
Emp Paid FICA	\$	1,641,000	\$ 1,740,000	99,000	6.03%	2
Emp Paid Retirement	\$	10,511,000	\$ 9,730,000	(781,000)	-7.43%	3
Emp Paid Health Ins	\$	2,875,000	\$ 3,200,000	325,000	11.30%	4
Emp Paid Life Ins	\$	3,000	\$ 3,000	-	0.00%	
Emp Paid Sick Leave	\$	250,000	\$ 250,000	-	0.00%	
Workers Compensation	\$	15,000	\$ 20,000	5,000	33.33%	
Unemployment	\$	10,000	\$ 10,000	-	0.00%	
Employee Training	\$	25,000	\$ 25,000	-	0.00%	
Other Personnel costs/benefits (Escrow for Admin, adoption, tuition, bonds)	\$	20,000	\$ 20,000	-	0.00%	
Subtotal	\$	36,798,000	\$ 37,718,000	\$ 920,000	2.50%	
LEGAL CONTRACTS						
Legal Hearing Officers	\$	270,000	\$ 270,000	-	0.00%	
Legal (SKO)	\$	250,000	\$ 125,000	(125,000)	-50.00%	
Legal (FBT)	\$	500,000	\$ 600,000	100,000	20.00%	
Legal (Reinhart)	\$	50,000	\$ -	(50,000)	-100.00%	
Legal (Ice Miller)	\$	300,000	\$ 500,000	200,000	66.67%	
Legal (Branco)	\$	100,000	\$ 150,000	50,000	50.00%	
Legal (Dentons)	\$	50,000	\$ 50,000	-	0.00%	
Legal (Kellerman)	\$	-	\$ 100,000			
Proposed Legal Amount (to be approved when needed)	\$	500,000	\$ -			
Legal Expense	\$	10,000	\$ 25,000	15,000	150.00%	
Subtotal	\$	2,030,000	\$ 1,820,000	\$ (210,000)	-10.34%	5
AUDITING						
Auditing	\$	300,000	\$ 250,000	\$ (50,000)	-16.67%	6
ACTUARIAL SERVICES						
Actuarial Services	\$	525,000	\$ 550,000	\$ 25,000	4.76%	
MEDICAL EXAMINERS / HEARING OFFICERS						
Medical Reviewers	\$	1,800,000	\$ 1,800,000	\$ -	0.00%	
OTHER PERSONNEL						
Miscellaneous Contracts	\$	425,000	\$ 1,000,000	575,000	135.29%	7
Human Resources Consulting	\$	10,000	\$ 10,000	-	0.00%	
Facility Security Charges	\$	75,000	\$ 75,000	-	0.00%	
Subtotal	\$	510,000	\$ 1,085,000	\$ 575,000	112.75%	
PERSONNEL TOTAL	\$	41,963,000	\$ 43,223,000	\$ 1,260,000	3.00%	

ADMINISTRATIVE BUDGET (Page 2 of 2)

ADMINISTRATIVE EXPENSES		FY 2025 Admin Budget	FY 2026 PROPOSED ADMIN BUDGET	Budget Difference Year to Year	% Change Budget vs Budget	
OPERATIONAL				-	-	
RENTALS - BUILDING & EQUIPMENT				-	-	
	Rent-Non-state Building	\$ 80,000	\$ 105,000	25,000	31.25%	
	Building Rental - PPW	\$ 1,000,000	\$ 1,000,000	-	0.00%	
	Copier Rental	\$ 90,000	\$ 100,000	10,000	11.11%	
	Rental Carpool	\$ 5,000	\$ 5,000	-	0.00%	
	Subtotal	\$ 1,175,000	\$ 1,210,000	\$ 35,000	2.98%	
INFORMATION TECHNOLOGY						
	eMARS Usage	\$ 50,000	\$ 65,000	15,000	30.00%	
	COT Charges	\$ 40,000	\$ 40,000	-	0.00%	
	Computer Equip./Software	\$ 4,140,000	\$ 3,900,000	(240,000)	-5.80%	8
	Subtotal	\$ 4,230,000	\$ 4,005,000	\$ (225,000)	-5.32%	
OTHER OPERATIONAL						
	Natural Gas	\$ 45,000	\$ 50,000	5,000	11.11%	
	Electric	\$ 130,000	\$ 140,000			
	Vehicle/Equip. Maintenance	\$ 1,300	\$ 1,500	200	15.38%	
	Postage	\$ 450,000	\$ 480,000	30,000	6.67%	9
	Freight	\$ 200	\$ 500	300	150.00%	
	Printing (State & non-state)	\$ 100,000	\$ 100,000	-	0.00%	
	Insurance	\$ 7,500	\$ 7,500	-	0.00%	
	Garbage Collection	\$ 7,000	\$ 8,000	1,000	14.29%	
	Conference Expense	\$ 50,000	\$ 50,000	-	0.00%	
	Office Supplies	\$ 90,000	\$ 100,000	10,000	11.11%	
	Furniture & Office Equipment	\$ 30,000	\$ 50,000	20,000	66.67%	
	Travel (In-State)	\$ 16,500	\$ 16,500	-	0.00%	
	Travel (Out of State)	\$ 215,000	\$ 215,000	-	0.00%	
	Dues & Subscriptions	\$ 85,000	\$ 85,000	-	0.00%	
	Miscellaneous	\$ 55,000	\$ 55,000	-	0.00%	
	Telephone & Video Conference	\$ 115,000	\$ 150,000	35,000	30.43%	
	Subtotal	\$ 1,397,500	\$ 1,509,000	\$ 111,500	7.98%	
OPERATIONAL TOTAL		\$ 6,802,500	\$ 6,724,000	\$ (78,500)	-1.15%	
	Unallocated Reserve	216,000	22,700	(193,300)	-89.49%	10
ADMINISTRATIVE BUDGET AMOUNT		\$ 48,981,500	\$ 49,969,700	\$ 988,200	2.02%	

SALARIES ¹

The FY 2026 budget for salaries is nearly \$1.3 million higher than the FY 2025 budgeted amount due to the following factors:

- All full-time positions have a 3% statewide increase being accounted for effective 7/1/2025, which accounts for approximately \$600 thousand of the increase.
- The Personnel Cabinet's review of the statewide IT positions accounted for over \$700 thousand affecting close to 40 positions between Round 1 and Round 2 for KPPA. Some of these increases are temporary and can be removed by the Personnel Cabinet (not by KPPA), however KPPA is budgeting for the full amount for the entire fiscal year. We anticipate the Personnel Cabinet to continue these reviews for all positions.

We have been informed that OSBD will add additional funds to the KPPA biennium budget allocation for these adjustments, however, we are not aware of what that amount will be for FY 2026. We were provided \$110,600 during the 4th quarter of FY 2025 for the adjustments made during Round 1.

- This FY 2026 budget considers the total increased headcount (CAP) of 14 additional positions that the KPPA board approved during the past biennium budget process, accounting for the remaining increase in the salary line item.
 - a. During the past biennium budget process, the KPPA Board approved nine (9) additional positions and the related costs for FY 2025, and five (5) additional positions for FY 2026, totaling fourteen (14) total positions.
 - b. However, the final budget bill approved by the legislature did not approve that additional budget request.
 - c. As these additional positions are crucial to the implementation of statutory mandates, enhanced customer service, risk management and strategic initiatives of KPPA, management pursued the addition of these positions through the Office of State Budget Director (OSBD) and did receive this increased headcount approved during FY 2025.
 - d. KPPA did budget for 9 of those positions in FY 2025 and has now accounted for all 14 of those positions in this FY 2026 administrative budget.

KPPA has 307 approved positions: 284 full time (FT) and 23 Interim, Intern, or part -time positions.

KPPA management has examined salaries by area, department, and position, and discussed what vacant positions are likely to be filled, which positions are likely to remain vacant and discussed the need for additional positions in certain areas. In addition, the five-year average annual turnover rate (9.49%), and the 3% raise for all state employees (effective 7/1/2025) has been considered in this budgeting this line item.

EMPLOYER PAID FICA ²

This percentage increase is in line with the increase in Salaries/Overtime, etc.

EMPLOYER PAID RETIREMENT ³

Despite the significant increase in the salaries line item, the FY 2026 proposed budget amount for employer paid retirement is significantly less than the FY 2025 budgeted amount. The OSBD memo dated April 30, 2025, indicates that the employer contribution rate for KERS nonhazardous plan participants in the executive branch for FY 2026 is 42.76%; whereas the prior year rate was 48.75%.

EMPLOYER PAID HEALTH INSURANCE ⁴

The prior year budget amount was underestimated resulting in approximately \$225 thousand overspend on this line item for FY 2025. Therefore, the proposed FY 2026 budget has been increased to align more with FY 2025 actual costs, and accounting for additional KPPA headcount discussed in salaries above.

LEGAL CONTRACTS ⁵

KPPA legal staff and management has closely examined estimated costs for on-going, pending, and resolving cases, resulting in the proposed budget for FY 2026, which is overall 10% less than the budgeted amount for FY 2025.

AUDITING ⁶

FY 2026 budget better reflects the actual costs incurred during FY 2025 to produce two ACFRs.

MISCELLANEOUS CONTRACTS ⁷

This line item includes the following: \$575 thousand for IT modernization assessment by an outside entity; \$75 thousand for CEM benchmarking and other survey services. As well as \$50 thousand for services provided by Underground Storage as we will be reviewing the contents of our stored documents under our record retention policy. We have also put in \$300 thousand for strategic plan initiatives that are not specific to DETS.

COMPUTER EQUIPMENT / SOFTWARE ⁸

The overall information technology budget has been reduced by 5.8% over the prior year budget amount, to reflect actual costs over past several years.

This line item includes:

- Approximately \$1.4 million in multiple software products for licenses, support, and maintenance, including Microsoft, FileNet components, Workiva, VMware, BoardBooks, GreatPlains, Zoom, Adobe; etc.
- Nearly \$1.1 million in identified projects that meet strategic initiatives or necessary replacements, on-site camera upgrades, artificial intelligence, authentication services etc.

- Costs for IT contractors that KPPA utilizes through Commonwealth master agreements to supplement our own internal staff (approximately \$700 thousand).
- And \$650 thousand for IT security external assessments, cyber insurance, and other security measures, as well as other ancillary IT related costs.

POSTAGE ⁹

Postage costs have fluctuated over past few years, and KPPA is budgeting conservatively until we can more accurately show stable decline in costs driving in part by the paperless project.

UNALLOCATED RESERVE ¹⁰

The unallocated reserve amount represents the difference between the Commonwealth's already approved FY 2026 biennial budget amount of \$49,969,700 and KPPA staffs best estimate of expenditures by line item for FY 2026.

This practice of separately identifying an unallocated reserve amount was initiated in FY 2021. For that year the unallocated reserve amount was \$7.7 million and was referred to as "Major Legislation Implementation". The FY 2022 unallocated reserve amount was \$3.7 million, the FY 2023 amount was \$4.1 million, the FY 2024 amount was \$4.9 million, the FY 2025 amount was \$216 thousand, and the FY 2026 amount is \$22,700.

This amount is not expected to be utilized during the fiscal year unless business needs change. For example: a new unanticipated service is contracted, a new court case emerges, KPPA has a costly cyber incident, or the legislature passes legislation that results in unanticipated costs.

ADMINISTRATIVE BUDGET OVERSPEND

During the FY, if an administrative expenses sub-category exceeds or is likely to exceed the approved budget amount (e.g., personnel, or legal contracts, etc.), KPPA staff will obtain KPPA Board approval to reclassify the appropriate amount from the unallocated reserve to the appropriate line item(s) within the relevant sub-category. If, however, an individual line item within a sub-category exceeds or is likely to exceed the approved budget amount (e.g., employer paid sick leave, or office supplies, etc.), KPPA staff will notify the KPPA Board of the line item that is over budget at the next regularly scheduled quarterly meeting.

FY 2026 KPPA INVESTMENT BUDGET

KPPA spending related to investments is paid directly from the trust funds (both the pension and the insurance trust funds, based on assets under management). These costs are not included in the administrative budget, and they are not submitted to OSBD or LRC as part of biennial budget process.

However, KRS 61.505 (11) (3) requires that KPPA report investment expenses to the Public Pension Oversight Board (PPOB). In addition, KPPA staff and prior budget workgroups identified the need for Trustees to be provided more detail on investment expenses. Therefore, an investment budget was established (in FY 2023) and budget to actual reporting for

investment expenses have been provided to the Investment Committee of both CERS and KRS quarterly.

The below proposed investment budget does not include manager fees. Manager fees and expenses fluctuate based on markets, valuations and allocations and estimating total fees is challenging and provides little value in relation to a budget and oversight of spending. Therefore, as in the prior year, KPPA only reports current and historical manager fees and expenses for the fiscal year to date periods to the CERS and KRS boards as well as to the PPOB when requested, without being accompanied by an estimated budget.

Non-manager fees are more easily budgeted and generally represent goods and services that support the management of the funds. For example, custodial bank fees, benchmarking services and legal defense. The below proposed investment budget has non-manager fees broken into four subcategories: consulting services, legal & auditing services, contractual services and miscellaneous services.

Consulting Services:

The FY 2026 proposed budget is increasing for an inflationary component as well as the pursuit of new private market consultants to provide more service and analysis to the Investment Staff and Boards.

Legal & Auditing Services:

When establishing the investment budget in the prior year, extensive discussions were held regarding the pros and cons of including legal fees for investment related litigation within the administrative budget or within the investment budget. The final recommendation was to budget legal costs related to investment litigation within the investment budget to effectively report all investment related costs and to follow industry best practices. This methodology has been adopted for investment related costs.

The FY 2026 proposed budget is \$1.175MM less than the FY 2025 budget. This decrease in the budget is due to resolution of certain investment litigation. We have increased the budget for certain line items anticipating increased activity based on the recent Franklin Circuit Court order.

Contractual Services:

The FY 2026 proposed budget is \$322k higher than the FY 2025 budget and represents modest inflationary increases and new services.

Investment Budget				
Account Name	FY 2025 Budget	FY 2026 Proposed Budget	Difference	Percentage Change
CONSULTING SERVICES				
Wilshire Associates	\$ 1,250,000	\$ 1,300,000	\$ 50,000	4%
Albourne	275,000	275,000	-	0%
MercerInsight	165,000	165,000	-	0%
New Private Markets Consultant	250,000	250,000	-	0%
SUBTOTAL	1,940,000	1,990,000	50,000	3%
LEGAL & AUDITING SERVICES				
Faegre Drinker	375,000	500,000	125,000	33%
Intelligent Management Solutions (IMS)	700,000	-	(700,000)	-100%
McClain/Goldberg	25,000	25,000	-	0%
Reinhart	3,000,000	1,600,000	(1,400,000)	-47%
Stoll-Keenon-Ogden	875,000	875,000	-	0%
Haystack	200,000	200,000	-	0%
Umberg Zipser	750,000	1,400,000	650,000	87%
Frost Brown Todd	-	-	-	-
Fiduciary Legal Expenses	850,000	1,000,000	150,000	18%
Miscellaneous	50,000	50,000	-	0%
SUBTOTAL	6,825,000	5,650,000	(1,175,000)	-17%
CONTRACTURAL SERVICES				
Bloomberg	160,000	160,000	-	0%
BNYM Custodial Fees	2,700,000	3,000,000	300,000	11%
eVestment (Solovis RMS)	35,000	35,000	-	0%
Solovis (Reporting & Analytics)	300,000	325,000	25,000	8%
FactSet	150,000	135,000	(15,000)	-10%
Russell Index Subscription	30,000	30,000	-	0%
S&P Global	47,500	47,500	-	0%
TradeWeb	-	-	-	-
State Street/Elkins McSherry	10,000	10,000	-	0%
ISS	60,000	60,000	-	0%
MSCI	1,000	2,500	1,500	150%
KPMG Tax Guarantor Services	10,000	10,000	-	0%
Jayant Ghevaria and CO	55,000	55,000	-	0%
India Renewal Fee (SEBI)	3,000	3,000	-	0%
With Intelligence	-	10,150	10,150	
SUBTOTAL	3,561,500	3,883,150	321,650	9%
MISCELLANEOUS SERVICES				
Miscellaneous & New Services & Subscriptions	250,000	250,000	-	0%
Morningstar	2,500	2,625	125	5%
McLagan Compensation Survey for US Public Funds	-	8,750	8,750	
Fin/News	-	1,350	1,350	
Oxford	20,000	22,000	2,000	10%
Pension Real Estate Association	350	350	-	0%
Reimbursement of Pzena	-	15,000	15,000	
SUBTOTAL	272,850	300,075	27,225	10%
TOTAL	\$ 12,599,350	\$ 11,823,225	\$ (776,125)	-6%



KENTUCKY PUBLIC PENSIONS AUTHORITY

Ryan Barrow, Executive Director

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To: Kentucky Public Pensions Authority

From: Steve Willer, CIO
Office of Investments

Date: June 26, 2025

Subject: Summary of Investment Committee Meetings

The County Employees Retirement System Investment Committee held a Special Called meeting on March 26, 2025.

The following action was taken by the Investment Committee and was forwarded to the County Employees Retirement System Board of Trustees for ratification. The the County Employees Retirement System Board of Trustees ratified this receomnedation at their Special Called meeting on March 26, 2025.

Unanimously approved Investment Staff's recommendation to invest up to an additional \$30 million in the Arctos American Football Fund Staff to be shared among all CERS portfolios as part of their Real Return allocation. This investment will result in an additional 5 bps fee concession for all of CERS's assets invested on the Arctos platform.

The Kentucky Retirement Systems Investment Committee held a Special Called meeting on April 29, 2025.

The following action was taken by the Investment Committee and was forwarded to the Kentucky Retirement Systems Board of Trustees for ratification. The Kentucky Retirement Systems Board of Trustees ratified this receomnedation at their regularly scheduled meeting on April 29, 2025.

Unanimously approved Investment Staff's recommendation to invest up to \$100 million in the Kayne Private Energy Income Fund III to be shared among all K and S portfolios as part of their Real Return allocation. The investment wil be funded by existing cash, or the unwinding of proxy positions based on the specific needs of each portfolio.

The County Employees Retirement System Investment Committee held a Special Called meeting on April 30, 2025.

The Investment Committee declined to approve the Investment Staff's recommendation to invest up to \$100 million in the Kayne Private Energy Income Fund III to be shared among all CERS portfolios as part of their Real Return allocation.

The County Employees Retirement System Investment Committee held a Special called meeting on May 13 26, 2025.

The following actions were taken by the Investment Committee and were forwarded to the County Employees System Board of Trustees for ratification. The the County Employees Systems Board of Trustees ratified all of these receomnedations at their regularly scheduled meeting on May 13, 2025.

- a. Unanimously approved Staff's recommendation to abstain from voting on the proposal to amend the partnership agreement for H.I.G. Capital Partners V, L.P to extend the life of the Fund by one additional year, until July 1, 2026.
- b. Unanimously approved Staff's recommendation to approve Adams Street Partners' proposal to amend the Amended and Restated Limited Partnership Agreement to extend the Final Admission Date to March 31, 2026 from May 31, 2025.

The County Employees Retirement System Investment Committee held a Special Called meeting on June 13, 2025.

The following action was taken by the Investment Committee and was forwarded to the County Employees Retirement System Board of Trustees for ratification. The the County Employees Retirement System Board of Trustees ratified this receomnedation at their Special Called meeting on June 13, 2025.

Unanimously approved Investment Staff's recommendation to approve New Mountain Capital's proposal to amend the LPA to extend the term of New Mountain Partners IV, L.P. by two years to July 8, 2027, to allow for a more orderly and profitable liquidation of the Fund's remaining investments. As part of this extension, New Mountain will cease charging Management Fees as of the extension date.

The Kentucky Retirement Systems Investment Committee held a regularly scheduled meeting on May 22, 2025.

- a. **No recommendations were made that required approval by the Investment Committee.**
- b. **No actions were taken that required ratification by the Kentucky Retirement Systems Board of Trustees.**

The County Employees Retirement System Investment Committee held a regularly scheduled meeting on May 28, 2024.

- a. **No recommendations were made that required approval by the Investment Committee.**
- b. **No actions were taken that required ratification by the Kentucky Retirement Systems Board of Trustees.**

Investment Staff and Wilshire presented material* and discussed the following items during the Regular Investment Committee meetings.

- a. *Review of Economic Conditions, Market Activity, Outlooks*
- b. *Absolute and Relative Performance and Asset Allocations for the Pension and Insurance Portfolios for the Quarter ending March 31, 2025*

Pension Composite 0.69% vs Pension Composite Benchmark 0.53%

Insurance Composite 0.37% vs Insurance Composite Benchmark 0.39%

Quarter Ending March 31, 2025:

KERS Pension 1.27%
SPRS Pension 1.03%
 Benchmark 0.95%

KERSH Pension 0.58%
KERS Insurance 0.35%
KERSH Insurance 0.45%
SPRS Insurance 0.45%
 Benchmark 0.43%

CERS Pension 0.45%
CERSH Pension 0.42%
CERS Insurance 0.33%
CERSH Insurance 0.32%
 Benchmark 0.37%

Fiscal Year To Date:

KERS Pension 5.63%
SPRS Pension 5.33%
 Benchmark 5.09%

KERSH Pension 5.26%
KERS Insurance 5.13%
KERSH Insurance 4.87%
SPRS Insurance 4.85%
 Benchmark 5.20%

CERS Pension 5.01%
CERSH Pension 5.00%
CERS Insurance 4.72%
CERSH Insurance 4.67%
 Benchmark 5.22%

- c. *Performance Attribution* - The largest contributor to outperformance was the strong relative performance in the Specialty Credit portfolio as managers produced positive excess performance across mandates. Relative outperformance in the Real Return, Public Equity and Real Estate portfolios were also positive contributors to overall performance. The overweight to Public Equity, the underweight to Private Equity and the underperformance of the Private Equity portfolio relative to its benchmark were all modest detractors from overall performance.
- d. *Internally Managed Portfolios* - An update was provided on the performance of the internally managed passive and proxy portfolios. The portfolios performed in line with expectations

and consistent with their mandates. The Public and Private Equity portfolios produced negative performance during the quarter consistent with broader markets and their liquid investments. The Real Return and Real Estate portfolios produced strong performance, outperforming their benchmarks by 340 and 242 basis points respectively. Longer term all proxy portfolios have produced strong relative performance contributing positively to overall portfolio performance.

- e. *Peer Universe* – All portfolios have continued to produce top decile or top quartile risk adjusted performance over 1, 3 and 5-year time periods demonstrating the efficiency of their construction and management.
- f. *Asset Allocations* – Staff provided an update on the rebalancing activity and noted that as of the end of the Quarter, all asset classes were within their specified IPS allocation ranges with most asset classes within 1% of their Target Allocations.
- g. *Investment Budget Update* – As of the end of the third quarter of the Fiscal Year, expenditures totaled 71% of the amount budgeted for the Fiscal Year. During the quarter there was an increase in Legal expenses as activity increased in several ongoing cases. Through the first three quarters of the Fiscal Year Investment Fees and Expenses across the Pension and Insurance Trusts were 29.6MM or 20% more than in the same period last year. The increase has been driven by increase in Administrative Expenses and Performance fees. The total for Investment Advisory fees has increased 27% since FY2021, consistent with the 35% increase in total assets.

*All material presented is available in Board Books and was reviewed at the Investment Committee meetings.



KENTUCKY PUBLIC PENSIONS AUTHORITY

Ryan Barrow, Executive Director

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To: KPPA, CERS & KRS Board
From: Ryan Barrow
Date: June 2025
Subject: KPPA Update

I. KPPA LEGISLATION IMPLEMENTATION UPDATE:

Senate Bill 10 (CERS Retiree Insurance), passed during the 2025 General Assembly Regular Session, is advancing through implementation. We are finalizing legal interpretations, transitioning to the IT design phase, and developing training materials for employees and members.

II. STAFFING UPDATE:

KPPA currently employs 264 staff members. The Personnel Cabinet recently completed a job review for the second half of the IT job series, affecting approximately 22 employees:

- Positions are reallocated to job classes as determined by the Personnel Cabinet, effective June 16, 2025.
- The financial impact on personnel costs is significant and under analysis. Detailed findings will be presented to the board(s) during the budget process.
- Investment Staffing Update: We are thrilled to welcome Ian Blaiklock (6/23) as Senior Investment Associate. He brings extensive experience in public and private markets, including his prior role as Senior CMBS/CRE Analyst at Invesco as well as prior state government experience. Ian strengthens our Investment team and will play a pivotal role supporting Portfolio Managers with due diligence, quantitative and qualitative analysis of managers, and portfolio performance evaluation across asset classes.

III. STRATEGIC PLAN & IMPLEMENTATION UPDATE:

The implementation of the Strategic Plan continues with four active teams:

1. **Quality Assurance** is nearing completion on the implementation of

recommendations regarding the account audit process.

2. **Survey Team's** recommendations have been approved, and they are currently evaluating options for upgrading survey software.
3. **Member Presentation** has made recommendations that are under review.
4. **AI** is nearing the recommendation phase.

Other Initiatives:

- The RFP for a technology assessment is in the final stage of contract negotiations and is focused on IT modernization.
- The Directors Lunch and Learn initiative launched in February 2025, continued with a presentation from our partners on valuations and assumptions by GRS.

In June 2024, the KPPA Board approved the 2024-2028 Strategic Plan Summary. To supplement the document, KPPA will provide more details for FY26 that will be presented to the KPPA Board on June 26th.

IV. **TRUSTEE IMPACT FORUM:**

We are excited to announce the upcoming **Trustee IMPACT Forum** (Investments, Management, Pensions, Advisory, Compliance, and Training) is scheduled for **October 22nd and 23rd**, as those dates have been confirmed as ideal for all Trustees. This session will focus on key areas including fiduciary responsibility, investments, benefits, and legal compliance. We have asked the CEOs and would request that Trustees submit any program ideas or topics they would like to see included to Sherry. We anticipate a meaningful agenda and are open to all input.

V. **PPOB PRESENTATION:**

On April 28th, Erin Surratt and I had the opportunity to provide a presentation to the Public Pension Oversight Board (PPOB). Our discussion focused on key areas impacting the system, including investment performance and strategy, current and projected cash flow trends, and a legislative update. The presentation aimed to offer transparency, highlight recent developments, and support informed requests by the Board.

VI. **LEADERSHIP ACADEMY:**

Launched in February 2025, the KPPA Leadership Academy includes monthly group training sessions and a mentorship component. Thirteen participants have been paired with members of the KPPA Leadership Team for one-on-one mentoring.

Training topics covered to date include:

- Personality Assessment & Team Building
- Personal Values, Empathy, and Integrity
- Time Management
- Delegation Skills
- Effective Communication

Monthly sessions will continue through October, and in November, participants will attend the Commonwealth's virtual two-day LEAD Conference. The program will conclude with final presentations and a graduation ceremony in December.

VII. NCPERS CONFERENCE:

Mike Lamb and I completed Modules 1 through 4 of the National Conference on Public Employee Retirement Systems (NCPERS) Accredited Fiduciary (NAF) Program. This training spanned a year and included a full day on each of Governance, Finance, Risk Management, and Human Capital. After the weekend training, we represented KPPA at their Annual Conference and Exhibition (ACE).

VIII. KPPA KUDOS:

Public Service Recognition Week was celebrated May 5th through May 9th. During that time, we recognized the incredible staff of KPPA for their dedication, professionalism, and commitment to serving our members. Throughout the week, staff enjoyed a variety of treats and activities as a small token of appreciation, including treats, fresh donuts, healthy bananas and fruit, and a fun *"Find the Golden Pig"* challenge, with winners receiving a free lunch at the onsite food truck. The week wrapped up with our always-popular *"Freebie Friday"* drawing giveaways.

School Board Reporting team in ERCE, including Amy Vincent, Anita Smith, Bennie Good, Madison Adams-Cunningham, and Melissa Ping and led by Crystal Hughes. This year, they have successfully processed end-of-year service averaging for all 171 school board agencies well ahead of the fiscal year-end processes, a feat that has never been accomplished before. Their strategic approach and determination to this goal ensure that members working in a classified school board position will have accurate accounting of service credit on their annual statements. Additionally, it will have a positive ripple effect as other areas of KPPA relying on this information can complete their processes more efficiently.

Compliance Office, Carrie Bass for successfully reviewing and conceptually developing a new investment compliance plan. That process will have to be adaptive, but improvements and enhancements will strengthen our organization's commitment to transparency, oversight, and regulatory and policy adherence. Key milestones in this endeavor include an enhanced investment compliance process and reporting and the development of a revised Agency Securities Trading Policy, designed to comply with SEC regulations while streamlining requirements for trustees and employees. We look forward to the evolution of the investment compliance process, as well as the initiation of an overall KPPA compliance program from the compliance officer in the months to come.

Member Outreach conducted several presentations for public safety officials in the past several months. (City of Richmond Police, KSP & Corrections – Wardens/Directors) and have received many great compliments for their work. In quick summary:

- “Great presenter!”
- “I would recommend this class to all employees.”
- “Your team’s professionalism and unparalleled commitment to customer service continue to elevate the quality of our training programs.”

Many thanks to everyone involved in maintaining and improving KPPA operations!



KPPA staff collaborated with Provaliant to gather data on internal processes and explore potential enhancements. The Executive Staff utilized the findings presented by Provaliant to develop KPPA's Strategic Plan Summary, which received KPPA Board approval in the summer of 2024 and structured for implementation over a four-year period.



ORGANIZATIONAL EXCELLENCE



Support the Mandates

Assess the Six Mandates to identify refinement opportunities

Establish Strategic Planning Committee (SPC) to provide oversight to strategic activities and foster engagement across KPPA

Benchmarking and Best Practices

Set up and maintain ongoing training for KPPA directors

Develop periodic review of all management (non-Board) policies

Continue refining the function of business process improvement teams



CUSTOMER SERVICE DELIVERY



Service Delivery Programs

Provide ongoing three-member teams to work for three-month periods on specific process analysis recommendations

Member Self-Service enhancements

Targeted Communication and Programs

Reevaluate the current service model

Satisfaction Surveys

Continue to build the use of surveys across all KPPA's service channels



INFRASTRUCTURE AND KEY RESOURCES



Succession Plan

Continued development of KPPA Leadership Academy

Key Performance Indicators (KPI)/Hybrid Work

Expand existing KPIs to monitor productivity and identify backlogs

Technology

Conduct technology assessment and roadmap

Technology Assessment Identified Project 1

Replace Gravity

Evaluate solutions for potential replacement of Microsoft Great Plains

Integrate software development life cycle into the strategic planning process

Develop an AI policy

Eliminate the use of microfiche



GOVERNANCE

KPPA Board

Evaluate all aspects of board and committee documentation to ensure availability, efficient archiving, and periodic policy review

Operational Decisions

Evaluate the process of tracking and seeking remittance of employer invoice payments for potential process improvement

Operational Resources

Develop a process to ensure KPPA staff implements all necessary items from by-laws

Expand Compliance Officer duties to include traditional Investment Compliance as well as overall agency compliance





2026 Implementation Plan
of the
2024 – 2028 Strategic Plan Summary

06/26/2025

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SECTION 1

REVISION HISTORY

REVISION HISTORY

Version	Updated By	Date	Description Of Changes
0.1	Provaliant	04/15/25	Initial draft
0.2	Rebecca Adkins	06/26/25	Updated based on KPPA leadership feedback

SECTION 2

PURPOSE OF DOCUMENT

The purpose of this document is to outline the strategic initiatives to be implemented in part or in whole during fiscal year 2026 (FY2026) which runs from July 1, 2025, through June 30, 2026. It is intended to provide detail and direction specific to FY2026 while staying in alignment with the overall plans defined by the 2024-2028 KPPA Strategic Plan Summary that was approved by the KPPA Board June 27, 2024. It is important to schedule strategic planning and project execution in concert with the fiscal year and biennial budget process so that staff, KPPA management, and the KPPA Board are apprised in advance of resources that may be required in upcoming budget cycles. See Appendix B for an overview of the strategic plan against the budget cycles.

SECTION 3

STRATEGIC AREAS OF FOCUS

The following are KPPA's strategic areas of focus which help continually improve service and execution as the agency adapts to evolving customer needs and changing internal and external environments. These were adopted as part of the 2024-2028 Strategic Plan Summary.

ORGANIZATIONAL EXCELLENCE

CREATE KPPA ORGANIZATIONAL EXCELLENCE MODEL

- ◆ **Support the Mandates** - Enhance and support the KPPA mandates by using organizational excellence best practices and continuous improvement programs for business operations to create and follow an ongoing KPPA organizational excellence model.
- ◆ **Benchmarking & Best Practices** - Use benchmarking and best practices programs for customer service delivery and related continuous improvement services to compare KPPA performance to other organizations.

CUSTOMER SERVICE DELIVERY

MODERNIZE, ENHANCE, AND SUSTAIN HIGH QUALITY SERVICES

- ◆ **Targeted Communication & Programs** - Build member engagement across career stages and age groups through more targeted communications and programs.
- ◆ **Service Delivery Programs** - Evaluate service delivery programs regularly to take advantage of changing societal trends and performance benchmarks.
- ◆ **Satisfaction Surveys** - Use timely satisfaction surveys to fine tune and/or redesign future programs.

INFRASTRUCTURE & KEY RESOURCES

MODERNIZE AND SUSTAIN HIGH QUALITY RESOURCES

- ◆ **Succession Plan** - Reinforce KPPA's early-stage leadership and ongoing succession plan activities with additional proven best practices.
- ◆ **Hybrid Work** - Continue to monitor and measure the effectiveness of the evolving hybrid working arrangements during 2024 and update plans accordingly for 2025 and beyond.
- ◆ **Technology** - Conduct a comprehensive review of current technology against current and future needs and develop an overall roadmap with specific steps for addressing KPPA needs and consistent with societal trends in technology use.
- ◆ **Investments** - Expand in-house investments management capabilities.

GOVERNANCE

CONFIRM, IMPROVE, AND MONITOR OPERATIONS

- ◆ **KPPA Board** - Reinforce and communicate the structure and purpose of the KPPA board as needed.
- ◆ **Policy Governance Models** - Apply best practices from Policy Governance models.
- ◆ **Operational Decisions** - Refine the process of KPPA board decisions impacting operations to ensure relevant statutes are being applied effectively and efficiently.
- ◆ **Operational Resources** - Ensure that KPPA operational resources are controlled and monitored by the KPPA executive director as directed by the KPPA board.

SECTION 4

FY2026 STRATEGIC INITIATIVES AND APPROACH

The following provides an overview of activities for all initiatives defined for FY2026 grouped by the strategic areas of focus. The purpose of this overview is to further define high-level activities required to execute strategic initiatives. Detailed project plan tasks should support each of the high-level tasks below, include start and finish dates, and be specifically assigned to individuals responsible for executing tasks. Frequent updates on the activities should be reported so that team participants and leaders are proactively monitoring the execution of the strategic initiatives. Planning and monitoring progress in detail is the responsibility of the Strategic Planning Committee.

Organizational Excellence

◆ Support the Mandates

Define KPPA's Standard for Excellence

Review organizational mandates, policies and operational guidelines to identify refinement opportunities for alignment with KPPA's current strategic direction.

Task	Timeframe
KPPA management assign specific resource(s) responsible for the review of organizational mandates, policies, and operational guidelines	Feb 2025 – Mar 2025
Conduct assessment and identify potential updates for executive consideration. (Leadership Academy participants are tasked with this)	Jun 2025 – Aug 2025
Based on executive feedback, prepare an updated approach and schedule	Sep 2025
Execute new approach/schedule and report progress in a quarterly strategic planning meeting	Ongoing

Establish Strategic Planning Committee

Formally establish a strategic planning committee to provide oversight to strategic planning activities and foster engagement across KPPA.

Task	Timeframe
Using current strategic planning oversight as a foundation, KPPA leaders identify participants for the committee	May 2025 – Oct 2025
Educate participants on the strategic planning process and their involvement	Nov 2025 – Jun 2026
Include the committee in quarterly strategic planning meetings, annual strategic planning activities, and other activities as needed	Ongoing

◆ Benchmarking and Best Practices

Director Training on Continuous Improvement and KPIs

Set up and maintain training for KPPA directors which focuses on operational efficiency, continuous improvement, and how to drive long-term success.

Task	Timeframe
Develop a director training program and agendas for 2025	Jan 2025
Director Training on Risk Management	Feb 2025
Director Training on Valuations	June 2025
Schedule and manage training sessions	Ongoing

Develop Ongoing/Annual Review of all In-House Policies

Set up and maintain regular review and modification process for internal management policies.

Task	Timeframe
Identify "ownership" of Management Policies not consistently being reviewed annually and ensure all follow a regular schedule for review and approval by the appropriate leadership	Jun 2025 – Aug 2025
Update the Record Retention Policy with KDLA	Jan 2025 – Sep 2025
Update the HIPAA Policy	Nov 2024 – Nov 2025
Continue evaluation of results on a periodic basis	Ongoing

Continue Refining Business Process Improvement Methodology

Continued refinement and execution of small and focused business process improvement teams in key areas as defined by KPPA leadership.

Task	Timeframe
Using current business process improvement methodology as a foundation, KPPA leaders refine the business process improvement methodology if needed	Jan 2025
Form Business Analysis Team Four (AI for Call Center) and define participants, goals, and schedule	Jan 2025
Form a Business Analysis Team Five (topic TBD) and define participants, goals, and schedule	Jul 2025
Form Business Analysis Team Six (topic TBD) and define participants, goals, and schedule	Sep 2025
Form Business Analysis Team Seven (topic TBD) and define participants, goals, and schedule	Nov 2025
Provide Six Sigma Training to select KPPA staff	Jul 2025 – Dec 2025

Customer Service Delivery

◆ Service Delivery Programs

Deliver Service and Process Enhancements to Stakeholders (Members, Retirees, Employers)

Delivery of business process analysis recommendations and other service-related enhancements identified by KPPA.

Task	Timeframe
TEAM 1 – Form an implementation team for Quality Assurance (QA) recommendations and define implementation activities and schedule	May 2024 – Dec 2025
TEAM 2 – Form an implementation team to evaluate the current survey process and initiate phone and self-service surveys at a minimum. Establish a survey team for survey management	Jul 2024 – Dec 2025
TEAM 3 – Form an implementation team for Member Presentations Recommendations and define implementation activities and schedule	Oct 2024 – Jun 2026
TEAM 4 – Form an implementation team for AI Use in the Call Center Recommendations and define implementation activities and schedule	Feb 2025 – Feb 2026
Form future implementation teams for approved business process analysis recommendations or other service-related enhancements	Ongoing

Self-Service Enhancements

Add or improve existing web functionality for KPPA members and retirees.

Task	Timeframe
Deliver self-service enhancements based on the following order of priority subject to change with the Technology Assessment: <ol style="list-style-type: none"> 1. Self-service mirroring 2. Online Chat, Text Functionality (real time with actual person) 3. Add/Delete/Update Beneficiary 4. Online appointment scheduling 5. Online refund application 6. State Tax Withholding 7. Mobile App 	One project at a time. Tech assessment to help define timeline

◆ Targeted Communication & Programs

Re-evaluate Current Service Model

KPPA Benefits leadership will evaluate the effectiveness of the current service model for membership against communication best practices of other state-wide retirement systems.

Task	Timeframe
Evaluate current services being provided (in-person, virtual, phone counseling, webinars, newsletters)	Jul 2025 – Jun 2026
Evaluate KPPA website, surveys	Jul 2025 – Jun 2026
Evaluate career-stage specific communications	Jul 2025 – Jun 2026
Develop roadmap to update services over time	Jul 2025 – Jun 2026

◆ Satisfaction Surveys

Proactively use Customer Feedback from Surveys to Enhance Member Engagement

Continue to build the use of surveys across all KPPA's service channels to better understand the customer's experience and then fine-tune and/or redesign future service channels.

Task	Timeframe
Survey team evaluates survey results <ul style="list-style-type: none"> - Interaction/process feedback for enhancement opportunity - Effectiveness of survey mechanism, process 	Jul 2025 – Jun 2026
Add surveying to more customer interactions as decided by KPPA	As needed
Continue evaluation of results on an ongoing basis	Ongoing

Infrastructure and Key Resources

◆ Succession Plan

Continue Leadership Academy and Mentoring

Continued development of KPPA Leadership Academy to help keep an inclusive work environment that promotes employee effectiveness, morale and retention.

Task	Timeframe
KPPA starts the Leadership Academy (leadership and mentorship) program	Jan 2024 – Jun 2024
Further develop Leadership Academy by providing valuable training to participants. Pair employees with appropriate mentors who will meet with the participants and offer honest feedback and coaching	Jan 2025 – Dec 2025
Progress reports are included in quarterly strategic planning reviews and activities are adjusted as needed	Ongoing

Develop ongoing staff training on M365 collaborative tools

Establish training videos series on M365 for staff reference.

Task	Timeframe
Define best storage and retrieval methodology	Jul – Sep 2025
Establish training videos on M365	Jul 2025 – Jun 2026

◆ Key Performance Indicators (KPI)/Hybrid Work

Expand KPIs to include all functional areas.

Expand existing KPIs to include adequate reporting to monitor productivity and to identify any backlogs.

Task	Timeframe
Review and update (if needed) Work from Home KPIs to better evaluate effectiveness and identify opportunities for improvement and refine policies	Jul 2025 – Jun 2026
Develop reporting mechanisms to capture and report visually using Tableau	Jul 2025 – Jun 2026
Review KPIs quarterly with KPPA management	Ongoing

◆ Technology

Conduct Technology Assessment and Roadmap

The Technology Assessment activities assume completing the assessment in time to include any technology-related budget requests (may or may not be needed) in the upcoming biennial budget or capital project requests.

Task	Timeframe
Conduct technology assessment	Jul 2025 – Dec 2025
Determine approach to implementation, strategic plan, and budget implications based on assessment	Jan 2026 – May 2026

Technology Assessment Identified Project 1

Based on the results of the technology assessment above, KPPA will prioritize and begin modernizing its technology systems as appropriate. It's expected that there will be some easier changes ("quick wins") along with other items that may be multiple-year projects. This is a place holder for the first project selected from the prioritized list.

Task	Timeframe
TBD	
TBD	

Consolidate/Update Accounting Software

In FY 2026 beginning with the technology assessment, KPPA will evaluate potential solutions to replace Microsoft Great Plains and integrate with eMars and/or START.

Task	Timeframe
Replace Gravity software with Workiva to provide a more complete reporting solution for the Annual Comprehensive Financial Report (ACFR) and for Board reporting	Mar 2025 – Dec 2025
Evaluate solutions to replace Microsoft Great Plains	See Tech Assessment timeline

Integrate Software Development Life Cycle (SDLC) into strategic plan and budget process.
Process of consolidating the current SDLC process and prioritization into strategic planning.

Task	Timeframe
Formalize the strategic planning process to include the SDLC prioritization process	Jul 2025 – Jun 2026
Communicate the new process and prioritization to the organization	Dec 2025 - Jun 2026
Reinforce and support the new process within the organization	Ongoing

Develop AI Policy

Development of an overarching AI policy to govern the use of AI at KPPA including approved uses for staff and vendors, approach for evaluating AI initiatives, and identifying approved AI tools.

Task	Timeframe
Assess the current landscape of organizational AI policies and current best practices	Jan 2026 – Feb 2026
Develop and implement a policy based on assessment and KPPA needs	Feb 2026 – Apr 2026
Incorporate review of AI policy into KPPA's in-house policy review process	Jun 2026

Eliminate the use of Microfiche

There are millions of images on microfiche. The images are at risk to be lost if they are not converted to another electronic format.

Task	Timeframe
Develop a method of effectively converting and storing microfiche	Jan 2023 – Jun 2023
Utilize a temporary employee on a dedicated scanner to convert microfiche images	Aug 2023 – Jun 2026

Governance

◆ KPPA Board

Evaluate Board and Committee Document Process

Evaluate all aspects of board and committee documentation to ensure availability, efficient archiving, periodic policy review.

Task	Timeframe
Ensure centralized location and periodic review procedures for Management Policies	Jul 2025 – Dec 2025
Ensure appropriate policies and procedures in place for annual submission of required trustee forms - conflict of interest, ethics, etc.	Jan 2026 – Sep 2026
Confirm process for redaction of public facing board materials	Jan 2026 – Feb 2026
Convert historical documents to electronic	Jan 2026 – Dec 2026
Link videos from YouTube instead of Facebook due to retention changes	Apr 2025 – Aug 2025

◆ Operational Decisions

Employer Invoice Process Review

Evaluate the process of tracking and seeking remittance of employer invoice payments for potential process improvement and reporting enhancements to better serve employers and to track invoices under dispute or litigation.

Task	Timeframe
Provide information and follow up to all employers with overdue invoices	Nov 2024 – Mar 2025
Evaluate the current process of tracking and seeking remittance of employer invoice payments	Jan – May 2025
Design improvements to the process	June – Jul 2025
Develop and implement the design changes	Aug 2025 – Mar 2026
Change the timing of assessing monthly reporting late penalties	Apr 2025 – Feb 2026
Enhance reporting of outstanding employer invoices	Mar – Sep 2025
Evaluate the need for administrative regulation changes	Jan – Dec 2025

◆ Operational Resources

Evaluate By-Law(s) Compliance

Develop a process to ensure KPPA staff implements all necessary items from By-Laws.

Task	Timeframe
Develop process to ensure implementation items from By-Laws	Jul 2025 – Dec 2025
Confirm process for consistent periodic review of By-Laws and necessary changes due to state or federal changes	Jul 2025 – Oct 2025

Compliance Officer: Move from Investments to CFO

Expand Compliance Officer duties to include traditional Investment Compliance as well as overall agency compliance.

Task	Timeframe
Move the Compliance Officer (CO) position direct reporting from Investments to CFO	Jul 2025
Expand CO duties to include not only all investment compliance monitoring but also assist with agency governance	Jan 2025 – Dec 2025

SECTION 5**STRATEGIC PLANNING CONTROLS AND GOVERNANCE**

The chart below illustrates key participants currently providing governance to the strategic plan activities. Other leaders from the organization may also be involved at various times and milestones throughout the project. The strategic planning and continuous improvement activities included in KPPA's 2024-2028 strategic plan will require proactive project management and widely communicated information to fully accomplish the goals of the strategic plan. To accomplish these goals, it will likely require fully dedicated individuals beyond the governance model below to keep strategic initiatives moving on a daily basis.

KPPA Strategic Planning Governance

*Additional staff will be added in the future.

SECTION 6

BUDGET IMPACT

Most tasks related to strategic planning initiatives will be accomplished with current staff and within the administrative budgets for the period covered by the 2024-2028 Strategic Plan Summary. Strategic plans are intended to provide consistent direction and focused purpose to ongoing work within the agency to optimally utilize the available resources for the best benefit to stakeholders.

KPPA leadership has taken action in the last biennium to align available resources with the goals of the 2024 – 2028 Strategic Plan Summary. These actions include requesting and receiving an increase in our staffing CAP from 270 to 284. The KPPA Board approved this request in June 2024. It is important to note that staff reallocations are anticipated as process improvements are identified. This will allow for the delivery of additional services to members and employers without the addition of staff beyond 284.

The upcoming technology modernization initiative is anticipated to require funding outside of the normal administrative budget. The Commonwealth has provided budgetary guidelines known as Capital Project Planning for technology projects whose total cost will exceed a \$1,000,000 threshold. Capital Project Planning is defined in KRS 7A. The Commonwealth’s Capital Project Plan is a six-year plan that must be adopted in the budget bill. The current plan is for 2026 – 2032. As a requirement of KRS 7A, all technology capital projects are reviewed first by the Commonwealth Office of Technology (COT) and then by the legislative statutory committee, Capital Planning Advisory Board (CPAB). Because the details of the KPPA Modernization Project are still unknown, staff worked with a budget analyst at the Finance Cabinet to submit an estimated capital project request. Details will be expanded based on data provided through the Technology Assessment initiative.

Phase	Budget Requested
Planning Phase (FY 2027 and FY 2028)	\$15,000,000
Implementation Phase (FY 2029 and FY 2030)	\$50,000,000
Closure Phase (FY 2031 and FY 2032)	\$10,000,000

If approved, these funds come from the trusts and not from a general fund appropriation. Special reporting to Finance and to the legislature is required once an agency has an approved capital project. Actual expenditures are based on need as identified through the project. Spending is capped at the approved amount but having an approved capital project does not commit an agency to spend the entirety of the approved funds. The Capital Project approval process simply provides the KPPA Board with permission to spend trust funds for the technology modernization project.

APPENDIX A**COMPLETED INITIATIVES FROM 2024-2028 STRATEGIC PLAN****Organizational Excellence**

Task	Accomplished By	Date Complete
2023 - 2024 Leadership Academy (Imaging)	HR conducted this for Imaging and Mail Room staff	2024

Customer Service Delivery

Task	Accomplished By	Date Complete
Created Permanent Survey Team	Benefits/Operations	Jan 2025
Eliminate Workaround to Update Membership Status through Pre-Retirement Audit when a Death Date Exists – Fixed Issue in the Eligibility Screen	DISB, DETS, QA	Feb 2025
Remove Manual Creation of Non-Member Memberships through Pre-Retirement Audit- Created Automated Omitted billings from the Averaging batch	QA, ERCE, DETS	April 2025

Infrastructure and Key Resources

Task	Accomplished By	Date Complete
Track HR KPIs	HR and KPI team	2024
Conduct an RFP for a Technology Assessment	DETS, Procurement	Jun 2025

Governance

Task	Accomplished By	Date Complete
Document all processes (Board and Committee)	Exec Staff Assistant	Jul 2024
KDLA archive of Board minutes and agendas	Exec Staff Assistant	Dec 2024
Evaluate statutory reporting compliance	Operations	Jan 2024 – Dec 2024
Split ACFR into two – CERS ACFR and KRS ACFR	CFO, Accounting	Feb 2024 – Dec 2024
Legislative Tracking - Implement and utilize enhanced legislative tracking to better monitor relevant legislation to KPPA.	Communications	Jan 2025 – Apr 2025
Pull Board/committee videos from Facebook to archive on premises	Exec Staff Assistant	Apr 2025 – Jun 2025