

**KPPA Audit Committee  
May 29, 2025 at 10:00 a.m. Eastern Time  
Live Video Conference/Facebook Live**

**AGENDA**

- |     |   |                                |
|-----|---|--------------------------------|
| 1.  | Call to Order   | Bill O'Mara                    |
| 2.  | Opening Video Teleconference Statement                                  | Legal Representative           |
| 3.  | Roll Call   | Sherry Rankin                  |
| 4.  | Public Comment  | Sherry Rankin                  |
| 5.  | <b>Election of KPPA Audit Committee Vice Chair*</b>                     | Bill O'Mara                    |
| 6.  | <b>Approval of February 25, 2025 KPPA Audit Committee Minutes*</b>      | Bill O'Mara                    |
|     |   |                                |
| 7.  | <b>Approval of External Audit Request for Proposal (RFP)*</b>           | Mike Lamb                      |
|     |   |                                |
| 8.  | Legal Updates   |                                |
|     | a. Information Disclosure Incidents                                     | Beth Camic                     |
|     | b. Anonymous Tips   | Stephanie Hold                 |
|     |   |                                |
| 9.  | KPPA Audit Committee Administrative Updates                             |                                |
|     | a. Update on Internal Audit Staffing                                    | Kristen Coffey                 |
|     | b. Internal Audit Budget as of March 31, 2025                           | Madeline Evans                 |
|     | c. <b>Approval of Internal Audit Budget for Upcoming Fiscal Year*</b>   | Madeline Evans                 |
|     | d. Status of Current Internal Audit Projects                            | Kristen Coffey                 |
|     | e. <b>Risk Assessment and Audit Plan for Fiscal Year 2026 and 2027*</b> | Kristen Coffey                 |
|     | f. Update on 2025-2 Review of Office of Investments Policies            | Carrie Bass                    |
|     | g. <b>Issued Reports and/or Memorandums*</b>                            |                                |
|     | i. 2025-7 Follow-up on Open Internal Audit Findings and Recommendations | Kristen Coffey                 |
|     | ii. 2025-5 Disability Appeal Process                                    | Madeline Evans                 |
|     | iii. 2025-6 Hiring Process  | Will Prince                    |
|     | iv. 2025-10 Travel Process  | Kristen Coffey and Zach Curtis |
|     |   |                                |
| 10. | Professional Article – Artificial Intelligence in Government Auditing   | Zach Curtis                    |
|     |   |                                |
| 11. | <b>Closed Session*</b>  | Bill O'Mara                    |
|     |   |                                |
| 12. | Adjourn   | Bill O'Mara                    |

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

**MINUTES OF MEETING  
KENTUCKY PUBLIC PENSIONS AUTHORITY  
AUDIT COMMITTEE  
FEBRUARY 25, 2025, 10:00 A.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the February 25, 2025, Regular Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), George Cheatham, Mary Eaves, J. T. Fulkerson, Lynn Hampton, and William Summers V. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Rebecca Adkins, Erin Surratt, Victoria Hale, Nathan Goodrich, Stephanie Hold, Michael Lamb, Kristen Coffey, Madeline Evans, William Prince, Elizabeth Smith, Connie Davis, Zachary Curtis, Angela Stevens, Ashley Gabbard, Phillip Cook, Sandy Hardin, and Sherry Rankin. Also present were Ryan Graham and Jordan Miller with Blue and Co.

1. Mr. O'Mara called the meeting to order.
2. Ms. Hale read the Opening Video Teleconference Statement.
3. Ms. Rankin called roll.
4. Ms. Rankin noted no ***Public Comments*** were received.
5. Mr. O'Mara introduced the agenda item ***Approval of November 19, 2024, KPPA Audit Committee Minutes*** (Video 00:05:54 to 00:06:35). Ms. Eaves made a motion to approve the minutes as presented. The motion was seconded by Ms. Hampton and passed unanimously.
6. Mr. O'Mara introduced agenda item ***GASB 68 and GASB 75 Proportionate Share Audits*** (Video 00:06:35 to 00:12:25). Mr. Ryan Graham with Blue and Company presented the GASB 68 and GASB 75 Proportionate Share Audits. He explained the changes in reporting, including separate reports for KERS and CERS pensions with their own opinions. The methodology of allocation remained consistent year-over-year. Mr. O'Mara asked for a motion to accept the CERS and KERS Draft GASB 68 and GASB 75

Proportionate Share Audits as presented. Before making a motion, Mr. Cheatham requested that the audits be released earlier to help employers complete their audits. Mr. Lamb noted that the draft Excel files could be posted on the website with a statement indicating that they are subject to change until final approval by the KPPA Board.

\*\*\* Mr. Fulkerson entered the meeting. \*\*\*

Mr. Cheatham made a motion to accept the CERS and KERS Draft GASB 68 and GASB 75 Proportionate Share Audits as presented. The motion was seconded by Ms. Hampton, and this passed unanimously.

7. Mr. O'Mara introduced agenda item ***Memorandum on Submission of FY 2024 CERS and KRS ACFR*** (Video 00:12:25 to 00:13:49). Ms. Connie Davis presented the Memorandum on Submission of the FY 2024 CERS and KRS Annual Comprehensive Financial Reports (ACFR). She explained that KPPA, in accordance with Kentucky Revised Statutes, is required to provide copies of its audited financial statements to the Legislative Research Commission and the Auditor of Public Accounts. The reports were uploaded to the website on December 6, 2024, and notifications were sent out to ensure the availability of the reports and related findings were properly communicated.
8. Mr. O'Mara introduced agenda item ***Update on External Audit RFP*** (Video 00:13:49 to 00:19:41). Angela Stevens gave the Update on External Audit RFP. She announced that the new closing date for the RFP for auditing services is set for March 13, 2025. The anticipated contract start date is July 1, 2025, contingent on potential oral presentations and negotiations that may impact the timeline. Concerns were raised regarding the timeline, but a contingency plan is in place involving the existing contract, which can be extended if necessary. No RFP responses have been received yet.
9. Mr. O'Mara introduced agenda item ***Legal Updates*** (Video 00:019:41 to 00:23:41).
  - a. Regarding ***Information Disclosure Incidents***, Mr. Nathan Goodrich presented Potential Information Disclosures/Breaches affecting the KPPA for the Fiscal Year 2025, Quarter 2. Mr. Goodrich reported there were a total of six (6) disclosures/breaches that were investigated. A total of nine (9) members were affected by the potential

disclosures/breaches. There was one (1) implicated state law which affected seven (7) members due to a technological glitch, allowing a member to view forms on file. Steps were taken to notify affected members, and affidavits are being sought to determine whether the information was retained. Policies were adhered to in notifying external agencies as required. Additionally, two (2) internal data disclosure issues involved unauthorized attempts to change members' direct deposit information. These matters were resolved without any loss of funds to members.

- b. Ms. Stephanie Hold provided an update regarding the *Anonymous Tips* received regarding fraud, waste, and abuse. Since the KPPA Audit Committee met on November 19, 2024, KPPA received three (3) new fraud tips, with two (2) still pending, and one (1) closed after a review. Ms. Hold reported there were seven (7) cases in open status and provided current information for all the open cases as of November 19, 2024. Then Ms. Hold explained that two (2) cases have been closed since the last meeting of the KPPA Audit Committee.

10. Mr. O'Mara introduced the agenda item *KPPA Audit Committee Administrative Updates* (Video 00:23:41 to 00:55:22).

- a. Ms. Coffey presented the *Internal Audit as of December 31, 2024*. Ms. Coffey reviewed the Fiscal Year 2025 Internal Audit Budget as of December 31, 2024, and noted that we are currently on target.
- b. Next, Ms. Coffey presented the *Status of Current Internal Audit Projects*. Ms. Coffey reviewed the status of their projects and explained the phases. She reported that halfway through the fiscal year, 63% of the budget remains, which is on target given the heavier expenses anticipated in the second half of the year. An intern will join in May, and software expenses are planned towards year-end. Upcoming conferences were discussed.

Ms. Coffey introduced a new reporting format showing estimated hours spent by both audit and non-audit staff to provide a comprehensive view of project resource allocation. Efforts are ongoing to refine time-tracking methods, including trial use of

a project tracker to better monitor staff hours for internal audits.

The committee expressed appreciation for the addition of staff-hour tracking, recognizing its value in planning and resource management. Ms. Coffey confirmed that the Audit team uses an electronic timekeeping system to record hours by project phases, while non-audit staff tracking remains a work in progress.

c. Ms. Coffey brought forth the next topic, ***Issued Reports and/or Memoranda***, and invited Ms. Madeline Evans to begin her presentation.

- i. Ms. Evans delivered her report on the ***Review of Investment Administrative Fees***. Following her detailed review, Ms. Evans concluded there were no reportable findings or major issues, though a recommendation was made to ensure the timely submission of invoices to Accounting.

Mr. Cheatham made the motion to accept the Issued Report on the Review of Investment Administrative Fees as presented. Ms. Eaves seconded the motion, and the motion passed unanimously.

- ii. Ms. Evans reported on the ***Review of Office of Investments Policies***. Ms. Evans presented the audit on investment policies, which included a review to ensure compliance with state and federal laws and consistency within internal policies. Three reportable findings were identified: (1) Monitoring compliance with all investment policies was lacking, with recommendations for improvements, including a compliance officer (now hired). (2) Insufficient evidence of proper policy approvals and confusion over responsibilities for policy establishment and enforcement, with suggestions for clearer processes. (3) Issues with the securities trading policy, including inadequate measures to prevent noncompliance, with recommendations for revisions. Management agreed to address these findings and develop procedures. Ms. Evans noted the audit also included minor management letter items, with no major concerns noted. During the discussion, it was recommended that the CEO take a leading role in addressing policy-related concerns to enhance oversight and

accountability.

Mr. Cheatham made the motion to accept the Issued Report of the Office of Investments Policies as presented. Mr. Fulkerson seconded the motion, and the motion passed unanimously.

- iii. Ms. Coffey reported on the ***Review of Procurement Card Process***. She noted a minor change was implemented in the audit process to include the identified strategic risks from the audit plan approved by the Committee, allowing the clearer alignment between risks and audits. This audit was a follow-up to a 2018 review and focused on compliance with statutes and regulations, as well as the effectiveness of internal controls.

The audit found no reportable findings, though they noted certain other matters that were communicated to the Division of Accounting in a separate management letter. The first involved a few instances of sales tax being paid on subscriptions and purchases (e.g., *The Wall Street Journal*, Walmart, and Kroger). Staff has since communicated tax-exempt status to vendors to avoid future payments, and attempts to recover past payments were made, though only a minor amount remained uncovered. The second item concerned the proper coding of expenditures, which impacts budget preparation. Four items were identified as potentially misclassified; two were corrected, and the remaining two required no further action as they stayed within the same overall line item. All issues raised have been corrected and verified as resolved, and the audit is considered closed.

Mr. Fulkerson made the motion to accept the issued Report on the Review of the Procurement Card Process as presented. Ms. Eaves seconded the motion, and the motion passed unanimously.

Ms. Coffey added that the risk assessment process for the fiscal year 2026 has begun, with surveys sent out to KPPA management and soon to the Audit Committee. These surveys seek feedback on potential risks or concerns to

guide the development of the audit plan. Feedback is already being received, and the audit chair and vice chair will collaborate on finalizing the audit plan with KPPA management. The risk assessment and audit plan will be presented for approval in May.

In addition, an update was provided regarding interns. While interns across the state start on May 16, KPPA is still in the process of interviewing candidates, having conducted interviews last week and continuing this week, with positive responses so far.

Ms. Eaves highlighted the need for a follow-up report at the next meeting on the investment policies' audit, specifically addressing the consistency, authority, and actions taken in response to the findings. She suggested delegating this responsibility to an appropriate individual, such as Mr. Barrow, to provide ongoing updates. Mr. Barrow agreed to take on this responsibility.

11. Mr. O'Mara introduced the agenda item ***Professional Article*** (Video 00:55:22 to 00:58:32). Mr. Prince presented a summary of the article, *Who Owns Transaction and Controls Monitoring* by Vincent M. Walden, CFE, CPA. The article explores who is responsible for monitoring high-risk transactions within organizations and emphasizes the importance of a multidisciplinary approach to fraud risk management.

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

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## **CERTIFICATION**

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

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Recording Secretary

I, as Chair of the Audit Committee of the Kentucky Public Pensions Authority, do certify that the Minutes of the meeting held on February 25, 2025, were approved by the Audit Committee on May 29, 2025.

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Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on February 25, 2025, for form, content, and legality.

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Executive Director  
Office of Legal Services





# KENTUCKY PUBLIC PENSIONS AUTHORITY

Ryan Barrow, Executive Director

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## MEMORANDUM

**TO:** Kristen Coffey, Chief Auditor

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

**DATE:** May 12, 2025

**SUBJECT:** Potential Information Disclosures/Breaches Affecting the Kentucky Public Pensions Authority ("KPPA"), Fiscal Year 2025 Quarter 3

### DATA ON POTENTIAL DISCLOSURES/BREACHES FY 2025 3<sup>rd</sup> QUARTER

#### Total Disclosures/Breaches Reports Investigated: 4

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

#### Total Members Affected by Potential Disclosures/Breaches: 3

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

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

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

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

## **SYNOPSIS ON POTENTIAL DISCLOSURES/BREACHES FY 2025 3<sup>rd</sup> Quarter**

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

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

**Background:** A KPPA member received an envelope displaying their name and mailing address. Upon opening the envelope, the member discovered it contained another member’s employment authorization. Recipient immediately contacted KPPA upon discovering the error and was instructed to return the authorization to KPPA. KPPA notified the affected member of the disclosure.

**Root Cause:** Mail error. Authorization inadvertently included in the wrong envelope.

**Follow Up:** Required notice sent to member pursuant to internal policy. Affidavit and instructions for return of disclosed information mailed to recipient.

**Background:** A KPPA staff member inadvertently included an outside party on an internal work process email outlining KPPA disability claims processes following the death of a member. A KPPA Manager discovered the error and immediately contacted the outside party/email recipient with instructions to delete/destroy the email.

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

**Follow Up:** Recipient notified pursuant to internal policy and instructed to delete the message from inbox and message folder.

**Background:** A KPPA staff member inadvertently emailed a member’s administrative hearing exceptions to an outside party. The KPPA staff member immediately realized the error and emailed recipient with instructions to delete/destroy the email. KPPA notified the affected member of the disclosure.

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

**Follow-up:** Recipient notified pursuant to internal policy and instructed to delete the message from inbox and message folder. Required notice sent to member pursuant to internal policy. Subsequently, the KPPA Security Team sent an agency wide email to all employees with instructions to confirm email addresses on all

outgoing emails due to the occurrence of a second auto-populate incident on the same date.

**External Disclosures/Breaches**

No external disclosures were made by KPPA vendors or business associates this quarter.

**RECOMMENDATION**

This memorandum is provided for informational purposes only.



# KENTUCKY PUBLIC PENSIONS AUTHORITY

**Ryan Barrow, Executive Director**

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## MEMORANDUM

**TO:** Kristen Coffey, Chief Auditor

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

**DATE:** May 29, 2025

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

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

### OPEN FRAUD TIP CASES

Since the Audit Committee met on February 25, 2025, the KPPA received seven (7) new fraud tips. Two (2) tips are currently pending and five (5) were closed after review.

As of the date of this memo, the KPPA has seven (7) cases in open status. The following chart provides current information for all open cases as of the date of this Memorandum:

Date Reported	Allegation(s)	Current Action
12/13/2022	Failure of an employer to report all employees in regular fulltime positions	The Office of Legal Services is investigating.
11/02/2023	Employer not making the required retirement contributions for employees since January 2021.	The Office of Legal Services is working with ERCE to address the issue.
01/22/2024	Disability retirement fraud.	The Office of Legal Services is investigating.
06/12/2024	Employer not making the required retirement contributions for employees.	The Office of Legal Services is working with ERCE and obtaining additional information.
06/16/2024	Prearranged agreement to return to work for the same employer and failure to have the required break in service.	The allegation related to the member was substantiated and the Office of Benefits has taken action; however, the Office of Legal Services is investigating employer reporting issues uncovered as a result of the investigation.

<b>Date Reported</b>	<b>Allegation(s)</b>	<b>Current Action</b>
02/18/2025	Prearranged agreement to return to work for the same employer.	The Office of Legal Services is investigating.
05/02/2025	Failure to adhere to the required break in service.	The Office of Legal Services is investigating.

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

As of the date of this memo, seven (7) cases have been closed since the last meeting of the KPPA Audit Committee. The following case(s) were closed since the last meeting:

<b>Date Reported</b>	<b>Allegation(s)</b>	<b>Disposition</b>
12/16/2024	Employer not making the required retirement contributions for employees.	The Office of Legal Services obtained documentation for review but was not able to substantiate fraud tip. Referred to ERCE for possible employer audit.
12/18/2024	Employer not making the required retirement contributions for employees.	The Office of Legal Services obtained documentation for review but was not able to substantiate fraud tip. Referred to ERCE for possible employer audit.
03/25/2025	Prearranged agreement to return to work with a participating agency.	The Office of Legal Services investigated and closed. Evidence did not support the allegation.
05/06/2025	Disability Fraud	The Office of Legal Services confirmed the person reported is not receiving KPPA disability retirement benefits.
05/14/2025	Disability Fraud	The Office of Legal Services confirmed the person reported is not receiving KPPA disability retirement benefits.
05/15/2025	Employer Fraud	The Office of Legal Services determined the fraud related to FERPA and not any KPPA benefits.
05/19/2025	Insurance Fraud	The Office of Legal Services reviewed and none of the allegations involved KPPA benefits.

### **RECOMMENDATION**

This memorandum is provided for informational purposes only.



# Kentucky Public Pensions Authority

## Division of Internal Audit



To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA  
Chief Auditor

Date: May 29, 2025

Subject: Fiscal Year 2025 Internal Audit Budget as of March 31, 2025

Account Number	Account Name	FYE 2025 Budget	FY 2025 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries	\$ 350,000.00	\$ 225,891.29	\$ 124,108.71	35.46%
121	Employer Paid FICA	26,775.00	16,799.27	9,975.73	37.26%
122	Employer Paid Retirement	166,481.25	94,712.39	71,768.86	43.11%
123	Employer Paid Health Insurance	50,000.00	25,942.66	24,057.34	48.11%
124	Employer Paid Life Insurance	60.00	33.00	27.00	45.00%
133T	Employee Training	2,500.00	-	2,500.00	100.00%
259T	Conference Expenses	2,500.00	1,899.08	600.92	24.04%
361T	Travel - In State	1,000.00	-	1,000.00	100.00%
362T	Travel - Out State	3,000.00	-	3,000.00	100.00%
381T	Dues & Subscriptions	1,000.00	1,120.00	(120.00)	-12.00%
399T	Miscellaneous	200.00	-	200.00	100.00%
847T	Computer Equipment	15,000.00	-	15,000.00	100.00%
	<b>Total</b>	<b>\$ 618,516.25</b>	<b>\$ 366,397.69</b>	<b>\$ 252,118.56</b>	<b>40.76%</b>

### 259T Conference Expenses

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

*\*\*These were two separate conferences*

### 381T Dues and Subscriptions

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

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



# 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 <sup>1</sup>	\$ 225,891.29	\$ 400,000.00	\$ 350,000.00	14%
121	Employer Paid FICA <sup>1</sup>	\$ 16,799.27	30,600.00	26,775.00	14%
122	Employer Paid Retirement <sup>2</sup>	\$ 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 <sup>3</sup>	\$ 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%
	<b>Total</b>	<b>\$ 366,397.69</b>	<b>\$ 676,032.36</b>	<b>\$ 618,516.25</b>	<b>9%</b>

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 Audit Committee Meeting - KPPA Audit Committee Administrative Updates

Project Code	Project Name	Phase	Scheduled Start	Actual Start	Scheduled End	Actual End	Total Audit Hours	Total FY 2025 Hours to Date	Estimated Hours	Estimated Hours Variance	Percentage Variance Estimated vs. Actual
2024-3*	Review of Interest Applied to Member Accounts	Completion	7/3/2023	5/25/2023	6/14/2024	7/22/2024	596.75	20.00	83.00	(3.25)	-1%
2024-6*	Review of Employer Outstanding Invoices	Completion	3/18/2024	3/13/2024	7/15/2024	8/7/2024	393.75	24.75	75.00	(206.25)	-34%
2024-7*	Review of Employer Contributions	Completion	10/9/2023	10/6/2023	6/28/2024	8/19/2024	687.25	73.00	15.00	87.25	15%
2024-9*	Review of Refunds	Completion	3/21/2024	3/21/2024	8/23/2024	8/19/2024	569.25	171.00	154.00	(30.75)	-5%
2024-10	Review of Investment Administrative Fees	Completion	7/1/2024	6/20/2024	12/31/2024	1/15/2025	855.55	824.30	600.00	255.55	43%
2024-Other-6	Self-Assessment for Peer Review	Completion	7/5/2023	7/11/2023	6/30/2024	7/22/2024	330.00	1.75	20.00	(170.00)	-34%
2024-Other-9	FY 2025 Risk Assessment and Audit Plan	Completion	7/1/2023	7/17/2023	8/27/2024	7/22/2024	185.00	0.50	50.00	(115.00)	-38%
2025-1	1099-R Process (Follow-up to 2019-4)	Completion	7/1/2024	6/17/2024	10/25/2024	10/14/2024	224.50	222.50	400.00	(175.50)	-78%
2025-2	Review of Office of Investments Specific Policies	Completion	9/16/2024	7/30/2024	11/29/2024	1/13/2025	210.00	210.00	275.00	(90.00)	-43%
2025-3	Employer Reporting Process	Planning	3/3/2025	3/3/2025	6/27/2025	1/0/1900	101.50	101.50	100.00	1.50	1%
2025-4	Procurement Card Process (Follow-up to 2018-1)	Completion	11/21/2024	11/21/2024	2/14/2025	2/13/2025	474.50	474.50	450.00	24.50	5%
2025-5	Disability Appeal Process	Fieldwork	11/1/2024	11/22/2024	3/14/2025	1/0/1900	515.00	515.00	500.00	15.00	3%
2025-6	Hiring Process	Planning	2/3/2025	1/15/2025	4/15/2025	1/0/1900	495.75	495.75	280.00	215.75	44%
2025-7	Open Audit Recommendations	Completion	1/1/2025	1/13/2025	4/11/2025	2/28/2025	40.75	40.75	50.00	(9.25)	-23%
2025-8	Inventory Process	Fieldwork	1/6/2025	1/14/2025	3/31/2025	1/0/1900	196.25	196.25	300.00	(103.75)	-53%
2025-9	Accounts Payable Process (Follow-up to 2019-3)	Planning	3/3/2025	3/19/2025	6/30/2025	1/0/1900	281.25	281.25	475.00	(193.75)	-69%
2025-10	Travel Process (Follow-up to 2018-1)	Planning	3/3/2025	2/13/2025	6/6/2025	1/0/1900	330.75	330.75	309.00	21.75	7%
2025-11	Review of Accrual Process	Planning	4/9/2025	1/0/1900	6/30/2025	1/0/1900	162.25	162.25	475.00	(312.75)	-193%
2025-20	FY 2025 Board and Committee Meetings	Fieldwork	7/1/2024	7/1/2024	6/30/2025	1/0/1900	174.20	174.20	300.00	(125.80)	-72%
2025-21	Internal Audit Key Performance Indicators	Fieldwork	7/1/2024	7/16/2024	6/30/2025	1/0/1900	15.75	15.75	24.00	(8.25)	-52%
2025-22	Charter and Policy Updates	Completion	7/1/2024	8/6/2024	6/30/2025	1/0/1900	15.25	15.25	20.00	(4.75)	-31%
2025-23	Review of ACFR and SAFR	Completion	8/12/2024	8/19/2024	11/29/2024	12/5/2024	44.00	44.00	75.00	(31.00)	-70%
2025-24	Risk Assessment and Audit Plan	Completion	7/1/2024	1/29/2025	6/30/2025	1/0/1900	94.25	94.25	150.00	(55.75)	-59%
2025-25	Security Access Reviews	Completion	7/1/2024	8/19/2024	6/30/2025	2/17/2025	1.00	1.00	2.00	(1.00)	-100%
2025-26	Internal Audit Evaluations	Fieldwork	7/1/2024	7/8/2024	6/30/2025	1/0/1900	56.75	56.75	125.00	(68.25)	-120%
2025-27	Continuing Professional Education	Fieldwork	7/1/2024	7/1/2024	6/30/2025	1/0/1900	237.00	237.00	200.00	37.00	16%
2025-28	Internal Audit Process Documentation and Updates	Fieldwork	7/1/2024	7/29/2024	6/30/2025	1/0/1900	141.50	141.50	120.00	21.50	15%
2025-29	Miscellaneous KPPA Groups/Projects	Fieldwork	7/1/2024	7/1/2024	6/30/2025	1/0/1900	118.00	118.00	200.00	(82.00)	-69%
2025-30	CERS Trustee Election	Fieldwork	7/1/2024	6/10/2024	4/30/2025	3/31/2025	136.00	131.25	100.00	36.00	26%
2025-31	Internal Audit Staff Hiring	Fieldwork	7/1/2024	7/8/2024	6/30/2025	1/0/1900	80.00	77.25	170.00	(90.00)	-113%
2025-32	Internal Audit Meetings	Fieldwork	7/1/2024	7/8/2024	6/30/2025	1/0/1900	232.50	232.50	290.00	(57.50)	-25%
2025-33	KPPA Meetings	Fieldwork	7/1/2024	7/8/2024	6/30/2025	1/0/1900	126.50	126.50	150.00	(23.50)	-19%
2025-34	External Audit RFP	Completion	9/19/2024	9/19/2024	3/31/2025	1/0/1900	13.75	13.75	40.00	(26.25)	-191%
2025-35	Response to APA	Completion	9/23/2024	9/23/2024	10/31/2024	10/4/2024	3.25	3.25	20.00	(16.75)	-515%
2025-36	KPPA Leadership Academy	0.00	2/1/2025	2/27/2025	6/30/2025	1/0/1900	9.50	9.50	25.00	(15.50)	-163%
	Reserve Hours	0.00	1/0/1900	1/0/1900	1/0/1900	1/0/1900	0.00	0.00	295.50	(295.50)	
	Administrative Hours	Fieldwork	7/1/2024	7/1/2024	6/30/2025	1/0/1900	543.00	543.00	590.00	(47.00)	-9%
	Non-Working Hours	Fieldwork	7/1/2024	7/1/2024	6/30/2025	1/0/1900	787.50	787.50	800.00	(12.50)	-2%
	Holiday Hours	0.00	7/1/2024	7/4/2024	6/30/2025	1/0/1900	408.75	408.75	521.00	(112.25)	-27%



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

<b>Total Hours Worked</b>	<b>9,888.50</b>	<b>7,376.75</b>
<b>Total Hours Scheduled</b>		<b>7,216.00</b>
<b>Total Overtime Hours</b>		<b>160.75</b>
<b>Average OT by Employee</b>		<b>32.15</b>

**Explanation of Overages 10% or greater**

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

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

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

2025-27: Staff have been able to attend more conferences that in previous years.

2025-28: Staff had more time to dedicate to this project this year since we had full staffing levels.

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

## FY 2025 Audit Plan

Black text is schedule hours in projects not yet started

Red text is the hours currently spent on open projects

Carry-Over from FY 2024 Plan					Actual internal audit staff hours for completed projects							Over Budget			
Fiscal Year 2025 Audits/Projects					398.50	1,267.50	1,290.00	1,957.50	1,957.50	1,957.50	FY 2025 Hours Available				
	Division	Audit Number	Audit Name	Estimated Audit Hours	Former Employee	Interim - Internal Auditor	Auditor II	Auditor I	Retirement Investment Specialist	Chief Auditor	Total Audit Staff Hours	Difference in Actual vs Estimate for Completed Projects	Other KPPA Staff Audit Hours Spent on Project (estimated)	Non-audit staff time as a percent of audit staff time	
1	DETS/Investments	2024-3	Review of Interest Applied to Member Accounts	83	11.25	0.00	0.00	0.00	0.00	8.75	20.00	63.00	115.75	19%	
2	ERCE	2024-6	Review of Employer Outstanding Invoices	75	3.00	0.00	0.00	2.00	0.00	19.75	24.75	50.25	464.00	118%	
3	ERCE	2024-7	Review of Employer Contributions	15	52.50	0.00	0.00	1.00	1.00	18.50	73.00	(58.00)	350.00	51%	
4	Office of Benefits	2024-9	Review of Refunds	154	23.00	0.00	0.00	136.00	0.00	12.00	171.00	(17.00)	16.00	3%	
5	Investments	2024-10	Review of Investment Manager Fees (focus on administrative fees) - this was approved on FY 2024 Plan and needs to be completed	600	113.50	12.00	19.50	435.50	195.80	48.00	824.30	(224.30)	100.50	12%	
6	Internal Audit	2024-Other-6	Self-Assessment for Peer Review	20	0.00	0.00	0.00	0.00	0.00	1.75	1.75	18.25	-	-	
7	All KPPA	2024-Other-9	FY 2025 Risk Assessment and Audit Plan	50	0.00	0.00	0.00	0.00	0.00	0.50	0.50	49.50	-	-	
8	Retiree Services	2025-1	1099-R Process (Follow-up on 2019-4 1099-R Process issued 3/16/2020)	400	113.50	0.00	0.00	24.50	6.00	78.50	222.50	177.50	8.00	4%	
9	Investments	2025-2	Review of Policies Specific to Office of Investments	275	0.00	0.00	0.00	3.00	131.00	76.00	210.00	65.00	11.50	5%	
10	ERCE	2025-3	Employer Reporting Process	100	0.00	0.00	0.00	0.00	97.00	4.50	101.50	(1.50)	0.00	0%	
11	Accounting	2025-4	Procurement Card (ProCard) Process (Follow-up to 2018-1 ProCare Expenditures issued 10/2/2018), (reduced reserve, increased budget to use audit as training audit for new auditors)	450	0.00	162.50	183.50	63.50	1.50	63.50	474.50	(24.50)	46.25	10%	
12	DSB/Legal	2025-5	Disability Appeal Process (reduced reserve, increased budget to add assistant auditor)	500	0.00	184.50	1.50	1.00	298.00	30.00	515.00	(15.00)	78.25	15%	
13	HR	2025-6	Hiring Process	280	0.00	46.50	2.50	412.00	4.50	30.25	495.75	(215.75)	22.00	4%	
14	Various	2025-7	Open Audit Recommendation Review	50	0.00	0.00	0.00	25.50	0.00	15.25	40.75	9.25	12.75	31%	
15	Office Services	2025-8	Inventory Process	300	0.00	30.50	112.00	0.00	1.50	52.25	196.25	103.75	-	0%	
16	Accounting	2025-9	Accounts Payable Process (Follow-up on 2019-3 AP Invoice Audit issued 6/28/2019)	475	0.00	228.50	0.00	12.00	18.50	22.25	281.25	193.75	-	0%	
17	Accounting	2025-10	Travel Process (Follow-up on 2018-1 Travel Expenditures issued 10/2/2018)	309	0.00	14.50	282.00	1.00	1.50	31.75	330.75	(21.75)	-	0%	
18	Accounting	2025-11	Review of Accrual Process	475	0.00	0.00	49.25	65.75	39.75	7.50	162.25	312.75	-	0%	
19	Internal Audit	2025-20	Board/Committee Meetings	300	9.50	0.00	10.50	54.50	25.45	74.25	174.20	125.80	-	-	
20	Internal Audit	2025-21	Internal Audit Key Performance Indicators	24	0.00	0.00	0.00	0.00	0.00	15.75	15.75	8.25	-	-	
21	Internal Audit	2025-22	Charter and Policy Updates	20	0.00	0.00	0.00	0.00	0.00	15.25	15.25	4.75	-	-	
22	Internal Audit	2025-23	Annual Comprehensive Financial Report/Summary Annual Financial Report Review	75	0.00	0.00	0.00	0.00	0.00	44.00	44.00	31.00	-	-	
23	Internal Audit	2025-24	FY 2026 Risk Assessment and Audit Plan	150	0.00	0.00	0.00	0.00	1.00	93.25	94.25	55.75	-	-	
24	Internal Audit	2025-25	Security Access Reviews	2	0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.00	-	-	
25	Internal Audit	2025-26	Evaluations	125	0.50	0.50	1.00	15.00	4.50	35.25	56.75	68.25	-	-	
26	Internal Audit	2025-27	Training	200	4.00	25.00	28.50	49.00	84.25	46.25	237.00	(37.00)	-	-	
27	Internal Audit	2025-28	Internal Audit Process Documentation and Updates	120	0.00	9.00	0.00	0.00	49.75	82.75	141.50	(21.50)	-	-	
28	Internal Audit	2025-29	Miscellaneous KPPA Group Participation/Projects	200	1.00	1.00	3.50	1.00	65.00	46.50	118.00	82.00	-	-	
29	Internal Audit	2025-30	CERS Election	100	1.50	0.00	7.00	0.00	8.50	114.25	131.25	(31.25)	-	-	
30	Internal Audit	2025-31	Internal Audit Staff Hiring	170	0.00	0.00	18.00	12.50	14.00	32.75	77.25	92.75	-	-	
31	Internal Audit	2025-32 2025-33	Non-Board Meetings	440	14.50	10.25	18.00	65.00	62.00	189.25	359.00	81.00	-	-	
32	Internal Audit	2025-34	External Audit RFP - Added after initial plan approved (hours reduced reserve)	40	0.00	0.00	0.00	0.00	0.00	13.75	13.75	26.25	-	-	
33	Internal Audit	2025-35	Response to APA - Added after initial plan approved (hours reduced reserve)	20	0.00	0.00	0.00	0.00	0.00	3.25	3.25	16.75	-	-	
34	Internal Audit	2025-36	KPPA Leadership Program- Added after initial plan approved (hours reduced reserve)	25	0.00	0.00	0.00	0.00	7.50	2.00	9.50	15.50	-	-	
35	Internal Audit		Other Administration	590	38.50	75.50	168.00	80.00	61.00	120.00	543.00	47.00	-	-	
36	Internal Audit		Holiday	521	15.00	63.75	71.25	86.25	86.25	86.25	408.75	112.25	-	-	
37	Internal Audit		Other Leave	800	41.75	51.00	3.50	92.00	393.00	206.25	787.50	12.50	-	-	
Scheduled hours for FY 2025				8,533	443	915	980	1,638	1,658	1,743	7,376.75	1,156.25	1,225.00		
Unscheduled Hours - Reserved for contingency				295.50	-44.50	352.50	310.50	319.50	299.25	214.50					

**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
<b>AVERAGE BOARD OF TRUSTEES RATING</b>			<b>4</b>	<b>3</b>	<b>4</b>	<b>15</b>	-
	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

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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	Possible 2026-8
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	
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	
<b>AVERAGE EXECUTIVE DIRECTOR RATING</b>			3	5	4	16	-	

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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	Possible 2026-1
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	Potential for 2027
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	
<b>AVERAGE INVESTMENTS RATING</b>			<b>4</b>	<b>3</b>	<b>4</b>	<b>13</b>	<b>-</b>	
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	
<b>AVERAGE LEGAL SERVICES RATING</b>			<b>3</b>	<b>7</b>	<b>3</b>	<b>12</b>	<b>-</b>	

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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
<b>AVERAGE COMMUNICATIONS RATING</b>			<b>2</b>	<b>4</b>	<b>2</b>	<b>6</b>	-
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
<b>AVERAGE HR RATING</b>			<b>2</b>	<b>4</b>	<b>3</b>	<b>10</b>	-
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
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

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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
<b>AVERAGE ACCOUNTING RATING</b>			<b>5</b>	<b>4</b>	<b>4</b>	<b>17</b>	<b>-</b>
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
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
<b>AVERAGE ERCE RATING</b>			<b>6</b>	<b>5</b>	<b>6</b>	<b>29</b>	<b>-</b>
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
<b>AVERAGE PROCUREMENT/OFFICE SERVICES RATING</b>			<b>4</b>	<b>5</b>	<b>5</b>	<b>19</b>	<b>-</b>

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

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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
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
<b>AVERAGE IT RATING</b>			<b>4</b>	<b>3</b>	<b>3</b>	<b>11</b>	<b>-</b>
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
<b>AVERAGE MEMBERSHIP SUPPORT RATING</b>			<b>2</b>	<b>6</b>	<b>4</b>	<b>16</b>	<b>-</b>



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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
<b>AVERAGE QUALITY ASSURANCE RATING</b>			<b>4</b>	<b>6</b>	<b>4</b>	<b>20</b>	<b>-</b>
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
<b>AVERAGE MEMBER SERVICES RATING</b>			<b>4</b>	<b>6</b>	<b>3</b>	<b>17</b>	<b>-</b>
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
<b>AVERAGE DISABILITY/SURVIVOR BENEFITS RATING</b>			<b>4</b>	<b>7</b>	<b>4</b>	<b>20</b>	<b>-</b>

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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
<b>AVERAGE PAYROLL RATING</b>			<b>5</b>	<b>5</b>	<b>4</b>	<b>18</b>	-
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
<b>AVERAGE RETIREE HEALTH CARE RATING</b>			<b>4</b>	<b>6</b>	<b>3</b>	<b>14</b>	-

## 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

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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
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

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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
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

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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

**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
Investments	2026-1	Review process to analyze the proportion of manager and performance fees paid in relation to the returns received. Ensure this ratio is comparable to industry standard and similarly sized pension systems.	20	0	0	0	250	50	300	300	0	60	July
Investments	2026-1a Potential	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		
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	Determine office space utilization of all KPPA buildings (Frankfort and Louisville). For informational purposes, present how much space is currently being utilized and how much space is available in each office building.	24	0	250	0	0	50	300	300	0	60	September
Executive Management	2026-8a	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										
Quality Assurance	2026-9	Review the post-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	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 Audit Committee Meeting - KPPA Audit Committee Administrative Updates

Board of Trustees	2026-20	KERS Trustee Election		0	75	0	0	25	100	100	0	-	July
Various	2026-21	Open Audit Recommendation Review		0	40	0	10	0	50	50	0	-	January
Internal Audit	2026-22	Charter and Policy Updates		0	0	5	0	10	15	15	0	-	January
Various	2026-23	Annual Comprehensive Financial Report/Summary Annual Financial Report Review		0	25	0	0	50	75	75	0	-	August
Internal Audit	2026-24	FY 2027 Risk Assessment and Audit Plan		0	0	0	50	75	125	125	0	-	January
Internal Audit	2026-25	Internal Audit Key Performance Indicators		0	0	0	0	24	24	24	0	-	July
Internal Audit	2026-26	Internal Audit Process Documentation and Updates		0	0	0	0	75	75	75	0	-	July
Internal Audit	2026-27	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		25	25	25	40	10	125	125	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				1,725	1,830	1,820	1,875	1,854	9,104	9,104	0	1,103	
Unscheduled Hours - Reserved for contingency				233	128	138	83	104	684				

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	Other KPPA Staff Audit Hours Spent on Project	Estimated Start Month
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		
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
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



# KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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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**KPPA**  
Kentucky Public Pensions Authority

# January 17, 2025 KPPA Internal Audit Findings (2025-2) #1 & #3 Update

Presented by: Carrie Bass, Compliance Officer



## January 17, 2025 KPPA Internal Audit Findings #1 & #3 (2025-2)

Internal Audit identified 22 total board investment & administrative policies (11 policies of the KRS Board & 11 policies of the CERS Board)

Internal Audit found that compliance with some board investment & administrative policies was not being monitored or reported

- KPPA Management agreed that the new Compliance Officer would work with KPPA Management & the CEOs to develop & ensure implementation of procedures for monitoring & reporting compliance

In particular, Internal Audit found that the Securities Trading Policies of the KRS Board & the CERS Board were not being followed

- KPPA management agreed that procedures & appropriate back-up to the Compliance Officer will be developed to ensure policy compliance with all board policies



# KPPA

Kentucky Public Pensions Authority

## Compliance Officer Progress



Tasked by KPPA Management to review recent Internal Audit findings on board investment & administrative policies



Reviewed all board investment & administrative policies



Reviewed applicable legal requirements



Researched similar policies of other public pension plans



Researched revision history of each board investment & administrative policy



Determined review of board investment & administrative policies for updates is warranted



Developed a proposed plan for reviewing & potentially updating all board investment & administrative policies



Update on plan progress expected at the August 2025 Audit Committee meeting



# Board Investment & Administrative Policies Review Plan

Compliance Officer ensures proposed changes to board investment & administrative policies are drafted



KPPA Management & CEO review & provide feedback on draft changes to board investment & administrative policies



Changes to board investment & administrative policies proposed to the appropriate Board

Minor changes (if any)	Substantive changes (if any)	Determine responsibility for reviewing & ensuring enforcement of & compliance	Recommend review cycles for these policies	Add revision date history to these policies
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Compliance Officer develops procedures & reporting to ensure & monitor policy compliance



**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.	<b>Control Environment:</b> Oversight body and management oversees entity's internal control system. <b>Risk Assessment:</b> Management clearly defines risk tolerances and identifies, analyzes, and responds to risks. <b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. <b>Monitoring:</b> 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.	<b>Control Environment:</b> Oversight body and management oversees entity's internal control system. <b>Risk Assessment:</b> Management clearly defines risk tolerances and identifies, analyzes, and responds to risks. <b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. <b>Monitoring:</b> 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"> <li>1. In Progress: a new implementation date is requested from the recommendation owner.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol> <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"> <li>1. Generated the Open Audit Findings and Recommendations report to show all open recommendations with an implementation date of December 31, 2024 or earlier.</li> <li>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.</li> </ol>	<ol style="list-style-type: none"> <li>1. There were 23 recommendations with an estimated implementation date of December 31, 2024 or earlier.</li> <li>2. See Appendix B for results.</li> </ol>

## 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 Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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 NSFs 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 Audit Committee Meeting - KPPA Audit Committee Administrative Updates

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	<b>Control Environment:</b> Oversight body and management oversees entity's internal control system. <b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. <b>Information and Communication:</b> 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	<b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. <b>Control Activity:</b> Management implements control activities through policies. <b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.	<b>Disability</b> <ul style="list-style-type: none"> <li>Division Director, or designee, performs a review as needed to ensure all procedures are included on SharePoint.</li> <li>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.</li> </ul> <b>Legal</b> <ul style="list-style-type: none"> <li>Procedures are maintained on the division's drive and updated as needed by staff who are responsible for the task.</li> </ul>	Reviewed division procedures to ensure they were established, documented, up-to-date, effective, efficient, and available to staff.	<ol style="list-style-type: none"> <li>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 (<b>see item #2 in management letter</b>).</li> <li>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 (<b>recommended for review in future audit</b>).</li> <li>Procedures to pay hearing officers are not documented (<b>recommended for review in future audit</b>).</li> <li>Administrative Appeals Coordinator Procedures need to be updated (<b>see item #1 in management letter</b>).</li> </ol>



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	<b>Information and Communication:</b> 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"> <li>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.</li> </ol>	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"> <li>1. Position statements: Of the 62 sampled cases, only 35 cases had position statements submitted, and all were submitted on time.</li> <li>2. Replies: Of the 62 sampled cases, only 30 had replies submitted and all were submitted on time.</li> <li>3. Recommended orders: Of the 62 sampled cases, 43 were submitted by the original due date, 19 were submitted by the extended due date.</li> <li>4. Exceptions: Of the 62 sampled cases, only 33 cases had exceptions submitted and all were submitted on time.</li> <li>5. DAC/AAC final order: Of the 62 sampled cases, all were issued by the due date.</li> </ol>

				<ol style="list-style-type: none"> <li>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.</li> <li>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) <ol style="list-style-type: none"> <li>Extension are approved by the agency head and may not be more than 30 days.</li> <li>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.</li> </ol> </li> <li>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)</li> <li>DAC/AAC must issue a final order within 90 days of the hearing officer's recommended order. This is set by KRS 13B.120 <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol> </li> </ol> <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"> <li>Work manager keeps track of deadlines for requests</li> <li>Affidavit is prepared, checked and notarized by three different people</li> </ol>	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. <b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.	<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"> <li>Months of service, service purchases made or previously available, breaks in service explained.</li> <li>Membership date, re-employment date if needed, and last day of paid employment.</li> </ol> <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"> <li>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.</li> <li>For sampled items, auditor reviewed journal comments in the member's profile and ensured affidavits were prepared and approved by different individuals.</li> </ol>	<ol style="list-style-type: none"> <li>All 62 sampled cases had requests for administrative hearing submitted on time.</li> <li>Of the 62 sampled cases, only one affidavit doesn't have an approving journal comment in LOB (see item #3 in management letter).</li> </ol>

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	<b>Control Activity:</b> Management implements control activities through policies. <b>Information and Communication:</b> 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 (<b>see item #2 in management letter</b>):</p> <ol style="list-style-type: none"> <li>1. Ensuring that members are aware that they can request accommodations</li> <li>2. Instructions on how to apply for accommodations</li> <li>3. A list of accommodations KPPA can provide.</li> </ol> <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	<b>Control Environment:</b> Oversight body and management oversees entity's internal control system. <b>Information and Communication:</b> Management communicates necessary information externally. <b>Monitoring:</b> 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>

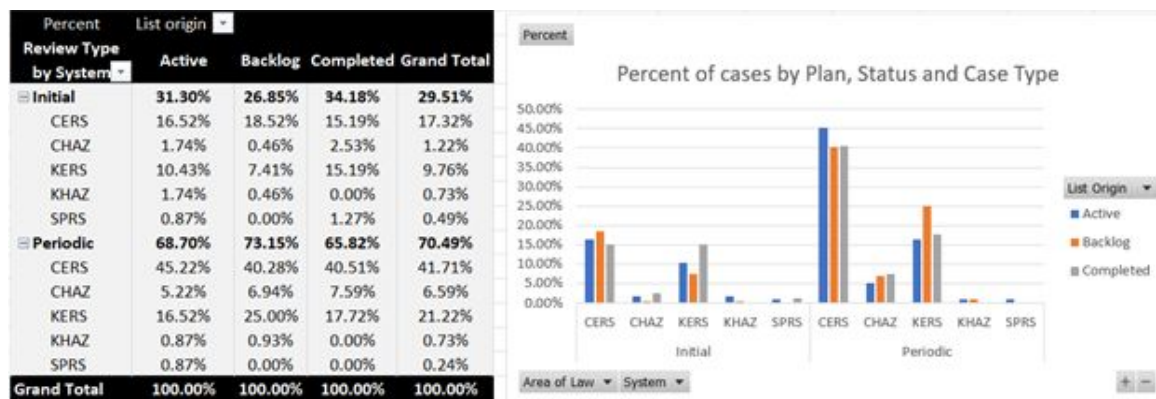
Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
7.	Disability benefits are not processed appropriately after the hearing process concludes	Disability adheres to the DAC/AAC final order	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. <b>Information and Communication:</b> 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"> <li>1. If benefits are approved, the disability retirement calculation is launched.</li> <li>2. 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.</li> </ol>	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"> <li>1. 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).</li> <li>2. For members who were denied or discontinued, KPPA paid \$91,476 in benefits while the member was going through the administrative hearing process.</li> </ol>

				<p>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.</p>		
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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
<b>Active</b>	<b>17</b>	<b>30</b>
2019	2	62
2020	4	53
2021	8	42
2022	17	30
2023	21	24
<b>Backlog</b>	<b>14</b>	<b>14</b>
2022	27	27
2023	18	18
2024	8	8
<b>Completed</b>	<b>9</b>	<b>24</b>
2020	3	40
2021	7	26
2022	12	22
<b>Grand Total</b>	<b>14</b>	<b>20</b>

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%
<b>Grand Total</b>	<b>115</b>	<b>100.00%</b>	<b>216</b>	<b>100.00%</b>	<b>79</b>	<b>100.00%</b>	<b>410</b>	<b>100.00%</b>

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**

<b>Recommendations:</b>	<p><b>The Office of Legal Services should consider making the following updates to the Administrative Appeal Coordinator procedures:</b></p> <ol style="list-style-type: none"> <li><b>1. Consider removing procedures that are no longer performed by the Administrative Appeal Coordinator.</b></li> <li><b>2. Update the remaining procedures so they reflect the current process.</b></li> </ol>
<b>Finding Information:</b>	<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....”
<b>Management Response:</b>	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.

<b>Recommendations:</b>	<p><b>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.</b></p> <p><b>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.</b></p>
<b>Finding Information:</b>	<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>
<b>Management Response:</b>	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.

<b>Recommendations:</b>	<b>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.</b>
<b>Finding Information:</b>	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>
<b>Management Response:</b>	<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	<b>Control Environment:</b> Oversight body and management oversees entity's internal control system. <b>Control Activity:</b> Management implements control activities through policies. <b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives.	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	<b>Control Activity:</b> 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	<b>Information and Communication:</b> 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"> <li>Position Description</li> <li>Request to establish position (if creating a new position)</li> <li>Job Posting Request Form</li> </ul> <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.

				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	<b>Information and Communication:</b> 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	<b>Control Activity:</b> 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	<b>Control Environment:</b> Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals. <b>Control Activity:</b> 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	<b>Control Environment:</b> Oversight body and management demonstrate a commitment to integrity and ethical values. <b>Risk Assessment:</b> Management clearly defines objectives to identify risks. <b>Control Activity:</b> 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.



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	<b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks. <b>Information and Communication:</b> 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	<b>Control Environment:</b> Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals. <b>Control Activity:</b> 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	<b>Control Activity:</b> 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.

				<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"> <li>• Recommended candidate's application</li> <li>• Internal Mobility Form, for current state employees</li> <li>• Performance Evaluations</li> <li>• Reference Check Forms</li> </ul>		
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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><b>Control Environment:</b> Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals.</p> <p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p> <p><b>Information and Communication:</b> Management 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.

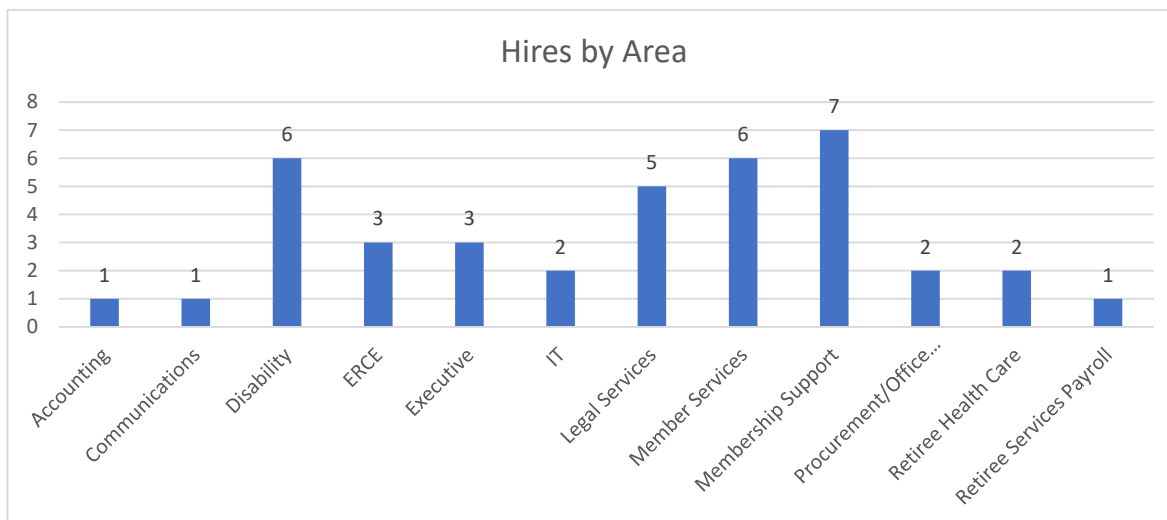
Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
12.	Hiring process may not be completed timely	Personnel Cabinet tracks and reports the time it takes to fill vacancies	<p><b>Information and Communication:</b> Management communicates necessary information externally.</p> <p><b>Monitoring:</b> 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

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	<p><b>Control Environment:</b> Oversight body and management demonstrates a commitment to recruit, develop, and retain competent individuals.</p> <p><b>Control Activity:</b> Management designs control activities to achieve objectives and respond to risks.</p> <p><b>Monitoring:</b> Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.</p>	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.

<b>1. Meals reimbursed without overnight stay not treated as taxable benefit</b>	
<b>Recurring Issue:</b>	Yes
<b>Condition:</b>	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.
<b>Criteria:</b>	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..."
<b>Cause:</b>	Oversight by staff led to these two individuals not being added to the Taxable Meal Reimbursement.
<b>Effect:</b>	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.
<b>Recommendations:</b>	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>
<b>Management Response:</b>	Management agrees with the recommendations. <ol style="list-style-type: none"> <li>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.</li> <li>2. HR began the quarterly reminders process in May 2025.</li> <li>3. The Deputy Executive Director is establishing a secondary review process.</li> </ol>
<b>Implementation Date:</b>	<ol style="list-style-type: none"> <li>1. Completed by May 20, 2025</li> <li>2. Completed in May 2025</li> <li>3. To be established by December 31, 2025</li> </ol>

**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.	<b>Control Environment:</b> Oversight body and management oversees entity's internal control system. <b>Control Activity:</b> Management implements control activities through policies. <b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives. <b>Monitoring:</b> 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"> <li>The procedures include references to old titles, such as Assistant Deputy Director and the former KRS.</li> <li>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).</li> <li>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.</li> </ol> <b>See management letter Opportunity for Improvements #1.</b>

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.	<b>Control Environment:</b> Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. <b>Control Activity:</b> Management implements control activities through policies. <b>Information and Communication:</b> Management uses quality information to achieve the organization's objectives. <b>Monitoring:</b> 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.

				<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"> <li>• 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.</li> <li>• Pre-approval for travel between KPPA locations (Frankfort and Louisville) is not required. This is reimbursed at a set mileage distance.</li> </ul>		
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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><b>Control Environment:</b> Not Applicable</p> <p><b>Control Activity:</b> Management implements control activities through policies.</p> <p><b>Monitoring:</b> 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.	<b>Control Activity:</b> 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"> <li>• Ensures travel form is completed properly.</li> <li>• Ensures all supporting documents (receipts, maps, etc.) are attached.</li> <li>• Recalculates the mileage using the provided maps and FAC established mileage reimbursement rate for the dates of the travel.</li> <li>• Ensures reimbursement only claimed for KPPA employees.</li> <li>• Verifies proper per diem rate was claimed.</li> </ul> <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"> <li>• Ensures proper travel form was completed.</li> <li>• Ensures support is provided for all expenses on the reimbursement claim.</li> </ul>	Reviewed travel reimbursement vouchers and ensured the forms were properly completed.	All 50 travel reimbursement vouchers were properly completed.

				<ul style="list-style-type: none"> <li>Recalculates the mileage using the provided maps and FAC established mileage reimbursement rate for the dates of the travel.</li> <li>Ensures reimbursement only claimed for KPPA employees.</li> <li>Verifies proper per diem rate was claimed.</li> <li>Ensures travel voucher is properly approved.</li> </ul> <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.	<b>Control Activity:</b> 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.	<b>Control Activity:</b> 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.	<b>Control Activity:</b> 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.	<b>Control Activity:</b> 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.	<b>Control Activity:</b> 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. <b>See management letter Opportunity for Improvements #2.</b>

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.	<b>Control Activity:</b> 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.  <b>See Finding #1.</b>

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.	<b>Control Activity:</b> 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"> <li>• Payment amount matches the amount requested on the reimbursement form.</li> <li>• Payment is coded to the proper expenses line item.</li> </ul> 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.	<b>Control Activity:</b> 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**

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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.



## **Artificial Intelligence in Government Auditing – Benefits and Challenges**

***By Symone Thompson, Senior Auditor***

AI tools have advanced considerably in recent years, with systems like ChatGPT, Microsoft Copilot, and Google Gemini being integrated more and more into our day-to-day work and personal lives. These tools offer capabilities such as writing, editing, researching and synthesizing information, creating charts and graphs, and assisting with PowerPoint presentations, to name just a few. As AI continues to push the boundaries of real-time machine learning, it is essential to stay informed about its evolving ethical and regulatory considerations, as well as the opportunities that AI technology presents.

As governments face growing demands for transparency and effective resource management, AI has become a powerful tool for transforming public sector accountability and efficiency. In auditing, AI enhances the auditor's ability to process vast amounts of data, eliminates human bias, and strengthens predictive and prospective analytics. By implementing AI, we can ensure objectivity, uphold professional integrity, and build trust with clients and stakeholders—ultimately improving efficiency and achieving better results.

### **Enhancing the Auditor's Ability to Process Large Quantities of Data**



One of the most significant advantages of AI in government auditing is its ability to process vast amounts of data quickly and accurately. Traditional auditing methods often involve manual data collection and analysis, which can be time-consuming and prone to human

error. AI algorithms, particularly those utilizing machine learning, can analyze large datasets quickly, identifying patterns and anomalies that may indicate fraud, error, or non-compliance. For instance, AI can sift through financial records, procurement data, and transaction logs to flag irregularities that warrant further investigation, thereby streamlining the audit process.

Governments are under constant scrutiny to ensure compliance with regulations and standards. Using AI to analyze financial and programmatic data contained in or generated from an agency's financial, budget, or other systems can give auditors the information needed to make quicker, more accurate determinations of compliance and accuracy. In addition, AI can assist agencies in monitoring compliance with laws, regulations, and agency policy and automating the review of transactions and processes against established guidelines. This enhances transparency and reduces the burden on auditors, allowing them to concentrate on more complex issues that require human judgment. AI's ability to continuously learn and improve its analytical patterns means that it can adapt to emerging trends and potential risks, ensuring audits remain relevant and up to date. This adaptability is essential in an age where new compliance challenges frequently emerge, especially with rapidly changing policies or financial practices.

### **Eliminating the Risk Associated with Human Bias**



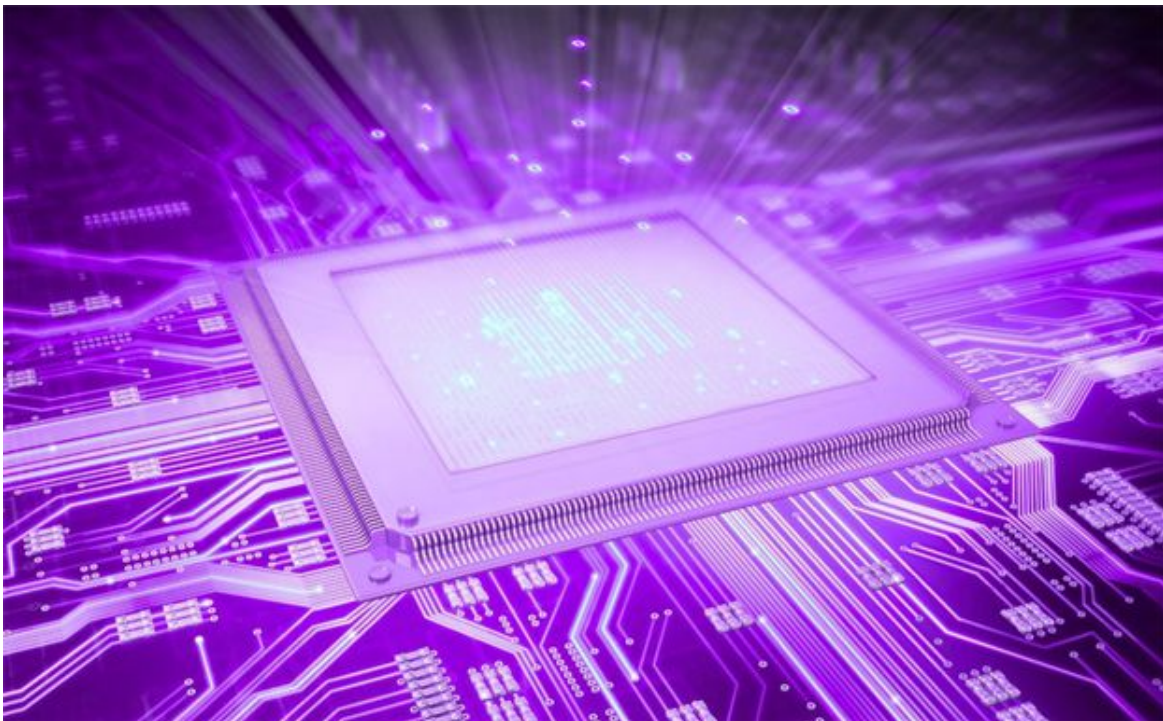
Human bias in auditing can lead to skewed judgments, such as overlooking certain risks or inconsistently applying standards, which may compromise the audit's objectivity. Remaining objective and maintaining professional judgment ensures that decisions are based on facts, not opinions. In addition, human bias can limit an auditor's ability to accurately assess risk associated with the audit since the auditor may be influenced by personal preferences or experiences, rather than objective reasoning. Using AI can help eliminate human bias with automated risk assessments. Automated risk assessments can analyze data impartially, allowing the auditor to focus on investigating any irregular patterns flagged by AI. By leveraging algorithms, the system efficiently reviews large datasets, uncovering trends and anomalies that might otherwise go unnoticed, ensuring a more objective and comprehensive analysis.

In addition to eliminating bias in data analysis, AI can enhance the transparency and consistency of audit results. By using AI systems, auditors can trace every step of the analysis process, ensuring that all decisions and findings are supported by data. This transparency makes it easier to explain the rationale behind audit conclusions. This can be especially important when audits are scrutinized by stakeholders or regulatory bodies.

Furthermore, AI's ability to generate consistent and reliable results across different audits helps eliminate discrepancies that may arise from individual judgment, making the entire auditing process more reliable. As AI continues to evolve, its capacity to provide clear, unbiased, and transparent insights will further elevate the integrity and credibility of audits, boosting confidence among clients and the public.

### **Predictive and Prospective Analytics Capabilities**

AI's predictive analytics capabilities are particularly valuable in risk management. AI can forecast potential risks and vulnerabilities within government operations by analyzing historical data. This proactive approach allows auditors to focus on high-risk areas, ensuring that resources are allocated efficiently. For example, AI can predict which offices are more likely to experience budget overruns or compliance issues based on past performance, enabling auditors to enhance or focus their audit procedures to address this risk.



Another way predictive analytics can help in the governmental sector is by detecting fraud in financial reporting. Fraud detection can be determined by AI using historical transaction data, machine learning algorithms, and statistical models to detect unusual behavior or patterns that might indicate fraud. By leveraging AI, organizations can detect fraudulent activity preemptively, before experiencing additional significant financial loss or reputational damage.



In addition to identifying potential risk and fraud, AI's predictive analytics can also aid in monitoring compliance with evolving regulations. By continuously analyzing new data and tracking changes in government policies, AI can detect areas where agencies may be at risk of becoming non-compliant. This allows auditors to proactively adjust their audit strategies, targeting areas that may be most vulnerable to non-compliance due to shifts in regulation or operational changes. With the ability to adapt to real-time data, AI ensures that audits stay aligned with the latest legal frameworks and that corrective actions are implemented before issues escalate.

### **AI Challenges in Auditing**

Despite its benefits, the use of AI in government auditing is not without challenges. Issues with data privacy, algorithmic bias, over-reliance on AI, and AI skepticism could hinder the adoption of AI within an organization.

#### **Data Security**



One of the biggest challenges in utilizing AI to process and analyze government data relates to data security, particularly given the sensitive nature of the data involved. Government

systems often handle classified information, the personal data of citizens, and critical infrastructure details, all of which require the highest levels of protection. Integrating AI tools—especially those developed by third parties—could increase risks related to data breaches, unauthorized access, and potential exploitation of vulnerabilities in algorithms or data pipelines.

To mitigate data security risks associated with AI, strong data governance frameworks that define clear policies for data access, use, and sharing should be established. Adopting privacy-enhancing technologies, such as data anonymization, encryption, and differential privacy, can help protect sensitive information throughout the AI lifecycle. Rigorous security assessments and third-party audits should be conducted regularly to evaluate the integrity of AI systems and identify potential vulnerabilities. Additionally, AI-specific security protocols, including supply chain risk management and secure model training practices, should be established.

In addition, the data security risks associated with cloud-based AI can further be managed by only utilizing AI systems that are FedRAMP authorized. As a standardized approach to security assessment, authorization, and continuous monitoring for cloud products and services, FedRAMP ensures that vendors meet stringent cybersecurity requirements before being used in federal environments.

### **AI and Ethics**

Algorithmic integrity is another critical consideration in the use of AI for government auditing. Errors can be inadvertently introduced into AI systems through the data used to train algorithms or by design choices made during development. These issues can lead to skewed outcomes, potentially impacting the accuracy and reliability of audit results. For example, if historical data used to train AI models contains patterns that do not accurately represent current operational realities, the AI may replicate and reinforce these patterns, leading to misleading audit conclusions. To mitigate this risk, auditors and AI developers should emphasize accuracy, transparency, and reliability in AI system design.

Implementing measures such as routine validation of AI models, ensuring high-quality and representative training data, and maintaining human oversight can help enhance the effectiveness and trustworthiness of AI-driven audits.

### **Overreliance on AI**



While AI is indeed a powerful resource, it is important to remember that it must still be guided by human judgment and cannot yet perform many important functions that require real-world insight and experience. To avoid the overreliance on AI, we must be aware of its limitations so that we can use it as a strategic tool for assisting with appropriate tasks.

For example, an AI auditing tool might automatically analyze expense reports based on historical patterns, but fail to detect a new type of fraudulent claim that doesn't match past data. If auditors rely solely on the AI's decisions without manual review, these discrepancies could go unnoticed.

Another instance of the potential for over-reliance on technology in the government sector is the reliance on AI for sampling. A sample in the wrong audit period could be selected if the incorrect date format is entered, or if the data does not have a consistent format.

Organizations can mitigate this risk by having a human involved in key decisions and review AI outputs, especially for high-risk areas, while allowing AI to handle routine tasks. Additionally, clear governance policies should define when and how AI can be used, including thresholds for escalation to human auditors.

### **AI Skepticism**

Employees or stakeholders may also have a critical or skeptical attitude toward new technology, presenting a challenge when implementing AI. If the reluctance to adopt AI is sufficiently widespread, it could slow adoption of AI technologies. Resistance could cause money to be squandered by the organization if the employees are not utilizing the tools purchased.

To address this, hiring teams should inform potential recruits of the tools they will need to use to fulfill their role efficiently to ensure they will be a good fit. An organization can also ensure they get the most out of new AI investments by training employees on the capabilities of these tools, which will improve comfort with the new technology and ensure that it is used to its maximum potential.

### **The Future of AI Efficiency and Limitations**



AI is reshaping the future of government auditing. AI can be a powerful tool for mitigating human bias and increasing an auditor's ability to process large quantities of data, which is indispensable for navigating the complexities of public sector oversight. By leveraging the predictive and prospective analytics capabilities of this technology, the government sector will increase efficiency, improve risk management, and promote compliance. However, it will be crucial to approach these advancements with caution, ensuring that ethical considerations and human oversight remain at the forefront of AI implementation. As governments embrace these technologies, the potential for improved accountability and transparency in public administration is immense, paving the way for a more efficient and



trustworthy governance framework. The sea changes precipitated by AI may appear to be disruptive, but by proactively adapting to these tools, we can embrace tomorrow at an advantage.

[Artificial Intelligence in Government Auditing – Benefits and Challenges — Williams Adley — Expert Accounting, Auditing, and Consulting](#)

## **Report: The Role of Artificial Intelligence in Government Auditing**

### **1. Introduction**

Artificial Intelligence (AI) has significantly evolved, with tools such as ChatGPT, Microsoft Copilot, and Google Gemini becoming deeply embedded in both professional and personal contexts. These tools offer advanced capabilities in writing, researching, data analysis, and presentation creation. In the public sector, AI is emerging as a transformative force in government auditing, offering the potential to improve efficiency, objectivity, and transparency.

### **2. Benefits of AI in Government Auditing**

#### **2.1 Enhanced Data Processing**

AI dramatically improves an auditor's ability to process large volumes of data quickly and accurately. Traditional auditing methods are often manual and time-consuming, whereas AI algorithms can detect anomalies, fraud, or non-compliance efficiently. This allows auditors to focus on higher-level analysis and judgment.

#### **2.2 Reduction of Human Bias**

Human bias can compromise audit integrity. AI mitigates this risk by performing impartial risk assessments and ensuring consistent, data-supported results. By using machine learning algorithms, AI enhances transparency and traceability in the auditing process.

#### **2.3 Predictive and Prospective Analytics**

AI provides powerful forecasting tools. By analyzing historical and real-time data, it can predict compliance issues, fraud risks, and operational vulnerabilities. This allows for better allocation of resources and proactive adjustments in audit strategies.

### **3. Challenges in AI Implementation**

#### **3.1 Data Security**

AI systems must manage highly sensitive government data. Integration of third-party AI tools can introduce cybersecurity risks. Effective mitigation requires robust data governance, privacy-enhancing technologies, and the use of FedRAMP-authorized systems for cloud-based AI.

### **3.2 Ethical and Algorithmic Integrity**

Errors in training data or algorithm design can lead to biased or outdated audit conclusions. Ensuring ethical AI use involves rigorous model validation, high-quality training data, and ongoing human oversight.

### **3.3 Risk of Overreliance**

While AI can perform many tasks, it cannot replace human insight. Overdependence on AI may result in undetected errors, especially in novel or high-risk scenarios. Organizations should implement governance frameworks that define the role of AI and mandate human review in critical decisions.

### **3.4 AI Skepticism and Resistance to Adoption**

Employee reluctance to use new AI technologies can hinder effectiveness. To overcome this, organizations should incorporate AI tool familiarity into hiring processes and invest in comprehensive training to increase user confidence and adoption.

## **4. Conclusion**

AI is reshaping government auditing by increasing data processing capacity, reducing bias, and enhancing risk management through predictive analytics. However, ethical considerations, data security, and the need for human oversight must remain central to its implementation. With the right safeguards in place, AI can enhance public sector accountability and trust, paving the way for more effective and transparent governance.