

KPPA Audit Committee
May 30, 2024 at 10:00 a.m. Eastern Time
Live Video Conference/Facebook Live

AGENDA

- | | | |
|-----|---|--------------------------------------|
| 1. | Call to Order | Audit Committee Chair |
| 2. | Opening Video Teleconference Statement | Legal Representative |
| 3. | Roll Call | Sherry Rankin |
| 4. | Public Comment | Sherry Rankin |
| 5. | Election of KPPA Audit Committee Vice Chair* | Audit Committee Chair |
| 6. | Approval of February 27, 2024 KPPA Audit Committee Minutes* | Audit Committee Chair |
| 7. | Legal Updates | |
| | a. Information Disclosure Incidents | Jillian Hall |
| | b. Anonymous Tips | Stephanie Hold |
| 8. | Update on Emergency Plan | Rebecca Adkins
Dominique McKinley |
| 9. | KPPA Audit Committee Administrative Updates | |
| | a. Charter for the Joint Audit Committee* | Kristen Coffey |
| | b. Charter for the Division of Internal Audit Administration* | Kristen Coffey |
| | c. Fiscal Year 2025 Auditor Independence Statements | Will Prince |
| | d. Internal Audit Budget as of March 31, 2024 | Matt Daugherty |
| | e. Approval of Internal Audit Budget for Upcoming Fiscal Year* | Matt Daugherty |
| | f. Current Status of Audit Projects as of April 30, 2024 | Matt Daugherty |
| | g. Update Open Internal Audit Findings and Recommendations* | Kristen Coffey |
| | h. Update on Internal Audit Quality Assessment with Validation | Kristen Coffey |
| | i. Issued Reports and/or Memorandums* | |
| | i. 2024-2 Verifying Final Retirement Calculations (Normal and Early Retirement) | Madeline Evans |
| | ii. 2024-5 Implementation of New Legislation | Madeline Evans |
| | iii. 2024-8 Disclosures During Correspondence | Will Prince |
| 10. | Professional Article | Will Prince |
| 11. | Adjourn | Audit Committee Chair |

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

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE
FEBRUARY 27, 2024, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the February 27, 2024 Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O’Mara (Chair), Betty Pendergrass, Lynn Hampton, and William Summers, V. Staff members present were CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Erin Surratt, Michael Board, Victoria Hale, Carrie Bass, Stephanie Hold, Steve Willer, Michael Lamb, Connie Davis, Kristen Coffey, Matthew Daugherty, William Prince, Madeline Evans, Melinda Wofford, Ashley Gabbard, Phillip Cook, Sherry Rankin and Katie Park. Others present included Adam Gordon, Linda Hinton, and Matt Frey with the Auditor of Public Accounts.

Mr. O’Mara called the meeting to order.

Ms. Hale read the Opening Statement.

Ms. Rankin called roll.

Ms. Rankin reported that one **Public Comment** was received and read it aloud.

Submitted by Norman L Fultz

No cola raise coming

Next, Mr. O’Mara introduced the agenda item **Approval of Minutes – November 27, 2023** (Video 00:05:48 to 00:06:25). Ms. Pendergrass made a motion to approve the minutes as presented. The motion was seconded by Mr. Summers and passed unanimously.

Mr. O’Mara introduced the agenda item **DRAFT GASB 68 and GASB 75 Proportionate Share Audits** (Video 00:06:26 to 00:14:20). Mr. Adam Gordon with the Auditor of Public Accounts (APA) presented the Draft GASB 68 and GASB 75 Proportionate Share Audits. He stated that

the APA audited the schedules as prepared by GRS. Management will be provided with two reports; one for pension and one for OPEB, said Mr. Gordon. End of field work for the audit will be at the next meeting of the Authority on March 21, 2024. Mr. Gordon advised that the full report will be released once approved by the Authority. He stated that there were no findings or issues; therefore, the APA anticipates issuing a modified/clean opinion.

Ms. Hampton made a motion to approve/accept the Draft GASB 68 and GASB 75 Proportionate Share Audits as presented.

Ms. Pendergrass requested the Auditor's Report to verify the numbers provided. Mr. Gordon stated that draft reports would be available prior to the KPPA Board meeting in March. Ms. Hampton stated that she was comfortable with the verbal confirmation provided by Mr. Gordon.

Mr. Summers seconded the motion. Ms. Pendergrass abstained from the vote; however, the motion passed.

Mr. O'Mara introduced the agenda item **Financial Reporting Updates** (*Video 00:14:21 to 00:31:51*). Ms. Connie Davis stated that the KPPA is required to submit its audited financial statements to the Legislative Research Commission (LRC), and the Auditor of Public Accounts (APA). Therefore, the Annual Comprehensive Financial Report (ACFR), including the audited financial statements were posted on the KPPA's website on December 8, 2023. LRC and the APA were notified the same day to electronically download the ACFR, said Ms. Davis.

Mr. O'Mara introduced the agenda item **Legal Updates** (*Video 00:31:52 to 00:36:20*). Ms. Carrie Bass presented Potential Information Disclosures/Breaches affecting the KPPA for the second quarter of FY24. She reported one hacking event of a KPPA vendor which disclosed the information of over 6,000 KPPA members, said Ms. Bass. Other than that event, there were no internal disclosures or breaches internally by the Authority.

Next, Ms. Stephanie Hold presented Anonymous Tips received regarding fraud, waste, and abuse. Since the KPPA Audit Committee met on November 27, 2023, seven fraud tips were received. Three of the tips were closed following review and four of these tips are currently open. As of the date of this memo, there were nine cases in open status, reported Ms. Hold.

Mr. O'Mara introduced the agenda item ***KPPA Audit Committee Updates*** (Video 00:36:21 to 00:44:50). Mr. Matthew Daugherty briefly reviewed the Internal Audit Budget as of December 31, 2023.

Ms. Kristen Coffey presented an update on the Emergency Plan. She stated that there have been questions asked regarding KPPA's emergency planning. Several of these questions were forwarded to the KPPA Division of Enterprise and Technology Services (DETS), said Ms. Coffey. She advised that the DETS would present their responses to the KPPA Audit Committee in May of 2024.

Next, Ms. Coffey presented the Annual Risk Assessment Update. She advised that the KPPA Division of Internal Audit is actively working to complete the Annual Risk Assessment. Ms. Coffey reported that surveys were sent to 41 KPPA Staff Members and several Authority Members. Once all responses are received, they will be compiled into a Risk Assessment. The Risk Assessment and Audit Plan will be presented the May of 2024 to the Committee.

Lastly, Mr. William Prince and Ms. Madeline Evans provided a status of Internal Audit projects. Ms. Evans provided a summary of the completed Legislation Implementation Project. She stated that the final audit report would be presented to the KPPA Audit Committee in May of 2024.

Mr. O'Mara introduced the agenda item ***Professional Articles*** (Video 00:44:51 to 00:50:43). Ms. Wofford presented an overview of the professional article "Creating Reliable Risk Assessments: How Financial Institutions Can Overcome Bias and Structural Obstacles to Better Understand Risk."

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.

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 27, 2024, were approved by the Audit Committee on May 30, 2024.

Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on February 27, 2024, for form, content, and legality.

Executive Director
Office of Legal Services



KENTUCKY PUBLIC PENSIONS AUTHORITY

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



MEMORANDUM

TO: Kristen Coffey, Director of Internal Audit

FROM: Beth Camic, Staff Assistant to Executive Director of Legal Services
 Shelley Dalton, Legal Secretary, Office of Legal Services
 Carrie Bass, Staff Attorney Supervisor, Office of Legal Services

DATE: May 20, 2024

SUBJECT: Potential Information Disclosures/Breaches Affecting the Kentucky Public Pensions Authority (“KPPA”), 3rd Quarter Fiscal Year 2024

DATA ON POTENTIAL DISCLOSURES/BREACHES 3rd QUARTER FY 2024

Total Disclosures/Breaches Investigated: 14

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

Total Members Affected by Potential Disclosures/Breaches: 27

Total Potential Disclosures/Breaches by Source of Disclosure/Breach

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

Total Potential Disclosures/Breaches by Method of Disclosure/Breach

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

SYNOPSES ON POTENTIAL DISCLOSURES/BREACHES 1st QUARTER FY 2024

KPPA, KRS, and CERS Disclosures/Breaches

- **Federal law (HIPAA/HITECH):** There were no potential breach of protected health information by the KPPA.
- **State law (KRS 61.931, et seq.):** There were two potential “security breaches” of “personal information” as defined by state law by the KPPA.
 - **Background:** Conservator for member called KPPA to inform member's February check was not received. Investigation revealed unauthorized changes were made to member's banking information via self-service. KPPA mailed out notice of change letter when account information was changed.
 - **Root Cause:** A bad actor used information obtained outside of KPPA to access the member’s self-service account. Of note, to make banking changes, the bad actor had to provide member’s current banking information.
 - **Follow Up:** Conservator was advised to make a police report. KPPA provided documentation regarding changes to assist member in reporting. Member's self-service was locked down and flagged. Account changes are now limited to management only. Although the disclosure did not occur due to the fault of KPPA, out of an abundance of caution treated as a state law breach. Required notices under State Law Breach statutes were sent out.
 - **Background:** Member's spouse called KPPA to inform member's December and January checks were not received. Investigation revealed unauthorized changes were made to member's banking information via self-service.
 - **Root Cause:** A bad actor used information obtained outside of KPPA to access the member’s self-service account. Of note, to make banking changes, the bad actor had to provide member’s current banking information.
 - **Follow Up:** Member was advised to make a police report. KPPA provided documentation regarding changes to assist in report. Member's self-service was locked down and flagged. Although the disclosure did not occur due to the fault of KPPA, out of an abundance of caution treated as a state law breach. Required notices under State Law Breach statutes were sent out.
- **KPPA Internal Data Disclosure Notification Policy:** The following three disclosures occurred under the KPPA’s Data Disclosure Notification Policy.
 - **Background:** Member received health insurance correspondence (dependent verification) and within the same envelope was an address coversheet for another member. The recipient and affected member live near each other. Upon receipt, the recipient walked to the affected member's house to deliver the correspondence. The recipient spoke with the affected member.
 - **Root Cause:** Unknown, likely happened at automatic mail sorting stage as the correspondence was sent via automatic mailing.

- **Follow Up:** Recipient called KPPA to inform. Recipient was only able to give the last name of affected member. Affected member could not be located after an extension search of KPPA records. As of the date of this memo, the affected member has not called KPPA to report.
- **Background:** Member received health insurance correspondence (dependent verification) and within the same envelope was a letter addressed to another member. The letter did not contain protected health information. Upon receipt, the member contacted the affected member via social media.
- **Root Cause:** Unknown, likely happened at automatic mail sorting stage as the correspondence was sent via automatic mailing.
- **Follow Up:** Recipient asked to returned documentation to KPPA. An affidavit was sent to recipient stating they did not show the contents of the letter to other individuals. Affected member was sent correspondence advising of the incident.

- **Background:** A member's tax documentation (1099R) was sent to an unauthorized address. The member's address was updated in START via a Notice of Change of Address (NCOA) report.
- **Root Cause:** NCOA update is a third-party service via USPS. This service compares address changes in USPS databases and compares them with KPPA databases. Updates to member's mailing address is made accordingly.
- **Follow Up:** Member services management disabled automatic NCOA updates to member's account. Contact was made with member. Member advised to follow up with USPS regarding address change.

External Disclosures/Breaches

The KPPA received three notifications from KPPA vendors or business associates this quarter that a security breach or disclosure had occurred.

- **Background:** On February 2, 2024, the KPPA was notified by a vendor that a cybersecurity event involving a subcontractor's risk management and claim services provider had impacted five (5) members.
- **Root Cause:** Cybersecurity event.
- **Follow Up:** The risk management and claim services provided has implemented additional security protocols, notified the affected members, and notified other required agencies. In addition, the risk management and claim services provided is evaluating additional security enhancements to reduce the likelihood of a similar cybersecurity event in the future.

- **Background:** On February 13, 2024, the KPPA was notified by a vendor that a subcontractor of the vendor had identified a printer malfunction that caused one (1) member's Explanation of Benefit (EOB) statements to be sent to another, unrelated individual.
- **Root Cause:** Printer malfunction.

- **Follow Up:** The subcontractor has fixed the printer malfunction and notified the affected member. In addition, the subcontractor has put into place additional quality control protocols.
- **Background:** On March 1, 2024, the KPPA was notified by a vendor that a subcontractor discovered an issue with its website access that caused limited information of sixteen (16) members to be accessible by unknown third parties.
- **Root Cause:** File incorrectly set up for public access.
- **Follow Up:** The subcontractor reconfigured the file to have the correct privacy settings and has provided supplemental training for employees to reduce the risk of a similar incident occurring in the future. In addition, the subcontractor will notify the affected members.

RECOMMENDATION

This memorandum is provided for informational purposes only.



KENTUCKY PUBLIC PENSIONS AUTHORITY

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



MEMORANDUM

TO: Kristen Coffey, Chief Auditor

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

DATE: May 30, 2024

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 27, 2024, the KPPA received five (5) fraud tips. Two (2) tips were closed following review and three (3) of the tips are currently open.

As of the date of this memo, the KPPA has eight (8) 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	Alleged failure of an employer to report all employees in regular fulltime positions	The Office of Legal Services is investigating.
09/26/2023	Alleged prearranged agreement for an employee to retire and return to work for the same employer.	The Office of Legal Services continues to monitor.
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	Alleged disability retirement fraud.	The Office of Legal Services is investigating.
01/22/2024	Allegation that member is not working the hours claimed but receiving retirement credit.	The Office of Legal Services is investigating.
02/21/2024	Alleged prearranged agreement for an employee to retire and return to work for the same employer.	The Office of Legal Services is investigating.

Date Reported	Allegation(s)	Current Action
02/29/2024	Alleged prearranged agreement for an employee to retire and return to work for a participating employer.	The Office of Legal Services is investigating.
03/28/2024	Alleged prearranged agreement for an employee to return to work for the same employer and failure to have the required break in service.	The Office of Legal Services is investigating.

(Memo continued on next page.)

FRAUD TIPS CLOSED SINCE LAST MEETING

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

Date Reported	Allegation(s)	Disposition
02/11/2023	Alleged prearranged agreement for an employee to retire and return to work for the same employer.	The Office of Legal Services investigated this tip and closed as unsubstantiated in May 2024.
07/04/2023	Alleged improperly earned overtime pay resulting in pension spiking by two (2) members.	Any issues related to pension spiking were addressed administratively and the tip was closed in May 2024.
11/20/2023	Alleged prearranged agreement for an employee to retire and return to work for the same employer.	The Office of Legal Services investigated this tip and closed as unsubstantiated in March 2024.
01/29/2024	Alleged prearranged agreement for an employee to retire and return to work for the same employer.	After review and obtaining additional information the Office of Legal Services approved the retired reemployment and the fraud tip was closed in March 2024.
05/15/2024	Alleged Social Security and 401K fraud by a private business employer.	After review, it was determined the allegations did not pertain to the KPPA and the fraud tip was closed in May 2024.

RECOMMENDATION

This memorandum is provided for informational purposes only.

Kentucky Public Pensions Authority

Charter for the KPPA Audit Committee

Throughout this Charter, the Kentucky Public Pensions Authority Board will be referred to as the Authority. When referring to the Kentucky Public Pensions Authority as an administrative organization, the acronym KPPA will be used. However, in reference to the Audit Committee, "KPPA Audit Committee" will be used. In that instance, KPPA will refer to the Kentucky Public Pensions Authority Board.

I. Charter

This Charter establishes the authority and responsibility of the KPPA Audit Committee of the Authority.

II. Purpose

The purpose of the KPPA Audit Committee is to assist the Authority, the Chief Executive Officer (CEO) of both the County Employees Retirement System (CERS) and the Kentucky Retirement Systems (KRS), and the KPPA Executive Director in fulfilling their oversight responsibilities for the:

1. System of internal controls,
2. Internal and external audit processes, and
3. Process for monitoring compliance with laws and regulations and the code of conduct as described in the appropriate entity bylaws.

As defined by the Institute of Internal Auditors, internal auditing is *an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The goal of internal auditing is to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.*

Consistent with this definition, internal auditing within KPPA can be defined as the *independent appraisal of the various operations and systems of control within KPPA, CERS, and KRS to determine whether acceptable policies and procedures are followed, legislative requirements and established standards are met, resources are used efficiently and economically, planned missions are accomplished effectively, and the objectives of KPPA, CERS, and KRS are being achieved.*

III. Statutory Authorization

Kentucky Revised Statutes 61.505 outlines specific responsibilities of the Authority in relation to the Chief Auditor. The Authority has granted power to the KPPA Audit Committee to perform the following actions. The Authority may at any time rescind this power as a whole or in part. All recommendations or actions of the Audit Committee must be ratified by the Authority:

1. Recommend an appointment or contract for the services of a Chief Auditor or recommend the termination of services for the Chief Auditor.
2. Recommend the compensation and other terms of employment for the Chief Auditor without limitation of the provision of Kentucky Revised Statutes chapters 18A, 45A, and 64.640.
3. Work with the Chief Auditor concerning the staffing and organizational structure of the Division of Internal Audit.
4. On an annual basis, work with the Authority Chair on a performance evaluation of the Chief Auditor.
5. At least quarterly, report KPPA Audit Committee activities, issues, and related recommendations to the Authority for ratification.

IV. Composition

The KPPA Audit Committee will consist of four (4) Authority members – two CERS members and two KRS members appointed annually by the Chair of the Authority. The Authority Chair will also name the Chair of the Audit Committee. The Chair of the Authority may appoint a Vice Chair, or the members of the Audit Committee may elect a Vice Chair (note, the position of Vice Chair is not required to be filled). The Chair of the Audit Committee will rotate annually between a CERS and KRS member. A quorum to conduct business is satisfied if a majority of the Audit Committee members are present.

Commented [CK(1)]: I believe there has been some discussion on the composition of the KPPA Audit Committee. This section will be updated if those changes are approved.

Each KPPA Audit Committee member will be independent and free of conflicts of interest with respect to the projects under the scope of the KPPA Audit Committee. For the purposes of the KPPA Audit Committee, independent shall mean those individuals who do not report directly to KPPA, CERS, or KRS management and those persons who are not directly responsible for the day-to-day operations of KPPA, CERS or KRS.

At least one member of the KPPA Audit Committee will be designated as the “financial expert.”¹ A financial expert is an individual who possesses, among other attributes:

1. An understanding of financial statement preparation and generally accepted accounting principles (GAAP) and, in this case, the accounting standards issued by the Governmental Accounting Standards Board (GASB).
2. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves.
3. Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth, depth, and level of complexity of accounting issues that can reasonably be expected to be raised by the government entity’s financial statements or experience actively supervising one or more persons engaged in such activities.
4. An understanding of internal control and the procedures for financial reporting.
5. An understanding of audit committee functions.

V. Meetings

KPPA Audit Committee meetings must comply with Kentucky’s Open Meetings Act contained in Kentucky Revised Statutes Chapter 61.800, et seq. The KPPA Audit Committee will meet at least four (4) times a year, with authority to convene additional meetings, as circumstances require. All KPPA Audit Committee members and the Chief Auditor are expected to attend each meeting. The KPPA Audit Committee will invite KPPA, CERS, and KRS staff; internal and external auditors; or others to attend meetings and provide pertinent information, as deemed necessary. The KPPA Audit Committee may conduct closed sessions when legally authorized under Kentucky’s Open Meetings Act. In advance of each regular or special called meeting, the meeting agenda and appropriate briefing materials will be provided to members of the KPPA Audit Committee. KPPA staff will strive to have the meeting materials available to the KPPA Audit Committee members at least one week prior to the meeting date. Minutes will be prepared and approved by the KPPA Audit Committee. Agendas are posted to the KPPA website in compliance with Kentucky’s Open Meetings Act².

¹ See [Sarbanes-Oxley Act of 2002 § 407](#)

² See [Kentucky Open Meetings Act](#)

VI. Scope of Responsibilities

In order to fulfill the responsibilities delegated to it by the Authority, the [KPPA](#) Audit Committee is responsible for the following activities:

Internal Controls and Compliance

1. Evaluate the effectiveness of the internal controls system, including information technology security and control.
2. Evaluate the effectiveness of the system used to monitor compliance with laws and regulation as well as policies and procedures.
3. Evaluate the effectiveness of the system used to monitor noncompliance with the Commonwealth of Kentucky Executive Branch Code of Ethics³ and/or Authority bylaws as well as evaluate the process in which the code of conduct and bylaws are communicated to personnel.
4. Conduct or authorize investigations into any matters within the [KPPA](#) Audit Committee's scope of responsibility.
5. Evaluate the results of investigations and follow-up (including disciplinary action) on any instances of noncompliance.
6. At least quarterly, obtain updates from management and legal counsel regarding compliance matters.
7. Seek and obtain any necessary information from person(s) employed by KPPA, CERS, or KRS (all of whom are directed to cooperate with the [KPPA](#) Audit Committee's requests) or external parties.

Internal Audit

1. Evaluate the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
2. Ensure there are no unjustified restrictions or limitations placed on Chief Auditor or the Division of Internal Audit in relation to the completion of audit projects.
3. Address any disagreements between KPPA, CERS, KRS, and the Chief Auditor regarding internal audit issues.
4. Accept KPPA management's responses submitted to internal audits.
5. Ensure recommendations from the Division of Internal Audit are closed in a reasonable time. Recommendations are generally closed for, but not limited to, one of the following reasons – recommendation implemented, recommendation no longer applicable, or KPPA management accepts risk and recommendation will not be implemented.
6. Evaluate and confirm the independence of the Chief Auditor and Division of Internal Audit staff by obtaining independence statements from all staff. Work with the Chief Auditor to resolve any actual or perceived conflicts.
7. On an annual basis, review and approve the Charter for the Division of Internal Audit, the Audit Plan, and the Internal Audit Budget. The Chief Auditor may request updates to the Audit Plan subject to the procedures outlined in the Charter for the Division of Internal Audit.
8. At least quarterly, meet with the Chief Auditor, including closed session discussions (if necessary), pursuant to Kentucky's Open Meeting Act in Kentucky Revised Statutes Chapter 61.800, et seq.

External Audit

1. Oversee the work of any registered Certified Public Accounting (CPA) firm employed by KPPA for the Annual Comprehensive Financial Report and other financial/control or fraud audits.
2. Understand the scope of external auditors' review of internal controls over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.

³ [Kentucky Revised Statutes - Chapter 11A](#)

3. Pre-approve the scope of all financial audit and non-financial audit services provided by external auditors, including coordination of audit effort with the Division of Internal Audit.
4. Review the findings of any examinations by regulatory agencies and any auditor observations.
5. Evaluate the performance of the external auditors and exercise final approval on the appointment or discharge of the auditors.
6. Address any disagreements between KPPA, CERS, KRS, and the external auditor regarding financial reporting.
7. Receive communications from external auditors that are required by the AICPA Standards to be received by "Governing Boards."
8. Ensure recommendations from external auditors are closed in a reasonable time. Recommendations are generally closed for, but not limited to, one of the following reasons – recommendation implemented, recommendation no longer applicable, or KPPA management accepts risk and recommendation will not be implemented.
9. Evaluate and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the external auditors and KPPA, CERS, and KRS, including non-audit services. Discuss any identified relationships with the external auditors.
10. If necessary, meet with the external auditors, including closed session discussions, pursuant to Kentucky's Open Meeting Act in Kentucky Revised Statutes Chapter 61.800, et seq.

Reporting

1. Upon request, report KPPA Audit Committee activities, issues, and related recommendations to the CERS and KRS Boards of Trustees for informational purposes.
2. Review any other reports issued by the KPPA management that relate to the responsibilities of the KPPA Audit Committee.

Other

1. At least annually, review and assess the adequacy of the Charter for the Audit Committee.
2. At least annually, confirm that all responsibilities outlined in this Charter have been completed.
3. At least annually, evaluate the KPPA Audit Committee's and individual members' performance.
4. Facilitate open channels of communication between the Chief Auditor, the Division of Internal Audit, external auditors, the Authority, CERS, KRS, and KPPA management.
5. At each meeting, approve any unapproved minutes from prior KPPA Audit Committee meetings.
6. Meet with the CEOs of the CERS and KRS, KPPA management, Chief Auditor, external auditors, outside counsel, or others as necessary.
7. Perform other activities related to this Charter as requested by the Authority.

Commented [CK(2)]: This is no longer a requirement of the audit standards, but a periodic evaluation is still suggested. Does the Committee want to update this item?
 Internal Audit can provide a template for the suggested evaluation.

VII. Responsibilities of Other Parties

1. The auditors (internal and external) are responsible for planning and conducting audits.
2. The Authority is responsible for ratifying recommendations and actions taken by the KPPA Audit Committee.
3. KPPA management is responsible for ensuring internal and external audit recommendations are closed in a timely manner. Recommendations are generally closed for, but not limited to, one of the following reasons – recommendation implemented, recommendation no longer applicable, or KPPA management accepts risk and recommendation will not be implemented.
4. KPPA staff is responsible for the selection and hiring of the external auditor. The Chief Auditor shall be a part of the team that reviews bids for the external audit contract by serving on the evaluation team as a Technical Advisor.
5. KPPA management is responsible for preparing and fairly presenting the financial statements in accordance with GAAP for governmental entities as issued by GASB, maintaining effective

internal control over financial reporting, and ensuring compliance with applicable laws, regulations, and other requirements.

6. The CERS and KRS Boards of Trustees are responsible for the overview and acceptance of the Annual Comprehensive Financial Report(s).
7. The Authority is responsible for final approval and publishing of the Annual Comprehensive Financial Report(s).

VIII. Approvals

We, the undersigned, do certify that this Charter was approved on the 27th day of June 2024.

Chair	Date
KPPA Audit Committee	

Board Chair	Date
Kentucky Public Pensions Authority	

History: Initial Approval Date: June 28, 2023
 Amended: June 27, 2024

Kentucky Public Pensions Authority

Charter for the Division of Internal Audit

Throughout this Charter, the Kentucky Public Pensions Authority Board will be referred to as the Authority. When referring to the Kentucky Public Pensions Authority as an administrative organization, the acronym KPPA will be used. However, in reference to the Audit Committee, “KPPA Audit Committee” will be used. In that instance, KPPA will refer to the Kentucky Public Pensions Authority Board.

I. Charter

This Charter establishes the authority and responsibility of the Division of Internal Audit (Internal Audit).

II. Mission of Internal Audit

Internal Audit helps the Authority as well as the Board of Trustees (Board) of the County Employees Retirement System (CERS) and the Kentucky Retirement Systems (KRS) meet their fiduciary duties by enhancing and protecting organizational value by providing risk-based and objective assurance, advice, and insight.

III. Core Principles of Internal Audit

1. Demonstrate integrity.
2. Demonstrate competence and due professional care.
3. Remain independent, which is defined as objective and free from undue influence.
4. Support the strategies, objectives, and risks of the organization.
5. Remain appropriately positioned and adequately resourced.
6. Demonstrate quality and continuous improvement.
7. Communicate effectively.
8. Provide risk-based assurance.
9. Remain insightful, proactive, and future focused.
10. Promote organizational improvement.

IV. Audit Standards

Internal Audit shall adhere to the *International Standards for the Professional Practice of Internal Auditing* (Standards) issued by the Institute of Internal Auditors (IIA). Where applicable, Internal Audit will observe standards and statements issued by other accounting and auditing organizations located within the United States of America. Internal Audit is expected to abide by the IIA Code of Ethics (Exhibit A).

Internal Audit will adhere to the IIA’s Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing (see section III), the Code of Ethics (see Exhibit A), the *Standards*¹, and the definition of internal auditing (see section VI). The Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Internal Audit’s performance.

¹ <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

V. KPPA Audit Committee

The purpose, statutory authorization, composition, and responsibilities of the KPPA Audit Committee are outlined in the Charter for the KPPA Audit Committee².

VI. The Internal Audit Function

Definition

As defined by the IIA, internal auditing is “*an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*”

Purpose and Objective

Internal Audit was originally established in July 2003. Internal Audit's purpose is to assist the Authority, the CERS and KRS Boards of Trustees, the Chief Executive Officer (CEO) of both CERS and KRS, and the KPPA Executive Director in fulfilling their governance role.

The primary objective of Internal Audit is to assist all levels of management in achieving the effective discharge of their assigned responsibilities by providing independent analysis, appraisals, advice, and recommendations concerning the activities reviewed. Internal Audit also assists in achieving sound managerial control over all financial and operational aspects including, but not limited to, accounting, investments, benefits, legal compliance, asset management, and information management and control systems.

Internal Audit helps the Authority and the systems it is tasked with administrating and operating, accomplish their objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Accomplishment of the Internal Audit objective may involve:

1. Evaluating the adequacy and effectiveness of the system of internal controls.
2. Participating in working groups established to review known or suspected fraud, waste, or abuse in any area of KPPA, CERS, or KRS.
3. Evaluating the relevance, reliability, and integrity of management, financial and operating data, and reports.
4. Evaluating the systems established to ensure compliance with statutory requirements, regulations, policies, plans, and procedures that could have a significant impact on operations.
5. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
6. Evaluating the economy, efficiency, and effectiveness with which resources are employed.
7. Evaluating operations or programs to ascertain whether results are consistent with objectives and goals established by the Authority, CERS, and KRS as well as evaluating whether the operations or programs are being carried out as planned.
8. Assessing the adequacy of established systems and procedures.
9. Conducting special assignments and investigations on behalf of the Authority, CERS, or KRS into any matter or activity affecting the probity, interests, and operating efficiency of KPPA, CERS and KRS.

² https://kyret.ky.gov/About/Meet_the_Administration/Pages/Board-Policies.aspx

Independence

Internal Audit is an advisory function having independent status within KPPA.

1. The Chief Auditor and Internal Audit staff shall be independent of any other office, division, branch, or section.
2. The Chief Auditor and Internal Audit staff shall have direct access, as deemed necessary, to the Authority and/or KPPA, CERS, and KRS staff.
3. The Chief Auditor and Internal Audit staff shall not be involved in the day-to-day operation of the KPPA, CERS, or KRS.
4. The Chief Auditor and Internal Audit staff shall not be responsible for the detailed development and/or implementation of new systems but should be consulted during the system development process on the control measures to be incorporated in new or amended systems and be advised of approved variations or new developments.
5. The Chief Auditor shall have no managerial powers, functions, or duties except those relating to the management of the Division of Internal Audit.

Authority

As described in Kentucky Revised Statutes 61.505, the Chief Auditor shall report directly to the Authority in the performance of all internal audit functions. The Authority has delegated some of this statutory authority to the KPPA Audit Committee. This delegation is described in the Charter for the Audit Committee.

The Division Director of Human Resources will be responsible for approving the Chief Auditor's weekly timesheet, leave requests, work schedule, and training/educational opportunity requests.

It is incumbent that all KPPA, CERS, and KRS staff render assistance to the Chief Auditor and Internal Audit staff in carrying out their audit duties.

1. The Chief Auditor and Internal Audit staff shall have access, at all reasonable times, to all books, documents, accounts, property, vouchers, records, correspondence, and other data of KPPA, CERS, and KRS necessary for the proper performance of the internal audit function. This includes having read-only access to internal systems, drives, and websites that are used to store documents, procedures, policies, etc.
2. The Chief Auditor and Internal Audit staff shall have access to generate reports from internal and external systems as deemed necessary for the proper performance of the internal audit function. If there are any disagreements related to access, the disagreements will be addressed by the KPPA Audit Committee in accordance with the Charter for the KPPA Audit Committee.
3. The Chief Auditor and Internal Audit staff shall have the right, at all reasonable times, to enter any premises of KPPA and to request and promptly receive from any KPPA, CERS, or KRS staff all information and such explanations deemed necessary for the Chief Auditor and Internal Audit staff to formulate an opinion on the probity of action, adequacy of systems, and/or of controls.

Activities

The Chief Auditor shall be responsible to the Authority for the functional control of internal audit activities in relation to:

1. Development, implementation, and oversight of internal audit methods and procedures.
2. Development and control of an efficient Audit Plan.
3. Scope and boundaries of internal audits.
4. Documentation of audit findings.

5. Assistance in the investigation of significant suspected fraudulent activities and promptly notifying the KPPA Audit Committee, the Authority, the CEOs of CERS and KRS, and the appropriate level of KPPA management of the results of any findings and conclusions.
6. Maintenance of certain records such as, but not limited to, records related to internal audits and CERS and KRS Board elections.
7. Considering the scope of work of the external auditors and regulators, as appropriate, for providing optimal audit coverage at a reasonable overall cost.
8. Fulfilling the objectives of the Division of Internal Audit.
9. Utilizing Internal Audit resources to maximize the efficiency and effectiveness of the internal audit function.
10. Adherence to appropriate auditing standards, including, but not limited to, International Standards for the Professional Practice of Internal Auditing, Generally Accepted Government Auditing Standards, and standards issued by the Auditing Standards Board (e.g., Statements on Auditing Standards, Statements on Standards for Attestation Engagements, and Statements on Quality Control Standards).
11. Review of the Annual Comprehensive Financial Report(s) and Summary Annual Financial Report(s).

Relationship with External Auditors

Assistance may be provided to the external auditor during the annual audit of the CERS and KRS financial statements or other audit engagements. The Chief Auditor shall work with the external auditors to foster a cooperative working relationship, reduce the incidence of duplication of effort, ensure appropriate sharing of information, and ensure coordination of the overall audit effort. Upon request, the Chief Auditor shall make available to the external auditors all internal audit working papers, programs, flowcharts, and reports.

VII. Internal Control System

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued the Internal Control – Integrated Framework³ to provide guidance to entities on setting up an effective internal control system. The Government Finance Officers Association recommends governments adopt COSO as the conceptual basis for designing, implementing, operating, and evaluating internal control so as to provide reasonable assurance that they are achieving their operational, reporting, and compliance objectives.⁴

Internal Audit utilizes guidance outlined in the COSO Internal Control Integrated Framework as well as the Standards for Internal Control in the Federal Government⁵ to perform reviews and assessments that help ensure these principles are established and working as intended.

Roles in the Internal Control System

Internal controls are the responsibility of KPPA management; however, all members of an organization play a role in the system.

1. Oversight Body – This includes the Authority, CERS Board, KRS Board, CERS CEO, and KRS CEO. The responsibilities include overseeing the strategic direction and obligations related to accountability. The oversight body should oversee management’s design, implementation, and operation of the internal control system.
2. Management Role – This includes the KPPA Executive Director, Deputy Executive Director, Chief Investment Officer, Executive Director-Office of Operations, Executive Director-Office of

³ [COSO Internal Control - Integrated Framework Principles](#)

⁴ [GFOA Internal Control Framework](#)

⁵ [GAO Standards for Internal Control in the Federal Government](#)

Benefits, Executive Director-Office of Legal Services, and Chief Financial Officer. Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of the internal control system.

3. Personnel Role – this includes all other KPPA staff. Personnel help management design, implement, and operate the internal control system. Personnel is responsible for reporting issues noted in the entity’s operations, reporting, and compliance.

Components of COSO

There are five components of COSO. Each component consists of different principles that are needed to effectively design, implement, and operate an internal control system. An entity must establish a comprehensive framework for internal control that includes all five essential components identified by the COSO. The entity must also ensure that each component of internal control is functioning in a manner consistent with all relevant principles. A complete discussion is provided by the COSO Internal Control Integrated Framework (see footnote 3) and the Standards for Internal Control in the Federal Government (see footnote 5).

VIII. Scope of Responsibilities

In order fulfill the Internal Audit mission, staff will be responsible for the following activities:

Internal Audit Function

1. In coordination with KPPA Division of Human Resources, Chief Auditor will appoint all employees deemed necessary to fulfill the mission of Internal Audit.
2. Chief Auditor will oversee the day-to-day operations of Internal Audit.
3. Chief Auditor will work cooperatively with the CEOs of the CERS and KRS as well as KPPA management.

Internal Controls and Compliance

1. Work with the KPPA Audit Committee, the CEOs for the CERS and KRS, and the KPPA Executive Director and other appropriate KPPA staff in the performance of an annual risk assessment.
2. Develop an audit plan to address items noted in the risk assessment.
3. Test and evaluate effectiveness of policies and procedures that are in place to determine if they achieve strategic, risk management and operational objectives.
4. Perform audit, consulting, and assurance services as well as special projects in support of the Audit Plan and in compliance with Internal Audit procedures.

Board and Committee Meetings

1. Prepare agenda and meeting materials (to be presented by Internal Audit) for KPPA Audit Committee meetings.
2. Strive to provide meeting materials (to be presented by Internal Audit) to trustees at least one week prior to the meeting date.
3. Present results of audit, consulting, and assurance services as well as results of special projects to the KPPA Audit Committee and the Authority. If requested, present results to the CERS and/or KRS Boards of Trustees or any committee of those Boards.

Specific Areas of Expertise

Since Internal Audit has limited resources and specialized requirements are needed to administer a complex public pension system, Internal Audit may request third-party expertise to assist in fulfilling audit goals (e.g., information technology and data security). Outsourced third party audits will be approved by the KPPA Audit Committee. The findings, recommendations, and management comments

will be presented to the KPPA Audit Committee for approval and for subsequent ratification by the Authority.

IX. Internal Audit Practices

Conflicts of Interest

Internal auditors shall be objective and free from undue influence in performing their job. Objectivity requires internal auditors to have an impartial and unbiased attitude, to avoid conflicts of interest, and to perform audits in such a manner that no significant quality compromises occur. To help ensure that internal auditors are not placed in an environment impeding their ability to make objective, professional judgments, Internal Audit will take the following precautionary measures:

1. All Internal Audit staff will be required to complete an annual Independence Statement certifying that auditors have no actual or perceived conflict that would impair their objectivity or independence.
2. Internal Audit staff assignments will be made so that potential and actual conflicts of interest and bias are avoided. If a conflict of interest or bias is present, the auditor(s) will be reassigned.
3. Internal Audit staff assignments will be rotated periodically, if practicable to do so.
4. Internal Audit staff will not assume operational responsibilities.
5. For a period of no less than one year, Internal Audit staff will refrain from assessing specific operations for which they were previously responsible.

Due Professional Care

Internal auditors shall apply the care and skill expected of a reasonably prudent and competent auditor. Due professional care does not imply infallibility and internal auditors must exercise due professional care, with consideration of the following:

1. Extent of work needed to achieve the engagement's objectives.
2. Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
3. Adequacy and effectiveness of risk management, control, and governance processes.
4. Probability of significant errors, irregularities, or non-compliance.
5. Cost of assurance in relation to potential benefits.
6. Use of various software tools including, but not limited to TeamMate, Excel, Access, Word, Tableau, and Gravity.

Proficiency and Continuous Professional Education (CPE)

Internal Audit staff shall collectively possess the knowledge, skills, attributes, and other competencies essential to the practice of internal auditing within the organization. Educational and work experience criteria have been established for the various positions within Internal Audit. To maintain their proficiency, all auditors are encouraged to continue their education and will be provided adequate opportunities to do so. Such continuing education ensures that internal auditors remain current on professional techniques and standards. If an auditor holds a certification, continuing education hours necessary to meet certification requirements should be obtained. If no certification requirements are necessary, a minimum of 24 hours of continuing auditor education shall be obtained annually. Continuing education may be obtained through membership and participation in professional societies, attendance at conferences, college courses, and in-house training. KPPA may reimburse an auditor for the cost of obtaining continuing education; however, the employee must obtain approval prior to registering for any course or seminar.

Internal Audit staff are encouraged to obtain professional certification(s). Accreditation is an important indicator of an auditor's technical proficiency. The following certifications are **some** of those available to auditors (this list is not all-inclusive):

1. Certified Internal Auditor,
2. Certified Fraud Examiner,
3. Certified Government Financial Manager,
4. Certified Information Systems Auditor, and
5. Certified Public Accountant.

Performance Evaluations

Performance evaluations for **classified** employees shall be conducted as outlined in the Commonwealth of Kentucky Personnel Policies and Kentucky Revised Statutes Chapter 18A. The Chair of the Audit Committee shall review the performance for the Chief Auditor.

Records Retention and Disposition

As required by the Kentucky Department for Libraries and Archives, Internal Audit shall retain a complete file of each audit and consulting service made under its authority for a period of eight (8) years and an electronic copy of all final reports shall be retained by Internal Audit indefinitely. To guard against identity theft and fraud, destruction of business records and materials shall be done in a secured manner such as using the on-site Division of Waste Management recycle containers. All CD/DVD materials shall be submitted to the KPPA Information Security Officer.

X. Quality Assurance and Improvement Plan

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of Internal Audit's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics (see Exhibit A). The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

Internal Audit will conduct both ongoing and periodic internal assessments. Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five (5) years. The Chief Auditor will provide the results, including planned corrective action, of the internal and external assessments to the KPPA Audit Committee.

Internal Assessments

1. Ongoing Monitoring – Ongoing monitoring for routine internal audit activities are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. The measurement tools for ongoing monitoring are engagement supervision; feedback from auditees, KPPA management, and the KPPA Audit Committee; Audit Plan completion; and identification and analysis of other performance metrics such as recommendations accepted.
2. Periodic Assessments – Internal Audit will conduct a Self-Assessment as outlined by the IIA. Internal Audit will strive to complete a Self-Assessment every three years.

External Assessments

Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five years. This can be completed as either a Self-Assessment with Independent External Validation or a full external assessment. The Chief Auditor will disclose the results and any needed corrective action to the KPPA Audit Committee.

XI. Internal Audit Services

The scope of Internal Audit shall be sufficiently comprehensive to enable the effective and regular review of all operational, financial, and related activities. Coverage may extend to all areas of KPPA, CERS, and KRS and include financial, accounting, investments, benefits, administrative, computing, and other operational activities. The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control, and resources available to Internal Audit.

Internal Audit provides independent audit, consulting, and assurance services to assist management in balancing operational efficiency with risk identification, assessment, and control. Internal Audit reports to the Authority and collaborates with trustees and KPPA, CERS, and KRS staff to enhance assurance and accountability at all levels of KPPA, CERS, and KRS. To meet the responsibilities and objectives as set forth in the Internal Audit Charter, it is necessary for Internal Audit to perform varying types of services depending on the circumstances and requests. Services can be requested by the KPPA Audit Committee; the Authority; the CERS and KRS Boards; or any member of KPPA, CERS, or KRS staff. If a request is made by someone outside of the KPPA Audit Committee, the Chief Auditor will seek approval from the Chair of the KPPA Audit Committee before engaging in the service. Internal Audit provides the following types of audits, consulting, and assurance services.

Audits

1. Internal Control Audits – Internal Control audits serve as a systematic evaluation of the effectiveness and efficiency of internal controls in mitigating risks and ensuring the reliability of financial reporting. An Internal Control audit aims to assess the design, implementation, and operating effectiveness of controls across various business processes and functions. This comprehensive examination involves evaluating the adequacy of policies, procedures, segregation of duties, access controls, and monitoring mechanisms. An Internal Control audit can identify weaknesses, gaps, and potential vulnerabilities within systems, which enables KPPA to implement corrective measures and strengthen their control environment. Ultimately, these audits contribute to the overall governance, risk management, and compliance framework of KPPA, promoting transparency, accountability, and the achievement of strategic objectives.
2. Compliance Audits – Compliance audits determine whether an organizational area has complied with federal law, [Kentucky Revised Statutes](#), [Kentucky Administrative Regulations](#), agency policies and procedures, and division specific procedures,
3. Operational Audits – Operational audits analyze how effectively and efficiently business units achieve organization and/or division goals. Effectiveness is measured by how successful a business unit is at achieving goals. Efficiency is measured by how well the business unit uses resources to achieve the goals.
4. Investment Audits – Investment audits may be performed to review movement of funds (e.g., purchases, sales, and income), cash management, manager fees, and other investment related activities. Investment audits may also be performed to ensure compliance with procurement regulations, contracts, internal policies and procedures as well as to ensure proper internal controls exist over the investment function.

5. **Investigative Audits** – Investigative audits may result from findings during a routine audit or from information received from sources outside of Internal Audit. These audits are normally requested by a trustees or staff of the KPPA, CERS, or KRS as a result of information received from a tip. These audits focus on alleged, irregular conduct. Reasons for investigative audits may include internal theft, misuse of agency property, and/or conflicts of interest. The Chief Auditor will refer this information to the KPPA Audit Committee Chair and Executive Director, Office of Legal Services. The Executive Director, Office of Legal Services will take immediate action to collect and preserve as much relevant evidence as possible. It is essential that the records in question be removed from the division/employee under investigation or otherwise safeguarded. The KPPA Audit Committee, in coordination with the Executive Director, Office of Legal Services and appropriate KPPA management will determine if an investigative audit needs to be conducted by Internal Audit, in accordance with Internal Audit procedures. These audits may include expertise from internal and external experts in fields, such as but not limited to, legal, information technology, human resources, and accounting. A draft investigative audit report will be provided to the KPPA Audit Committee. The KPPA Audit Committee will determine if further actions are needed. The KPPA Audit Committee will control any internal or external report distribution.

6. **Information Technology Audits** – Audits of information systems and technology may be performed to determine whether existing or new computer applications and hardware function in an accurate and efficient manner and include adequate internal controls. Internal Audit may be involved in the evaluation/implementation of a new system to review the system development methodology and the effectiveness and efficiency of the internal controls being implemented. These audits could include reviews of general controls which affect all computer applications. Examples may include computer security, disaster recovery, business continuity, program change controls, and quality control procedures.

7. **Financial Audits** – A financial audit is a review intended to serve as a basis for expressing an opinion regarding the fairness, consistency, and conformity of financial information with generally accepted accounting principles (GAAP). Financial audits can be comprehensive or limited in scope depending on the objectives.
 - a. A comprehensive financial audit consists of a review of the financial statements of an entity over a specific duration of time to accurately express an opinion on those statements. Such an audit is conducted in accordance with generally accepted auditing standards (GAAS) as adopted by the American Institute of Certified Public Accountants (AICPA). For CERS and KRS, an external auditor performs this type of audit annually. At least every five years, the Auditor of Public Accounts performs the annual financial audit.
 - b. A limited financial audit concentrates on a review of specific financial transactions. The primary concerns include determining the accuracy of data and evaluation of controls by reviewing the following items:
 - i. Physical control over assets,
 - ii. System of authorization and approval,
 - iii. Separation of duties between operations and custody of assets.

An engagement may involve more than one type of audit. For example, most audits performed are a combination of an internal controls, compliance, and operational audit.

Assurance Services – Assurance services help the organization improve their operations and financial performance.

1. **Process Reviews** – A process review is specific to a single business process. These reviews assess the effectiveness of internal controls over the process as well as test the efficiency of the process. These reviews also help ensure the business process is operating the way management intended.

These reviews are typically performed in conjunction with a new business process being developed or immediately after a new business process is implemented. These reviews may be performed as needed in response to findings identified while performing other types of services within a particular division.

2. Policy Reviews – During a policy review, Internal Audit analyzes either a new or established policy. Internal audit will ensure the policy complies with applicable [Kentucky Revised Statutes](#), [Kentucky Administrative Regulations](#), and federal laws. Internal Audit will also determine if the policy establishes sufficient internal controls in relation to the related business process. For example, during a review of a policy related to invoice payment, Internal Audit would ensure internal controls have been designed to ensure timely payment, prevent duplicate payment, establish segregation of duties, etc.

Consulting Services – Consulting services help organizations improve their efficiency and effectiveness.

1. Internal Audit staff may participate in the preparation of the Strategic Plan.
2. Internal Audit staff may participate on various work groups including, but not limited to, the KPPA Information Technology Governance team, the Continuity of Operations team, and other similar KPPA, CERS, or KRS working groups in order to provide an unbiased review of any policies and procedures created from these teams.

Other Services

1. Agreed Upon Procedures – An Agreed Upon Procedures engagement is performed only upon request. During these engagements, the requestor specifies exactly what the auditor is to do. The auditor then performs only the requested procedures. An opinion is not expressed in these reviews. For example, a request could be made to review all expenditures posted to a particular account(s) during a specific timeframe to determine if any expenditures were improperly coded to the account(s). Internal Audit would review the requested account(s) over the specified timeframe and issue a report indicating how many expenditures were posted incorrectly. These engagements are beneficial if there is an area a division wants to review but does not have the resources or time to perform the review themselves.
2. Annual Report Review – Each year, KPPA personnel prepares an Annual Comprehensive Financial Report for the County Employees Retirement System and Kentucky Retirement Systems. Prior to presentation to the Authority, the CERS Board, and KRS Board, Internal Audit will perform a review the Annual Comprehensive Financial Report and identify any perceived errors or discrepancies. However, the KPPA staff, not Internal Audit, is responsible for the substantive content, accuracy, consistency, and completeness of the Annual Comprehensive Financial Report.
3. Summary Annual Financial Report Review – Each year, KPPA personnel prepares a Summary Annual Financial Report for the County Employees Retirement System and Kentucky Retirement Systems. Internal Audit will review the Summary Annual Financial Report and identify any perceived errors or discrepancies. However, the KPPA staff, not Internal Audit, is responsible for the substantive content, accuracy, consistency, and completeness of the Summary Annual Financial Report.
4. Referencing – During the course of various types of audit, consulting, and assurance services, the Chief Auditor may identify continuing patterns of conduct or reoccurring “themes” (e.g. the same type of problem is noted in multiple divisions). For example, findings for two divisions within an office, which identify a broader office finding (e.g., lack of controls, need for increased communication, absence of performance criteria, insufficient data processing policy, etc.). When

developing the Audit Plan, Internal Audit always considers these themes when scheduling audits for the next period, particularly when these items impact the KPPA mission.

5. Board of Trustee Elections – Internal Audit assists in both CERS and KRS Board elections. Detailed Internal Audit procedures related to the Board elections can be found on the [KPPA Process Documentation SharePoint site](#).

XII. Audit Process

Methodology

For all audit projects, the person responsible for the activity under review shall be advised and given the opportunity to discuss the following:

1. Prior to the audit: Objectives and scope of the audit to be conducted.
2. During the audit:
 - a. Preliminary findings and recommendations. These will be provided to staff in charge of the area under review and may also be provided to the Executive Director over the area under review, if requested.
 - b. Documentation of audit processes, including information that will be used to develop the background of the audit report and/or included as an exhibit in the audit report. This information will be provided to staff in charge of the area under review and may also be provided to the Executive Director over the area under review, if requested.
 - c. Final findings and recommendations. These will be released to management over the area under review so a response can be provided.
 - d. Draft audit report, without management’s responses. This will be released to Executive Director over the area under review and the KPPA Executive Director.
3. Upon completion of the audit: Completed audit report that includes final findings and recommendations with management’s response to the findings and any additional auditor responses.

Audit Reports

A comprehensive written report will be prepared and issued by Internal Audit at the conclusion of each audit and will be distributed as considered appropriate. A copy of each report is to be made available on a timely basis to the KPPA Audit Committee, the Authority, the CEOs of the CERS and KRS, and applicable members of KPPA staff. Audit reports will normally explain the scope and objectives of the audit, present findings and conclusions in an objective manner relevant to the specific user’s needs and make recommendations where appropriate.

XIII. Annual Risk Assessment and Audit Plan

Consistent with the long-term strategic plan, the Chief Auditor shall prepare an annual Risk Assessment and Audit Plan providing for the review of significant operations of KPPA, CERS, and KRS pertaining to the achievement of objectives.

The Risk Assessment and Audit Plan shall be presented to the KPPA Audit Committee for deliberation and approval. Upon approval by the KPPA Audit Committee, the Risk Assessment and Audit Plan will be submitted to the Authority for ratification. After ratification by the Authority, the Risk Assessment and Audit Plan may be presented to the CERS Board and KRS Board for informational purposes.

Risk Assessment

Internal Audit assesses risks of KPPA, CERS, and KRS by seeking input from the trustees of the Authority, CERS, and KRS as well as key personnel of KPPA, CERS, and KRS. Internal Audit also reviews the results of past internal and external audits. Internal Audit then considers organizational risks, such as the COSO components, existing internal controls, staffing, system changes, regulatory and legal changes, impact to the financial statements and organization reputation.

The Risk Assessment methodology is based upon the following process:

1. Identifying KPPA, CERS, and KRS activities/processes (these become the “audit universe”).
2. Scoring the organizational risks for each process identified in the audit universe.
3. Ranking the processes by overall risk.

Internal Audit staff utilize audit software to determine the overall risk of each item in the audit universe. The inherent risk and inherent likelihood of each item are scored using a point value with zero (0) representing the lowest level and ten (10) representing the highest level of inherent risk/likelihood. The risk and likelihood individual scores are combined to generate the overall risk to the KPPA, CERS, and KRS. The overall risk scores for all items are then ranked highest to lowest.

Audit Plan

Based upon the results of the Risk Assessment as well as requests from trustees and/or KPPA, CERS, and KRS management, Internal Audit develops the Audit Plan. The Audit Plan is created through a prioritization process that includes scheduling audits for the highest risk areas as well as areas that have not been reviewed in recent years. The Audit Plan represents potential audits to be completed during the upcoming fiscal year. Internal Audit also identifies other potential audit segments such as business processes, expense contracts, and functional areas that may cross over operational units.

Throughout the fiscal year, the Audit Plan may be reviewed, evaluated, and modified according to the specific risk factors related to KPPA, CERS, and KRS operations and internal controls. If an adjustment is needed to the Audit Plan based on the periodic evaluation or if Internal Audit receives a request to complete an audit not previously identified on the Audit Plan, the requested modification(s) shall be forwarded to the Chair of the KPPA Audit Committee for approval.

1. The Chair of the KPPA Audit Committee can approve the requested modification(s) without seeking input from the rest of the KPPA Audit Committee. In these instances, the requested modification(s) will be added to the Audit Plan and reported to the KPPA Audit Committee as a part of the update on the “Status of Current Projects” at the next regularly scheduled KPPA Audit Committee meeting.
2. The KPPA Audit Committee Chair can call a special meeting to discuss the requested modification(s). In these instances, the KPPA Audit Committee will vote on whether to make the requested modifications to the Audit Plan.

Tracking Projects

Internal Audit staff continually track audits and other projects with electronic audit software. If a request is made to complete projects not foreseen during the development of the audit plan, these additional projects are also tracked through the audit software. The status of current projects is presented to the KPPA Audit Committee at each quarterly meeting. All findings and recommendations, including status and implementation dates, are thoroughly tracked, and documented using appropriate methodologies.

XIV. Internal Audit Procedures

Detailed Internal Audit procedures can be found on the [Internal Audit Process Documentation SharePoint](#) site.

XV. Approvals

We, the undersigned, do certify that this Charter was approved on 27th day of June 2024.

KPPA Audit Committee Chair

Date

Board Chair
Kentucky Public Pensions Authority

Date

Chief Auditor

Date

History: Approval Date: September 28, 2023
 Amended: June 27, 2024

EXHIBIT A

{ CODE of ETHICS... }

// PRINCIPLES

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

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



Kentucky Public Pensions Authority

Division of Internal Audit



Kentucky Public
Pensions Authority

Independence Statement

The International Professional Practices Framework (excerpted):

- 1100** The internal audit activity must be independent and internal auditors must be objective in performing their work.
- 1110** The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
 - 1110.A1** The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.
- 1111** The chief audit executive must communicate and interact directly with the board.
- 1112** Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.
- 1120** Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
- 1130** If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
 - 1130.A1** Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity which the internal auditor had responsibility within the previous year.
 - 1130.A2** Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.
 - 1130.A3** The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.
 - 1130.C1** Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.
 - 1130.C2** If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

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

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

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

7. Did you have any previous responsibilities for decision-making on a program or process team that would influence the current operations of KPPA, CERS, and/or KRS?	No	
8. Did you have any previous authority at KPPA, CERS, and/or KRS to approve the payment of direct payment requisitions, payrolls, claims, or any other expenditures?	No	

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

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics (page 4). I have also reviewed and understand the information set forth in Charter of the Division of Internal Audit.

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

None

Kristen N. Coffey

Employee Name (Please Print)

Fiscal Year 2025

Effective Fiscal Year

Employee Signature

April 24, 2024

Date

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{ CODE of ETHICS... }

// PRINCIPLES

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

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

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- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



Kentucky Public Pensions Authority

Division of Internal Audit



Independence Statement

The International Professional Practices Framework (excerpted):

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

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

7. Did you have any previous responsibilities for decision-making on a program or process team that would influence the current operations of KPPA, CERS, and/or KRS?	No	
8. Did you have any previous authority at KPPA, CERS, and/or KRS to approve the payment of direct payment requisitions, payrolls, claims, or any other expenditures?	No	

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

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics (page 4). I have also reviewed and understand the information set forth in Charter of the Division of Internal Audit.

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

None

Madeline Evans

FY 2025

Employee Name (Please Print)

Effective Fiscal Year

/s/ Madeline Evans

4/24/2024

Employee Signature

Date

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{ CODE of ETHICS... }

// PRINCIPLES

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- **Confidentiality**

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- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

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3. **Confidentiality**

Internal Auditors:

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4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



Kentucky Public Pensions Authority

Division of Internal Audit



Kentucky Public
Pensions Authority

Independence Statement

The International Professional Practices Framework (excerpted):

- 1100** The internal audit activity must be independent and internal auditors must be objective in performing their work.
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KPPA – Kentucky Public Pensions Authority
 CERS – County Employees Retirement System
 KRS – Kentucky Retirement Systems

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

7. Did you have any previous responsibilities for decision-making on a program or process team that would influence the current operations of KPPA, CERS, and/or KRS?	No	
8. Did you have any previous authority at KPPA, CERS, and/or KRS to approve the payment of direct payment requisitions, payrolls, claims, or any other expenditures?	No	

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

Also, I acknowledge receipt of a copy and affirm adherence to the Institute of Internal Auditor’s Code of Ethics (page 4). I have also reviewed and understand the information set forth in Charter of the Division of Internal Audit.

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

None

Matthew Scott Daugherty 2025
Employee Name (Please Print) *Effective Fiscal Year*

[/s/Matthew Scott Daugherty](#) [4/24/2024](#)
Employee Signature *Date*

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{ CODE of ETHICS... }

// PRINCIPLES

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// RULES OF CONDUCT

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Kentucky Public Pensions Authority

Division of Internal Audit



Independence Statement

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1. Have you or any of the following had any financial interest, direct or indirect, in any transaction with KPPA, CERS, and/or KRS?	No	
a. Any member of your immediate family (defined as your spouse, children, siblings, parents, and parents of spouses).	No	
b. Any person, firm, etc. in which you have a substantial economic interest.	No	
c. Any firm or corporation of which you are an officer, director, trustee, partner, or employee.	No	
d. Any person for whom you hope, expect, or are negotiating to work.	No	
e. Any person with whom you have any contact or who owes you money and is, therefore, able to affect your economic interests.	No	
2. Have you accepted or solicited anything of value in return for promises of favorable action on any matter that might be the subject of an audit?	No	
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7. Did you have any previous responsibilities for decision-making on a program or process team that would influence the current operations of KPPA, CERS, and/or KRS?	No	
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Please list any personal impairment not discussed on page 2 or answer “None”:

None

William Prince 2025
Employee Name (Please Print) *Effective Fiscal Year*

/s/William Prince 4/24/2024
Employee Signature *Date*

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{ CODE of ETHICS... }

// PRINCIPLES

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- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



Kentucky Public Pensions Authority

Division of Internal Audit



Kentucky Public Pensions Authority

To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA
Chief Auditor

Date: May 30, 2024

Subject: Fiscal Year 2024 Internal Audit Budget as of March 31, 2024 and Proposed Fiscal Year 2025 Budget

Account Number	Account Name	FYE 2024 Budget	FY 2024 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries	\$ 339,000.00	\$ 241,059.64	\$ 97,940.36	28.89%
121	Employer Paid FICA	25,933.50	18,051.55	7,881.95	30.39%
122	Employer Paid Retirement	221,338.65	161,008.41	60,330.24	27.26%
123	Employer Paid Health Insurance	45,000.00	36,625.68	8,374.32	18.61%
124	Employer Paid Life Insurance	60.00	45.00	15.00	25.00%
133T	Employee Training	3,400.00	-	3,400.00	100.00%
259T	Conference Expenses	3,000.00	290.00	2,710.00	90.33%
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	1,200.00	380.00	820.00	68.33%
399T	Miscellaneous	200.00	-	200.00	100.00%
847T	Computer Equipment	20,000.00	9,354.94	10,645.06	53.23%
	Total	\$ 663,132.15	\$ 466,815.22	\$ 196,316.93	29.60%

259T Conference Expenses

1. 2nd Quarter - \$90 AGA Conference (Madeline, Matt, Will; Kristen and Melinda attended for free because they organized the event)
2. 3rd Quarter - \$200 AGA Conference (Kristen)

381T Dues and Subscriptions

3rd Quarter - \$380 IIA membership (Madeline and Matthew)

847T Computer Equipment

2nd Quarter - Audit Software licenses (all staff)



Kentucky Public Pensions Authority

Division of Internal Audit



Kentucky Public Pensions Authority

To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA
Chief Auditor

Date: May 30, 2024

Subject: Fiscal Year 2024 Internal Audit Budget as of March 31, 2024 and Proposed Fiscal Year 2025 Budget

Proposed FY 2025 Budget

Account Number	Account Name	Estimated 2024 Actual	FYE 2025 Budget	Variance of Budget Compared to Actual Prior Year	Percentage Change of Budget Compared to Estimated Actual Prior Year
111	Salaries ¹	\$ 307,193.50	\$ 350,000.00	\$ 42,806.50	14%
121	Employer Paid FICA ¹	\$ 23,022.23	26,775.00	3,752.77	16%
122	Employer Paid Retirement ^{1,2}	\$ 204,769.13	166,481.25	(38,287.88)	-19%
123	Employer Paid Health Insurance	\$ 45,933.54	50,000.00	4,066.46	9%
124	Employer Paid Life Insurance	\$ 57.00	60.00	3.00	5%
133T	Employee Training	\$ -	2,500.00	2,500.00	#DIV/0!
259T	Conference Expenses	\$ 290.00	2,500.00	2,210.00	762%
361T	Travel - In State	\$ -	1,000.00	1,000.00	#DIV/0!
362T	Travel - Out State	\$ -	3,000.00	3,000.00	#DIV/0!
381T	Dues & Subscriptions	\$ 380.00	1,000.00	620.00	163%
399T	Miscellaneous	\$ -	200.00	200.00	#DIV/0!
847T	Computer Equipment ²	\$ 9,354.94	15,000.00	5,645.06	60%
	Total	\$ 591,000.34	\$ 618,516.25	\$ 27,515.91	5%

1. Salary line items include the 2% raise approved for all state employees as well as increases for reclassifications of some internal audit staff.

2. Retirement amount is lower because the percentage due for the unfunded liability is lower in FY 2025 than FY 2024

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

Project Code	Project Name	Phase	Scheduled Start	Actual Start	Scheduled End	Actual End	Quarter 1 Hours	Quarter 2 Hours	Quarter 3 Hours	Quarter 4 Hours	Total FY 2024 Hours to Date	Estimated Hours	Estimated Hours Variance
2024-1	Review of Investment Manager Fees	Closed	7/10/2023	5/1/2023	10/13/2023	11/17/2023	379.75	121.00	0.00	0.00	500.75	600.00	95.75
2024-2	Review of Member Information Utilized for Retirement	Fieldwork	9/5/2023	5/31/2023	3/29/2024	1/0/1900	19.25	211.25	255.75	0.00	486.25	600.00	(62.75)
2024-3	Review of Interest Applied to Member Accounts	Fieldwork	7/3/2023	5/25/2023	3/15/2024	1/0/1900	95.25	29.00	67.75	0.00	192.00	600.00	(301.00)
2024-4	Review of Expense Allocation	Closed	7/3/2023	5/18/2023	9/15/2023	9/22/2023	291.50	0.00	0.00	0.00	291.50	450.00	25.00
2024-5	Implementation of New Legislation	Completion	10/2/2023	10/2/2023	2/16/2024	1/0/1900	0.00	174.50	207.25	0.00	381.75	300.00	81.75
2024-6	Review of Employer Outstanding Invoices	Not Started	1/0/1900	1/0/1900	1/0/1900	1/0/1900	0.00	0.00	11.50	0.00	11.50	600.00	(588.50)
2024-7	Review of Employer Contributions	Planning	10/9/2023	10/6/2023	3/1/2024	1/0/1900	18.75	240.75	199.00	0.00	458.50	600.00	(140.75)
2024-8	Review of Disclosures During Correspondence	Fieldwork	9/25/2023	10/3/2023	3/15/2024	1/0/1900	0.00	378.25	605.50	0.00	983.75	600.00	383.75
2024-9	Review of Administrative Fees	Not Started	1/0/1900	1/0/1900	1/0/1900	1/0/1900	0.00	0.00	5.00	0.00	5.00	600.00	(595.00)
2024-10	Review of Refunds	Not Started	1/0/1900	1/0/1900	1/0/1900	1/0/1900	0.00	0.00	0.00	0.00	0.00	600.00	(600.00)
2024-Other-1	FY 2024 Board and Committee Meetings	Fieldwork	7/1/2023	7/1/2023	6/30/2024	1/0/1900	112.00	80.25	62.25	0.00	254.50	425.00	(170.50)
2024-Other-2	FY 2024 Process Documentation	Planning	7/1/2023	7/5/2023	6/30/2024	1/0/1900	8.50	0.00	0.00	0.00	8.50	300.00	(291.50)
2024-Other-3	FY 2024 Miscellaneous KPPA Projects/Work Groups	Fieldwork	7/1/2023	7/5/2023	6/30/2024	1/0/1900	52.00	125.25	130.25	0.00	307.50	400.00	(92.50)
2024-Other-4	FY 2025 Audit Charter Updates	Planning	7/5/2023	10/20/2023	6/28/2024	1/0/1900	0.75	0.75	1.75	0.00	3.25	20.00	(16.75)
2024-Other-5	Trustee Election RFP	Fieldwork	12/1/2022	1/26/2023	3/1/2024	1/0/1900	4.50	22.50	10.00	0.00	37.00	125.00	(81.00)
2024-Other-6	Self-Assessment for Peer Review	Completion	7/5/2023	7/11/2023	10/20/2023	10/19/2023	315.00	1.75	1.00	0.00	317.75	500.00	(175.50)
2024-Other-7	FY 2025 Board Election Policy Updates	Fieldwork	9/5/2023	8/10/2023	3/11/2024	1/0/1900	4.75	0.00	1.00	0.00	5.75	20.00	(14.25)
2024-Other-8	FY 2024 ACFR and SAFR Review	Closed	9/1/2023	9/11/2023	1/12/2024	1/11/2024	13.00	62.50	2.00	0.00	77.50	150.00	(70.50)
2024-Other-9	FY 2025 Risk Assessment and Audit Plan	Fieldwork	7/1/2023	7/17/2023	5/15/2024	1/0/1900	29.25	24.50	66.50	0.00	120.25	300.00	(179.75)
2024-Other-10	Internal Audit Meetings	Fieldwork	7/1/2023	7/3/2023	6/30/2024	1/0/1900	175.00	64.25	132.00	0.00	371.25	500.00	(128.75)
2024-Other-11	Other KPPA Meetings	Fieldwork	7/1/2023	7/3/2023	6/30/2024	1/0/1900	40.25	16.50	49.00	0.00	105.75	260.00	(154.25)
2024-Other-12	Evaluations	Fieldwork	7/1/2023	7/3/2023	6/30/2024	1/0/1900	35.50	1.50	39.00	0.00	76.00	70.00	6.00
2024-Other-13	Training	Fieldwork	7/1/2023	7/3/2023	6/30/2024	1/0/1900	206.00	110.50	92.50	0.00	409.00	400.00	9.00
2024-Other-14	Miscellaneous Internal Audit Projects	Fieldwork	7/1/2023	7/10/2023	3/15/2024	1/0/1900	87.25	82.75	56.00	0.00	226.00	235.00	(9.00)
2024-Other-15	2024 Follow-Up on Open Items	Fieldwork	7/1/2023	7/10/2023	6/30/2024	1/0/1900	0.00	0.00	31.50	0.00	31.50	100.00	(68.50)
	Administrative Hours	Fieldwork	7/1/2023	7/1/2023	6/30/2024	1/0/1900	461.50	151.00	167.25	0.00	779.75	882.00	(102.25)
	Non-Working Hours	Fieldwork	7/1/2023	7/1/2023	6/30/2024	1/0/1900	273.75	331.25	174.50	0.00	779.50	650.00	129.50
	Holidays	Fieldwork	2/1/2024	1/11/2024	6/30/2024	1/0/1900	82.50	225.00	93.75	0.00	401.25	465.00	(63.75)
							2,706.00	2,455.00	2,462.00	0.00	7,623.00	11,352.00	

Overage Explanation

2024-1: First time process has been reviewed.
2024-4: This was the auditor's first solo project. A little additional time is not unexpected.
2024-5: First time process has been reviewed, there were some delays in getting information.
2024-8: Scope was expanded based on a concern brought to Internal Audit during the review. Additionally, the first level reviewer took on an assistant/oversight role to help guide the lead auditor.
2024-Other-12: Additional evaluation added for Chief Auditor
2024-Other-13: An employee attended the Governmental Management Training Program, which increased training hours.
Non-working Hours: Planned for about 2.5 weeks of leave per employee. Actual has been closer to 4 weeks.

Available Hours FY 2024 (including holidays)	9,975.00
Available Hours Remaining in FY 2024 (including holidays)	2,437.50
Overtime Worked for FY 2024	85.50
Average Overtime Worked in FY 2024, per employee	17.10
FY 2024 Project Hours Charged	5,662.50
FY 2024 Administrative Hours	779.75
FY 2024 Holidays and Time Off	1,180.75
Actual Hours Charged for FY 2024	7,623.00



Kentucky Public Pensions Authority

Division of Internal Audit



Summary of Findings

As of January 31, 2024, there were 22 open internal audit recommendations that had passed their estimated implementation date. Internal Audit staff completed follow-up testing and review of those items to determine if any items could be closed or if a new remediation dated needed to be established:

1. One item needs input from the KPPA Audit Committee and KPPA Board before the status can be determined.
2. Eight items remain open and a new remediation date has been established.
3. Nine items were closed. Remediation was verified by Internal Audit staff.
4. Four items were closed with no action taken. For these items, management accepts the risk of not implementing the suggested recommendation.

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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. KRS - Kentucky Retirement Systems
4. CEO - Chief Executive Officer
5. CFO - Chief Financial Officer
6. KPPA Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
7. Internal Audit – KPPA Division of Internal Audit

Background

Annually, Internal Audit staff perform a follow-up on open audit recommendations that have passed the anticipated remediation date. The status of these items is reported to KPPA staff and the KPPA Audit Committee.

1. If corrective action has been implemented, audit staff perform testing/review to determine if the corrective action is sufficient. If so, the audit status is updated to Closed - Verified.
2. If testing/review of the corrective action shows that the issue has not been successfully remediated, the testing results are reported to management. The audit status remains as in Progress and a new remediation date is provided by management.
3. If corrective action has not been taken, but is planned, the audit status remains as In Progress and a new remediation date is provided by management.
4. If KPPA management has decided no action is necessary, the audit status is updated to Closed - Management Accepts Risk.

Scope and Methodology

Internal Audit staff reviewed all open findings that had a remediation date of January 31, 2024 or earlier. Internal Audit staff reached out to areas that had open audit findings and requested an update on the corrective action taken. The following areas had open audit findings:

1. KPPA Executive Director
2. Office of Investments
3. Office of Legal Services
4. Division of Accounting
5. Division of Enterprise and Technology Services
6. Division of Retiree Health Care

Much of the corrective action taken involved updating procedures. Internal Audit staff reviewed the procedures to ensure the updates sufficiently addressed the recommendations. Testing was performed related to the corrective action taken by the Division of Enterprise and Technology Services. This testing involved examining four Manual Security Access Reviews that were completed by various KPPA staff in August 2023.

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 Management Team; and the divisions listed under the Scope and Methodology section of this report. 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 Audit Committee Meeting - KPPA Audit Committee Administrative Updates

Status of Open Audit Findings

Trustee Input Needed
Finding Closed - Verified
Finding Closed - Management Accepts Risk
Finding Still Open

Number	Entity	Business Contact	Project Name	Issue Title	Recommendation Title	Report Issue Date	Implementation Due Date	Actual Implementation Date or Revised Date	Days Overdue	Action Taken
1	Division of Retiree Health Care	Abby Sutherland	Accuracy of Information Sent to Humana and DEI	Discrepancies Not Resolved Timely	Implement a Process for Overdue Items	4/11/2022	10/13/2023	6/30/2024	-61	This is in the process of being implemented. Divisions hopes to officially have this in place by mid-2024.
2	Division of Retiree Health Care	Abby Sutherland	Accuracy of Information Sent to Humana and DEI	Discrepancies Not Resolved Timely	Implement a Timeline	4/11/2022	10/13/2023	1/31/2024	-	Timeline established and procedures updated. This item will be closed - verified as remediated.
3	Office of Investments	Steve Willer	Custodial Fee Payment Process	Duplicate Services may be Provided	Determine if Duplicate Investment Services are Being Provided by Vendors	7/29/2021	2/28/2023	2/28/2024	-	KPPA Investment Staff has reviewed vendors who provide investment related services and concluded that the vendors and services are necessary to perform the functions of the Office of Investments. While there may be additional services or functions that certain vendors provide as part of their contract that staff does not use or access, in those cases the services are not billed individually. In the case where services are duplicated between vendors, these services are complimentary, used for independent verification or fill gaps with the primary vendor and again are not services that are billed individually. This list will be reviewed anytime a vendor is added or removed or if an existing vendor offers additional services. This could be reviewed annually, if warranted.
4	Procurement Branch	Kathy McNaughton	Procurement and Contract Management	Training not Provided for Contract Monitoring	Provide Training to Those Responsible for Contract Monitoring	8/20/2020	2/28/2023	3/1/2024	-	Training has been sent to employees responsible for contract monitoring. Acknowledgment sheets are returned once the training is completed.
5	Security	Chris Johnson	System Access Review	Manual Reviews not Completed Timely	Establish Deadline for Completing Manual Reviews	8/19/2021	8/31/2023	8/31/2023	-	Testing completed, no issues noted. This item will be closed - verified as remediated.
6	Security	Chris Johnson	System Access Review	Security Access Reviews not Completed Timely	Establish Deadline for Completing Security Access Reviews	8/19/2021	8/31/2023	8/31/2023	-	Testing completed, no issues noted. This item will be closed - verified as remediated.
7	Legal	Michael Board	Review of Chase Accounts	Payments from KPPA Addressed Improperly	Ensure Proper Payor Name is on Issued Payments	2/20/2023	12/31/2023	6/30/2025	-426	KPPA is exploring whether the best option is to make programming changes or to seek statutory changes. No conclusion has been reached.
8	Legal	Michael Board	Review of Chase Accounts	Payments from KPPA Addressed Improperly	Review Statutes Pertaining to Payments	2/20/2023	12/31/2023	6/30/2025	-426	KPPA intends to complete the research, but a date cannot be provided. The research will be completed by Legal, Accounting, and possibly Retiree Payroll.
9	Legal	Michael Board	Review of Chase Accounts	Wording in Statute is Outdated	Determine if Updates are Needed to Kentucky Revised Statute 61.706	2/20/2023	8/31/2023		243	From Michael Board (2/26/2024): Trustees advised that KPPA staff should not spend time on this. Therefore, no clarification has been requested from KPPA and will not be requested. Any updates/clarifications should come from the Finance and Administration Cabinet. Do Trustees approve closing this item? Kentucky Revised Statutes 61.706 references the Kentucky Retirement Systems. However, it is unclear if this is a reference to the former Kentucky Retirement Systems or the Kentucky Retirement Systems as defined by Regular Session 2020 House Bill 484. We recommended, KPPA Executive Director of Legal Services review Kentucky Revised Statutes 61.706 and determine if this statute should be updated to reference the Kentucky Public Pensions Authority rather than Kentucky Retirement Systems.
10	Investment Operations Branch	Ann Case; Michael Lamb	Plan Liquidity Phase 3 - Available Cash Balance/Cash Projection	Reconciliation failed to detect errors	Analyze Current Reconciliation Practices	12/29/2023	12/29/2023	1/22/2024	-	Procedures related to reconciliations have been updated.
11	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Excess Funds Remaining in Non-custodial Accounts	Ensure Reviewer Compares Wires to Source Documents	2/20/2023	9/30/2023	10/5/2023	-	The update to procedures for review of source document was implemented on 10/5/2023.
12	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Lack of Controls over Access to Non-Custodial Accounts	Establish Controls to Review Access to Accounts and Systems	2/20/2023	6/30/2023	4/3/2023	-	The Policy was updated on 3/6/2023 and indicates that approval for access to the JPM Chase accounts needs approval from the CFO (or Deputy Executive Director). Upon approval, the request is sent to OFM for set up. The same process is to be used when removing access for individuals. The Policy also documents that access will be reviewed every six months, with the first one being completed 4/3/2023. This item will be closed - verified as remediated.
13	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Lack of Review of Journal Entry Transactions	Establish Procedure to Review Journal Entry Transactions	2/20/2023	9/30/2023	6/30/2024	-61	We have not formally reviewed procedures regarding the review of JEs, but will work to officially implement by 6/30/2024.
14	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Inaccurate Amounts Reported on the Administrative Expense Spreadsheet	Independent Individual Should Verify Accuracy of the Reconciliation	2/20/2023	9/30/2023	12/31/2024	-245	The CFO is reconciling the administrative expense spreadsheet to great plains and eMARS quarterly. However, it is not yet formally documented in a policy or procedure. The Recon is being used to also provide data for KPI's (budget to actual). ETA for formal documentation is June 30, 2024.
15	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Inaccurate Amounts Reported on the Administrative Expense Spreadsheet	Reduce the Information in the Administrative Expense Spreadsheet	2/20/2023	9/30/2023	9/30/2024	-	Closed - Management Accepts Risk For the foreseeable future, the administrative expense spreadsheet will contain historical data, as it provides easy reference to historical analytics, and if it does become corrupt, there are prior month versions that can be restored and built upon.
16	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Lack of Controls over Access to Non-Custodial Accounts	Update Access Levels at Chase	2/20/2023	6/30/2023	4/3/2023	-	We have reviewed access levels at chase as part of our semi-annual review of access and for JPM was initiated on 4/3/2023. Changes at Chase must go through OFM, and we have also confirmed with OFM that only the following KPPA users can request changes (additions, changes, removal) to JPM Access. Kristy Feldman, Liz Smith, Connie Davis, and Mike Lamb (CFO). This item will be closed - verified as remediated.

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

Status of Open Audit Findings

Trustee Input Needed
Finding Closed - Verified
Finding Closed - Management Accepts Risk
Finding Still Open

Number	Entity	Business Contact	Project Name	Issue Title	Recommendation Title	Report Issue Date	Implementation Due Date	Actual Implementation Date or Revised Date	Days Overdue	Action Taken
17	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Lack of Controls Over Reconciliations	Develop Controls over Reconciliations	2/20/2023	9/30/2023	12/31/2024	-245	The CFO is working through many items related to the Chase bank accounts, including the method in which they are being reconciled. However, the Accounting Division needs more time to fully review and implement. New expected ETA is 9/30/2024.
18	Cash Management Branch	Michael Lamb	Review of Chase Accounts	KERS Funds Spent to Cover Expenses of Other Plans	Establish Controls Over Handling Insufficient Funds	2/20/2023	6/30/2023	10/5/2023	-	We determined the root cause to be the bank account code used on the NSF files. That was corrected effective July 1, 2023. Upon correction of those files/reports, the NSFs are going to the appropriate bank account. The members account in LOB was always documented correctly (regardless of what bank account was being affected). We do not believe there is a need for individual reconciling of the NSF to LOB, as the original bank account is also now the NSF bank account.
19	Cash Management Branch	Michael Lamb	Review of Chase Accounts	KERS Funds Spent to Cover Expenses of Other Plans	Determine Amount Owed to KERS Pension	2/20/2023	12/31/2023	12/31/2024	-245	Report that was causing NSFs related to other plans to be funded from the KERS pension plan was corrected July 1, 2023. Intern has been researching the NSFs that have occurred since 2011. Management needs to review to determine full extent of the impact to the KERS pension plan. Upon completion, staff will work with the Board of Trustees of CERS and KRS to determine next steps. Hope to complete by June 30, 2024.
20	Cash Management Branch	Michael Lamb	Review of Chase Accounts	Activity in the Unfunded Liability Trust Fund is not Monitored	Monitor Activity in the Unfunded Liability Trust Fund	2/20/2023	12/29/2023	2/28/2023	-	KPPA executives emailed Joe McDaniel in February of 2023, and he replied that the account has a balance of \$4.13, as this account is administered by the Finance and Administration Cabinet, and as the amount is insignificant, KPPA will take no further action and will await notification from the Finance and Administration Cabinet for any further action they feel is warranted. his item will be closed - verified as immediated.
21	Division of Accounting	Michael Lamb	Review of Chase Accounts	Clearing Account at Chase not Operating as Clearing Account	Reduce Balance of Funds Maintained in Chase Accounts	2/20/2023	6/30/2023	9/30/2024	-153	The CFO is looking at the historical G/L and Bank Balances, analyzing what items and amounts move through the accounts, and will propose a recommendation to the Board(s) when complete. Internally, we have reviewed the historical G/L and Bank Balances of each account. Effective March 31, 2024, we adjusted all bank accounts at Chase to a target balance. We will continue to monitor these balances and adjust again June 30, 2024, and each quarter thereafter. Would like to formalize the targets in a procedure (or policy) that can be reviewed by the KPPP Board (by 9/30/2024).
22	Division of Accounting	Michael Lamb	Review of Chase Accounts	Potential Excessive Number of Bank Accounts	Report Balances in Chase Accounts	2/20/2023	6/30/2023	8/31/2023	-	It was determined that it is not necessary for balances at Chase to be reported to the Office of Investments. No additional action will be taken.



Kentucky Public Pensions Authority

Division of Internal Audit



Kentucky Public Pensions Authority

Overall Opinion

Process 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 as a part of this audit. We noted certain other matters that we communicated to the Division of Employer Reporting, Compliance, and Education in a separate letter dated April 30, 2024.

Commendations

We would like to commend ERCE staff. In addition to being responsive to our questions, no reportable findings were noted during this audit. The processes we reviewed were operating in compliance with laws, regulations, and policies. For more details on the specific items tested, please see Exhibit A.

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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. CEO – Chief Executive Officer
7. CFO – Chief Financial Officer
8. KPPA Management Team – KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
9. ERCE – KPPA Division of Employer Reporting, Compliance, and Education
10. LOB – Line of Business
11. ESS – Employer Self Service
12. NZB – Non-zero Batch

Objectives

The Verifying Final Retirement Calculation - Normal and Early Retirement audit was conducted from October 2023 to April 2024. The scope of the audit was July 1, 2022 to June 30, 2023. The report was issued on April 30, 2024.

The objectives of the Verifying Final Retirement Calculation - Normal and Early Retirement audit were to ensure internal controls have been designed and are operating effectively and efficiently. We also ensured compliance with applicable state and federal statutes and regulations as well as policies established by the KPPA, CERS, and KRS Boards and procedures developed by KPPA staff.

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 Management Team; and the Division of Employer Reporting, Compliance and Education. 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 – Risks and Testing Methodology

Risk:	Information not verified from Reporting Official.
Control:	Counselor confirms that information is received from an individual on the agency's contact list
COSO Element:	Control Activity
COSO Principle:	Management designs control activities to achieve objectives and respond to risks.
Testing Methodology:	Auditor verified that updated information was documented in LOB and confirmed that section H of initial calculations (when needed) were signed by someone listed on the agency's contact list.
Test Result:	No exceptions noted. During the review of the employer journal comments for this test, auditor found that a reporting official's ESS log in information was being used by someone else in the agency. The compromised account was deactivated on the day it was discovered; however, it was noted that no written procedures existed to document how to handle this type of situation. are not written. This was addressed in the management letter.

Risk:	Final retirements not processed timely or accurately.
Control:	Managers review counselor’s work inboxes daily.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor reviewed Form 6010 and ensure it was mailed to the member at least a week before the member’s the retirement date.
Test Result:	No exceptions noted.

Risk:	Retirement benefits calculated incorrectly.
Control:	Quality checks are completed on initial retirement, recalculations, and non-zero balance items.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor recalculated initial retirements, and recalculations (if needed) and ensured the auditor calculated amount matched the benefit calculation in LOB.
Test Result:	No exceptions noted.

Risk:	Form 6000 not submitted timely.
Control:	Counselor reviews Form 6000 to ensure it was received within the six-month eligibility window.
COSO Element:	Control Activity
COSO Principle:	Management designs control activities to achieve objectives and respond to risks.
Testing Methodology:	Auditor compared the retirement date to the date the Form 6000 was receive to ensure the difference was no more than 180 days.
Test Result:	No exceptions noted.

Risk:	Invalid Form 6000 received.
Control:	Counselors review Form 6000 for validity.
COSO Element:	Monitoring

COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor reviewed Form 6000 and ensured it was completed in compliance with agency requirements.
Test Result:	No exceptions noted.

Risk:	Date of birth is not verified.
Control:	Counselors compare date of birth on Form 6000 to information in LOB and ensure the date of birth on file is accurate.
COSO Element:	Control Activity
COSO Principle:	Management designs control activities to achieve objectives and respond to risks.
Testing Methodology:	Auditor ensured verification of date of birth was on file for both the member and beneficiary. Auditor ensured date of birth in LOB was the same as the date on the verification form.
Test Result:	No exceptions noted.

Risk:	Sick leave balances not used, if applicable.
Control:	During the post-retirement audit process, counselors confirm sick leave balances and ensure the balances were taken into consideration as a part of the benefit calculation.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor verified that sick leave information provided by the reporting official was considered in the retirement calculation for member. Auditor ensured the sick leave information was properly used in the retirement calculation.
Test Result:	No exceptions noted.

Risk:	Inaccurate last day of employment on file.
Control:	Counselors verify the last date of employment.
COSO Element:	Control Activity
COSO Principle:	Management designs control activities to achieve objectives and respond to risks.
Testing Methodology:	Auditor compared the Form 6000 termination date to the last date of employment recorded in LOB and ensured the dates matched.
Test Result:	No exceptions noted.

Risk:	Final wages used in retirement calculation are incorrect.
Control:	Counselors confirms final wages during the quality control process.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor compared projected wages reported in Section H of Form 6000 to those in LOB to ensure the wages agreed.
Test Result:	No exceptions noted.

Risk:	Member receives incorrect payment option.
Control:	Counselors ensure payment option in LOBO agrees to payment option selected by member.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

Testing Methodology:	Auditor compared retirement option in LOB to the retirement option requested by the member to ensure the options agreed.
Test Result:	No exceptions noted.

Risk:	Agency is not following the record retention policy.
Control:	Records are retained indefinitely in LOB.
COSO Element:	Control Activity
COSO Principle:	Management designs the entity’s information system and control activities.
Testing Methodology:	Auditor reviewed LOB and ensured all documents related to retirements and recalculations were saved in the member’s account.
Test Result:	No exceptions noted.

Risk:	Policies and procedures may not be documented.
Control:	Division Director ensures procedures are sufficient and maintained on SharePoint.
COSO Element:	Control Activity
COSO Principle:	Management implements control activities through policies.
Testing Methodology:	Auditor reviewed division procedures and ensured they were up to date, reflected current practices, and were available to staff.
Test Result:	No exceptions noted.

Risk:	Lack of segregation of duties.
Control:	Retirements are processed by one counselor and reviewed by another individual.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor reviewed LOB and noted the individuals who prepared and reviewed the calculations. Auditor ensured these tasks were performed by different individuals.
Test Result:	No exceptions noted.

Appendix B – Background

Initial and Recalculation Verification of Information

Members who are employed with a participating agency in the CERS, KERS or SPRS systems and are eligible for retirement benefits submit a completed Form 6000 (Notification of Retirement) with the necessary backup documents. The verification process is initiated by a system generated workflow item when a member completes Form 6000 electronically, manually by uploading the Form 6000 to Start/LOB or when the NZB batch runs.

Work items are moved to counselors' work inboxes by managers in the divisions of Member Services or Quality Assurance. To make sure work items are completed timely, managers monitor retirement counselors' inboxes and divide work items out proportionately for their teams. As a backup, experienced counselors are also able to manually pull work items.

The retirement final is ready for processing by the retirement counselors in the retirement module after all required components have been addressed. Those components include the verification of participation date, service (including outside service with other applicable retirement systems), final compensation, sick leave information, member demographics including name change, and the effective date of normal or early retirement. The retirement date should reflect the first day of the month and be a date after the member has terminated from all participating agencies administered by KPPA.

After the final has been processed and had a quality check, the retirement pack is sent to the member with a request for the Form 6010 (Final Estimated Retirement Allowance Option Selectin) and health insurance paperwork to be completed and returned. This process is captured with a journal comment in the member's account. The member's account goes to a pending status until the Form 6010 has been returned. Once the Form 6010 has been returned, the initial retirement counselor keys the correct retirement option and sends the work item for another quality check.

While in a pending status, information may be submitted, which will launch a recalculation prior to payroll. For example, an employer may submit a revised Section H (certification of leave balances and wages), or member may want to change their beneficiary, in which case they would submit a revised Form 6000. Anything received while the workflow is in a pending status will attach to the existing workflow and pull it out of pending, returning it to the processor's inbox.

Cancel or Pending of Workflow Items

If sections A-G on Form 6000 are incomplete or not legible, the workflow could possibly be cancelled. The member is sent a letter mentioning the items that are needed. A journal comment is also added to the member's account documenting the necessary actions. Cancellation requires the member to resubmit the form and supporting documents in its entirety. Any cancellations of workflows require manager approval.

At any time during the verification of information, if forms are needed, information has to be requested from employers, or work is required from the ERCE group, the retirement counselor has the ability to "pend" the workflow item. When necessary, a letter is sent to the member or employer requesting the information or correction needed.

After a final is processed and has the quality check, the workflow item will go to a pending status. The workflow item will be in the pending status while waiting for the return of the completed Form 6010.

The division director and managers monitor and review work inboxes daily to ensure pending items are addressed timely as well as to make sure additional support is not required. Managers expect a follow up from counselors if there are any finals that may require additional assistance concerning verification or any other outstanding issues that may keep finals from being processed or having a quality check.

NZB Batch

A journal comment with a NZB batch initiated is an indication that additional information has been added to or is missing from the member's account and requires retirement counselors to take another look at the account. New information must be incorporated into the retirement final. The NZB batch is set to run around the 20th of each month, which is approximately four months after retirement to confirm that all reported information is correct. The NZB batch is a post-retirement recalculation process, which only happens after a retirement calculation has been finalized with a payment option selected.

Checks and Balances

After initial finals are processed or go through a recalculation, the work item must go through the quality control (review) process. All work will have a quality check by a counselor different from the one who performed the initial calculation. The quality control retirement counselor reviews the initial documents, calculations, service and, if applicable, documents that have been added and created from a NZB batch workflow item. If there are any discrepancies or questions, the final is rejected and the work item is sent back to the original counselor with comments. When the reviewer agrees with the work completed, the work item is considered completed.



Kentucky Public Pensions Authority

Division of Internal Audit



Kentucky Public
Pensions Authority

The Verifying Final Retirement Calculation - Normal and Early Retirement audit was conducted from October 5, 2023 to April 9, 2024. The scope of the audit was July 1, 2022 to June 30, 2023. No reportable findings were noted during the audit, but we noted one recommendation that we wanted to communicate to management. This item will be reviewed during follow-up engagements and/or during a review of open recommendations.

The objectives of the Verifying Final Retirement Calculation - Normal and Early Retirement audit were to ensure internal controls have been designed and are operating effectively and efficiently. We also ensured compliance with applicable state statutes and regulations as well as policies established by the KPPA, CERS, and KRS Boards and procedures developed by KPPA staff.

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. CEO - Chief Executive Officer
5. CFO - Chief Financial Officer
6. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director – Office of Benefits, and KPPA CFO
7. ERCE – KPPA Division of Employer Reporting, Compliance, and Education

Recommendation

1. ERCE should create written procedures on how to address a compromised Employer Self-Service (ESS) account.

During the audit, we noted an instance where a reporting official's ESS log in information was being used by someone else in the agency. This situation was handled appropriately - staff deactivated the compromised account on the day it was discovered. However, it was noted that the division did not have written procedures/guidance concerning how to address this type of situation. While instructions on how to handle the situation are communicated verbally during training, new staff may not know how to address a compromised ESS account and current staff may not remember the exact process to follow. 200 Kentucky Administrative Regulation 38:070 states, "Each fiscal officer shall develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets...An internal control plan shall include...Detailed procedures to be followed in the performance of job duties and functions to emphasize duties that comprise the overall framework of accountability and internal controls, and to help ensure the continuation of agency operations in the event of staffing changes..."

Management Response:

ERCE agrees with this finding and has created instructions for ERCE staff regarding the steps to take to deactivate the compromised account. The instructions can be found in our Process Documentation on the ERCE SharePoint page.

Auditor Response:

Auditors reviewed created procedures and agree that they adequately instruct readers on what to do when compromised accounts are detected.

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Kentucky Public Pensions Authority

Division of Internal Audit



Overall Opinion

Process complies with relevant statutes, regulations, policies, and procedures. Internal controls have not been established.

Summary of Findings

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

1. Back-up Not Established for Legislative Tracking
2. Trustees May not Have the Opportunity to Provide Input on Legislative Changes
3. Procedures Related to the Legislative Implementation Process have not been Developed
4. Review Access to Document Used to Track Suggested Legislative Changes

Commendations

The KPPA Deputy Executive Director, Executive Director-Office of Benefits, staff from the Office of Legal Services and various division directors were prompt to respond to questions and the legislative questionnaire. Specifically, the Communications Division Director and Retiree Health Care Division Director provided especially thorough responses which was greatly appreciated.

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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. KRS - Kentucky Retirement Systems
4. CEO - Chief Executive Officer
5. CFO - Chief Financial Officer
6. 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
7. Communications – KPPA Division of Communications
8. DETS – KPPA Division of Enterprise and Technology Services

Objectives

The objectives of the Implementation of New Legislation audit were to ensure internal controls have been designed and are operating effectively and efficiently. We also ensured compliance with applicable state and federal statutes and regulations as well as policies established by the KPPA, CERS, and KRS Boards and procedures developed by KPPA staff.

The Implementation of New Legislation audit was conducted from October 2, 2023 to January 30, 2024. The scope of the audit was fiscal years 2021 to 2023 with the exclusion of House Bill 8 from the 2021 regular session due to litigation and House Bill 587 in the 2023 regular session due to its impact on the Division of Internal Audit. The report was issued on March 21, 2024.

Recommendations for Future Audits

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

1. The process for updating regulations before the Legislative Review Committee expiration date.
2. KPPA Governance audit.

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 – Audit Results

1. Back-up Not Established for Legislative Tracking

Responsible Area(s):	KPPA Executive Management Team
Condition:	The Communications Director is the only KPPA staff member who tracks legislation in detail and a back-up has not been established for this task.
Criteria:	200 KAR 38:070 states, “Each fiscal officer shall develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets...An internal control plan shall include...Detailed procedures to be followed in the performance of job duties and functions to emphasize duties that comprise the overall framework of accountability and internal controls, and to help ensure the continuation of agency operations in the event of staffing changes...”
Cause:	Prior to 2017 the agency had a Director of Government Relations and Strategic Planning. Two of the primary tasks of this role were serving as the legislative liaison and tracking legislation that could potentially impact the agency. In 2017, the individual who served in that role was asked to move into the Communications Director position. When this move was made, the Director of Government Relations and Strategic Planning role was eliminated, and the responsibilities of that role were placed under Communications Director, in addition to the responsibilities already assigned to that role. Subsequently, some tasks have been moved to other KPPA staff. However, the request to include a position focused on government relations and research have not yet been approved by the KPPA Executive Director.
Effect:	Several preventative measures are dependent on the legislative tracking process. If this task is not performed, the KPPA Executive Management Team may not become aware of bills that could have a negative impact on the agency. KPPA staff may not have sufficient time to work with legislators on bills that impact the agency and/or may not have sufficient time to prepare for implementing bills.
Recommendations:	<ol style="list-style-type: none"> 1. The KPPA Executive Director should work with the Communications Director to determine who should be trained as the back-up for the legislative tracking process. 2. Alternatively, the KPPA Executive Director could consider establishing a position within the Division of Communications dedicated to being an active presence in the General Assembly. Another option would be to have this role set up outside of the Division of Communications and report directly to the KPPA Executive Director. Responsibilities of this role could include assisting the Executive Director with the following tasks: <ol style="list-style-type: none"> a. Maintaining a working relationship with the General Assembly. b. Attending legislative sessions and committee hearings with the Executive Directors or the CEOs of the CERS and KRS board. c. Working with the KPPA Executive Management Team, and CERS and KRS Boards and CEOs to determine legislative priorities and strategies for each session as well as long-term goals. d. Educating legislators about KPPA issues throughout the year. e. Engaging in constructive conversations with stakeholder groups throughout the year. f. Preparing correspondence for members about legislative updates. g. Addressing any inquiries from the Legislative Research Committee. h. Training staff to understand the legislative process and how KPPA can use it to promote the interest of the Boards and membership.
Recurring Issue:	No
Management Response:	<ol style="list-style-type: none"> 1. The KPPA Executive Management Team agrees with recommendation #1 to establish a back-up. The KPPA Executive Director will work with the Communications Director to establish a back-up to complete the various tracking documents currently completed by the Communications Director. The anticipated implementation date for this is June 30, 2024. 2. The KPPA Executive Management Team agreed with recommendation #1, therefore, this alternative recommendation is not needed.
Implementation Date:	June 30, 2024

Auditor Response:	Establishing a back-up for the Division of Communications is a good start at reducing the risk that legislative tasks are not addressed. The alternative suggestion of establishing a separate position was made because a government relations role requires a specialized skill set. Just as it likely would not be beneficial to have information technology professionals handle investments responsibilities or to have human resource professionals handle accounting tasks, asking someone without government relations expertise to complete government relations tasks may not be beneficial to the agency. While it is possible that a current employee could perform the job, it does not mean they are the best person to serve in the role. We also understand there may be other constraints related to hiring a full-time position. As such, we request that management consider the possibility of hiring a part-time or interim employee to take on these tasks during the legislative sessions.
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2. Trustees May not Have the Opportunity to Provide Input on Legislative Changes

Responsible Area(s):	KPPA Executive Management Team
Condition:	Trustees may not be given the opportunity to provide input on and approve the Housekeeping Bill or other legislative changes suggested by KPPA staff.
Criteria:	<p>The CERS bylaws Section 1.2(l) states, “The [CERS] Board will review and recommended statutory changes to the General Assembly related to the administration of benefits and compliance with federal law and determine which changes are in the best interest of the CERS plans. The Board will also review legislation proposed by the General Assembly that is likely to have significant impact on the funded status, existing member benefits, or system administration for any of the CERS plans.” Additionally, Section 1.3(j) states, “The CERS CEO shall recommend legislative or regulatory changes and propose draft language. These recommendations shall be presented to the CERS board for review and approval.”</p> <p>KRS bylaws have no such requirement for the KRS Board to review legislation. Section 1.3(i) of the KRS bylaws states, “The CEO shall recommend legislative or regulatory changes and propose draft language.”</p>
Cause:	There are no statutory, regulatory, or Board policies that require Trustees to approve legislative suggestions from KPPA staff before being sent to a bill sponsor.
Effect:	If Trustees are not given the opportunity to provide input and/or approval of legislation prior to it being sent to a bill sponsor, a policy could be changed in a manner that conflicts with the view of the oversight body.
Recommendations:	The KPPA Executive Management Team should seek input from the CERS and KRS Trustees as well as the KPPA Board to determine if Board approval is required prior to suggested legislative changes being submitted to a bill sponsor. If approval is needed, the CERS, KRS, and KPPA bylaws may need to be updated to reflect this requirement.
Recurring Issue:	No
Management Response:	<p>The KPPA Executive Management Team believes part of this recommendation is already in place. The CERS and KRS CEOs are involved in the approval process and the Trustees know what the process is. The current Bylaws speak to the role of the Board(s) and CEO(s) in the legislative process. The Boards of Trustees do not need the KPPA Executive Management Team to spur them into action to amend their respective Bylaws if they want the process to change. The CERS and KRS Trustees have complete control of the contents of their respective Bylaws.</p> <p>Involving the CERS, KRS, and KPPA Boards in an approval process is untenable due to the time constraints of dealing with proposed legislation. Additionally, the KPPA Board, through its Executive Director, direct the actions of KPPA staff. If the KPPA Board wishes to impose this requirement on its staff, only the KPPA Bylaws need to change.</p>
Implementation Date:	June 30, 2024

Auditor Response:	While the CERS and KRS Bylaws do include some guidance related to legislative actions, we recommend the KPPA Executive Director seek input from all CERS and KRS Trustees as well as the KPPA Board concerning the extent of approval needed from Trustees before suggested legislative changes are submitted to a bill sponsor. Additionally, we did not recommend that the KPPA Executive Management Team "spur the Trustees into action" regarding updating Bylaws. We only noted that the Bylaws may need to be updated if the Trustees determine their approval is needed prior to legislative changes being submitted to a bill sponsor.
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3. Procedures Related to the Legislative Implementation Process have not been Developed

Responsible Area(s):	KPPA Executive Management Team
Condition:	<p>KPPA staff have not officially developed procedures related to the process for implementing legislation that impacts the agency. The following items were noted during the audit:</p> <ul style="list-style-type: none"> • Written procedures do not exist pertaining to the development of the list of legislative changes sent to a bill sponsor. <ul style="list-style-type: none"> ○ For fiscal years 2021 to 2023, 46 legislative changes that were sent to a bill sponsor were not on the "KPPA Wishlist." ○ For fiscal years 2021 to 2023, 22 legislative changes included on the "KPPA Wishlist" did not make it to a bill sponsor. • Communications between KPPA staff and the bill sponsor regarding the reasonableness of implementation dates is handled verbally so testing could not be performed. • Documentation does not exist in a tangible format to confirm that the Legislative Research Committee draft was reviewed by KPPA staff so testing could not be performed.
Criteria:	200 KAR 38:070 states, "Each fiscal officer shall develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets...An internal control plan shall include...Detailed procedures to be followed in the performance of job duties and functions to emphasize duties that comprise the overall framework of accountability and internal controls, and to help ensure the continuation of agency operations in the event of staffing changes...."
Cause:	The exact process for implementing each legislative change is different so a standard process has not been documented.
Effect:	New legislation that impacts the agency may not be adequately implemented by the required deadline.
Recommendations:	<p>The KPPA Executive Management Team should develop written procedures related to the implementation of legislation process.</p> <ol style="list-style-type: none"> 1. Develop procedures related to how KPPA develops suggested legislative changes that are submitted to a bill sponsor. Procedures should include the following elements: <ol style="list-style-type: none"> a. Directions pertaining to how KPPA staff make suggestions for legislative changes. This guidance should be shared with staff that are allowed to make recommendations. b. Information on how KPPA staff suggestions will be tracked (see recommendation #2 of this issue). c. When it is not feasible for all suggestions to be sent to a bill sponsor, guidance on how suggestions will be prioritized. d. Reference to the need to work with the bill sponsor to ensure the implementation date of a proposed bill is reasonable. e. Reference to the need to work with the Legislative Research Committee after a bill has been drafted to ensure the original intent has not been lost or altered. 2. Consider taking the following actions pertaining to tracking KPPA staff suggestions for legislative changes. If necessary, these actions should be documented in the related procedures (see recommendation #1 of this issue): <ol style="list-style-type: none"> a. The Housekeeping Bill list for fiscal year 2024 could be used as a base to start a centralized location for all ideas submitted by KPPA staff. b. The KPPA Executive Management Team should work with the Office of Legal Services to determine if it would be beneficial to keep this list on SharePoint so that access and edits can be monitored and restricted as appropriate. c. The KPPA Executive Management Team should consider adding following elements to the tracking document. These additions would allow the KPPA Executive Management Team to easily see ideas that have not yet been added to a

	<p>Housekeeping Bill that may need to be considered for a future bill. Additionally, users would be able to quickly determine why an item was not considered for a Housekeeping Bill (or another separate legislative bill).</p> <ul style="list-style-type: none"> • A column to show in which fiscal year ideas are submitted. • A column showing the resolution of the suggestion – item sent to bill sponsor, held over for future year, legislative change not needed, etc. <p>3. Update written procedures related to the process for implementing legislation. Procedures should include the following elements:</p> <ol style="list-style-type: none"> a. Guidance on documenting how the change will be implemented and documenting the timeline of how the change will be implemented either by manual workaround or LOB programing by the due date. b. Information on how KPPA staff will track the status of implementing legislative changes, including legislation with an emergency clause. <p>4. Consider taking the following actions to ensure KPPA meets required deadlines for implementing changes. These actions should be documented in the procedures developed pertaining to the legislative implementation process (see recommendation #3 of this issue):</p> <ol style="list-style-type: none"> a. Document legislative implementation due dates on the log of legislative changes to be implemented. b. Work with DETS to ensure the log of legislative changes to be implemented includes the specific actions taken and the date the actions were taken. c. Present the status of the implementation process to the CERS, KRS, and KPPA Boards (as applicable) on a quarterly basis.
Recurring Issue:	No
Management Response:	<ol style="list-style-type: none"> 1. The KPPA Executive Management Team agrees with this recommendation. The KPPA Executive Management Team has established written procedures. These procedures are fluid and timelines are guided by the bill sponsor/Kentucky General Assembly process. 2. Each Executive Director should establish a process for collecting legislative items for consideration. Executive Directors should work with upper management in their respective Office to determine items that will go to the Executive Team for review. 3. The KPPA Executive Management Team agrees with this recommendation. Written procedures will be updated and include the considerations noted in a. and b. The anticipated date for completion will be June 30, 2024. 4. The KPPA Executive Management Team agrees with this recommendation. These actions will be taken into consideration when updating the written procedures in 3. The anticipated date for completion will be June 30, 2024.
Implementation Date:	<ol style="list-style-type: none"> 1. December 31, 2024 2. December 31, 2024 3. June 30, 2024 4. June 30, 2024
Auditor Response:	<ol style="list-style-type: none"> 1. Once the procedures referenced in management responses 1, 3, and 4 are completed, please provide them to the Division of Internal Audit for review. 2. Once the process referenced in management response 2 is developed and procedures are documented, please provide them to the Division of Internal Audit for review.

4. Review Access to Document Used to Track Suggested Legislative Changes

Responsible Area(s):	KPPA Executive Management Team
Condition:	The Office of Legal Services maintains a document where certain KPPA staff can make suggestions for legislative changes. The following items were noted pertaining to the access to this spreadsheet: <ul style="list-style-type: none"> No employees from the Office of Investments or Division of Human Resources have access to this list. The Division of Internal Audit did not have access to this list until it was requested as a part of this audit. 16 of 19 (84%) individuals sampled did not know they had access to this document. Division directors do not have access to the document.
Criteria:	KPPA Access Control Policy Section 5 #1 states, "All data shall be classified in accordance with the Data Classification Policy, its access determined by the business owner, and access granted based on the Principle of Least Privilege."
Cause:	This folder was sent up as an idea in November 2022 after the 2023 Housekeeping Bill was finalized. Since this bill did not pass during the 2023 session, it was recycled for the 2024 session. There has not been an opportunity to collect additional ideas from staff. Additionally, guidance has not been provided pertaining to who should have access to this document.
Effect:	The list used to track KPPA staff's suggested legislative changes is not a useful tool in developing the Housekeeping Bill or other recommended bills if staff who have access are not aware of the existence of the document or if all necessary staff do not have access to the document.
Recommendations:	The KPPA Executive Management Team should decide who at KPPA needs access to the suggested legislative changes spreadsheet. After that decision is made, the following steps should be taken: <ol style="list-style-type: none"> Work with DETS to ensure the determined individuals have access. Communicate to staff who are granted access to let them know they have access and to explain how this spreadsheet is utilized.
Recurring Issue:	No
Management Response:	The KPPA Executive Management Team agrees with the recommendations. The KPPA Executive Management Team has directed Office of Legal Services - Non-Advocacy Staff Attorney Supervisor to take these steps immediately.
Implementation Date:	December 31, 2024

Appendix B – Risks and Testing Methodology

Proportional statistical sampling was used to select sample that best represented the testable population. The testable population was considered by first reviewing everything tracked by the Division of Communications. That population was then split into changes that required a programming change, did not require a programming change, or were not directly related to KPPA. These groups were then split into house and senate bills for each year in scope. A proportionate sample with 99% confidence and 0.05% margin of error was then randomly selected within each category for each legislative session.

Risk:	Lack of Back-ups in Key Areas of KPPA
Control:	Back-up is established.
COSO Element:	Control Environment
COSO Principle:	Oversight body and management establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.
Testing Methodology:	Auditor spoke to staff involved in the legislative process to ensure a back-up had been established for the key activities.
Test Result:	Back-ups have been established for activities handled by the Office of Legal Services and DETS. A back-up has not been established for the Communications Director. Please see finding #1.

Risk:	Board of Trustees May Not Receive Proper Information Timely
Controls:	<ol style="list-style-type: none"> 1. CEO of CERS and KRS are consulted. 2. All trustees are notified of KPPA proposed legislation.
COSO Element:	Information and Communication
COSO Principle:	Management communicates necessary information internally.
Risk:	Proposed Legislation is not Approved Appropriately
Control:	No control established. There are no specific statutory, regulatory or bylaw requirements that specify proposed legislation should be presented or approved by CERS, KRS or KPPA boards.
Testing Methodology:	<ol style="list-style-type: none"> 1. Auditor emailed CERS CEO and KRS CEO to determine if they were consulted during the creation of the housekeeping bills for fiscal years 2021 to 2023. 2. Auditor spoke with Office of Legal Services staff to determine if all trustees were notified of and have the chance to approve KPPA proposed legislation.
Test Result:	<ol style="list-style-type: none"> 1. Both CEOs were notified and given the opportunity to comment on housekeeping bills for all three fiscal years before they were sent to the bill sponsor. 2. The Office of Legal Services indicated there are no statutory, regulatory, or board policies that require all trustees to be notified of purposed legislation or that require any of the three boards (CERS, KRS, and KPPA) to approve anything before a list or idea is sent to the bill sponsor. Please see finding #2.

Risk:	Policies and Procedures not Accurate
Control:	Division Director ensures procedures are up-to-date and available to all relevant staff.
COSO Element:	Control Activity
COSO Principle:	Management implements controls through policies.
Testing Methodology:	Auditor reviewed division procedures to ensure they were up-to-date, reflected current practices, and were available to staff.
Test Result:	Various procedures had not been documented for the legislative process. Please see finding #3.

Risk:	Housekeeping Bill Sent to Sponsor is not Complete
Control:	Members of the KPPA Executive Management Team develop the Housekeeping Bill based on multiple criteria - review ideas from staff, unintended consequences of bills passed in prior sessions, changes to federal law requiring state law to be changed, court orders, and audit recommendations.
COSO Element:	Control Activity
COSO Principle:	Management designs control activities to achieve objectives and respond to risks.
Testing Methodology:	Auditor compared the wish lists for each fiscal year against the final version of the housekeeping bill that was sent to a bill sponsor.

Test Result:	There were items on the wish list that were not sent to the bill sponsor. When auditor asked about the reasoning for these items not being included, members of the KPPA Executive Management team stated there is no process to document the reasoning for ideas not making it to the final list. Please see finding #3.
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Risk:	Housekeeping Bill not Filed by the Due Date
Control:	Bill sponsor sets due dates and KPPA staff monitor these dates to ensure they are met.
Risk:	Draft of Bill Does not Meet Original Intent
Control:	KPPA staff review the draft of the bill and communicate any concerns to bill sponsor.
Risk:	Effective Date of New Legislation is Unreasonable
Control:	KPPA staff communicate concerns with due dates to bill sponsor.
COSO Element:	Information and Communication
COSO Principle:	Management communicates necessary information externally.
Testing Methodology:	Information pertaining to these steps of the process are typically communicated verbally or the emails are not retained so there was no tangible evidence to test.
Test Result:	Please see finding #3 for recommendations related to this item.

Risk:	Violation of Record Retention Policy
Control:	Prior versions of the housekeeping bill wish list are maintained.
COSO Element:	Control Activity
COSO Principle:	Management implements controls through policies.
Testing Methodology:	Auditor confirmed that each fiscal year in scope had a rough draft of issues for executive consideration to include in the final list that goes to the bill sponsor.
Test Result:	No exceptions noted. However, prior to fiscal year 2024 there was no centralized list of issues noted by staff outside of the Office of Legal Services. See finding #3 for a recommendation pertaining to a centralized storage file.

Risk:	State law is not Compliant with Federal Law
Control:	KPPA staff compare federal law updates to current state law.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor reviewed notifications about updates to federal law and ensure necessary updates were suggested to state laws.
Test Result:	No exceptions noted. However, please see finding #3 for recommendations to improve the documentation of this process.

Risk:	Access to Housekeeping Wish List Folder is Inappropriate
Control:	Control not established. There is no official process to monitor and maintain an appropriate list of users with access to this folder.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor reviewed the list of users with access to folder. Auditor then asked a sample of users with access if they were aware they had access and knew how to use the folder.
Test Result:	Please see finding #4.

Risk:	State Regulations not Updated to Match New Legislation
Control:	Office of Legal Services staff update state regulations.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

Testing Methodology:	Auditor confirmed regulations were updated when required based on new legislation for fiscal years 2021 to 2023.
Test Result:	No exceptions were noted.

Risk:	Retirement and Other Related Bills are not Tracked
Control:	Updates on all "Acts Related to Retirement" are provided daily
COSO Element:	Information and Communication
COSO Principle:	Management communicates necessary information internally and externally.
Testing Methodology:	Confirmed all relevant bills for fiscal years 2021 to 2023 were tracked.
Test Result:	No exceptions noted.

Risk:	Legislative Changes not Implemented by the Due Date
Control:	Legislative implementation is prioritized
COSO Element:	Control Activity
COSO Principle:	Management designs control activities to achieve objectives and respond to risks.
Testing Methodology:	Auditor confirmed legislation was implemented or a manual work around was established prior to the due date of the new legislation.
Test Result:	No exceptions were noted.

Risk:	Manual Workarounds May be Required Until Legislation is Fully Implemented
Control:	Division directors work with DETS business analyst to determine how to process work until new legislation is implemented.
COSO Element:	Control Activity
COSO Principle:	Management designs control activities to achieve objectives and respond to risks.
Testing Methodology:	Auditor sent a legislative questionnaire to divisions impacted by legislation during fiscal years 2021 to 2023 to determine if manual workarounds were needed and, if so, to determine how long the workarounds were utilized before the new legislation was fully implemented.
Test Result:	No exceptions were noted.

Risk:	Staff not Properly Trained to Perform Job Duties
Control:	Employees are briefed on the changes resulting from new legislation.
COSO Element:	Information and Communication
COSO Principle:	Management communicates necessary information internally.
Testing Methodology:	Auditor sent a legislative questionnaire to divisions impacted by legislation during fiscal years 2021 to 2023 to determine if staff were trained on new legislation.
Test Result:	No exceptions were noted.

Risk:	Public not Made Aware of Impactful Changes
Control:	Impactful legislation is disclosed in the Annual Comprehensive Financial Report.
COSO Element:	Information and Communication
COSO Principle:	Management communicates necessary information externally.
Testing Methodology:	Auditor confirmed that sampled bills directly related to KPPA were listed in the Annual Comprehensive Financial Report, if required.
Test Result:	No exceptions were noted.

Appendix C – Background

Creation of the Housekeeping Bill

Starting in 2020, the Staff Attorney Supervisor began keeping a list of housekeeping items. This is now maintained by Policy Specialist (beginning in 2022). The items on this list are court decisions that require statutory changes or ideas that provided by staff if they notice that statutes do not match or are contradictory. Ideas to make statutes more efficient are also added to this list. For ideas to be added to the list, staff reach out to the Staff Attorney Supervisor or Policy Specialist

Around June or July, KPPA’s Executive Director begins working with legislators to find a sponsor for the KPPA Housekeeping Bill, while the list of what should be in the bill is being developed. Executive Directors work with their division directors to determine if there are items that need to be added to the list of housekeeping items. The KPPA Executive Management Team then reviews the final list of items to determine which items will be requested in the Housekeeping Bill provided to the bill sponsor. The CEOs of CERS and KRS as well as external stakeholders are consulted on potential changes. Changes required to clean up unintended consequences of bills passed in prior sessions, court decisions, federal law, and items that effect a large percentage of membership must also be considered.

The bill sponsor reviews the complete list of items in order to ensure they are appropriate for a housekeeping bill. Items that are not deemed housekeeping items are recommended for a separate bill. The information is then filed with the Legislative Research Committee to be drafted.

During the drafting process Legislative Research Committee staff communicate with KPPA staff and the bill sponsor to ensure the original intent has not been lost. Legislative Research Committee staff will also inquire as to whether any specific legal language should be used. The drafted version is provided to the bill sponsor for approval. The bill sponsor then presents the bill to the Public Pension Oversight Board for approval.

Tracking Legislation

According to section 36 of the Kentucky constitution, legislative sessions convene on the first Tuesday after the first Monday in January and each chamber, the Senate and the House, will set the rules for the session. The Legislative Research Commission posts all introduced bills with a title and summary of its contents to their website. The Communications Division Director reads through the summaries of all introduced bills. All titles that state “an act related to retirement” are tracked. Other titles that may impact operations such as “an act related to personnel” are also considered for tracking. The bills are separated based on those that impact retirement rules or funding and those that impact operational functions. The movement of bills through the legislative process is tracked and conveyed to KPPA staff, Trustees, and other interested parties on a daily basis.

The daily email from the Communications Division Director is used by DETS, the Office of Benefits, and the Deputy Executive Director so they can be proactive in responding to bills and to potentially get a head start on implementing a change if it is anticipated to be a difficult procedural change or require many hours of reprogramming.

DETS assigns business analysts and developers to read through the tracked legislation so they are prepared to work with affected divisions should bills pass.

Implementation

Members of the KPPA Executive Management Team work to educate legislators on the estimated time needed to implement a change to assist legislators in setting reasonable effective dates. Inconsistencies with federal retirement law are pointed out in the educational process as well. If a law is inconsistent with federal retirement law, KPPA will only implement parts of state law that do not contradict federal law since federal law takes precedence.

After the session is completed, the divisions impacted by the change will create a work group to determine how best to implement new laws. The following groups are included in the work group when needed:

1. DETS will be included if the change requires a programming change. Each division in the Office of Benefits and the Office of Operations has a designated business analyst that meets with the division workgroup in design sessions to discuss how Line of Business will operate to meet the new change. DETS also keeps track of the status of implementation through a spreadsheet that is shared with the workgroup.

2. Executives and Legal will be brought in if there is a question or disagreement with how to interpret the new law within the workgroup or if the intent is unclear.

After everyone in the workgroup and other groups involved agree on how the new law should be applied, the workgroup will log a Web Helpdesk ticket that will launch a work item so DETS programmers can complete the changes in time for the scheduled release. If several laws are passed at the same time, then implementation is completed according to business needs such as but not limited to, how soon a change needs to be implemented and how many members are affected. Manual workarounds will be developed by division directors if a programing change cannot be launched in time to meet the effective date.

Regulation Changes

The Staff Attorney Supervisor and the Policy Specialist work with the impacted division to update corresponding regulations to match the new law when needed. The appropriate board (CERS, KRS, KPPA) will then approve the updated regulation before it is submitted to the regulation compiler at the Legislative Research Committee.

Communication of Changes

The Executive Director-Office of Benefits creates a summary of all passed laws and brief Office of Benefits employees on how to implement the new change in their daily tasks and how to communicate the changes to members should they ask during calls or appointments.

Members and other stakeholders are informed about the changes through the following steps taken by the Division of Communications:

1. The last daily legislative update for each session includes a summary of the key retirement-related bills that passed. This is sent as an email to all KPPA staff, Trustees, and other stakeholders who have specifically asked to receive the daily emails. An edited version of that email is posted to the Legislative Update page of the KPPA website, where it remains until the next Session begins.
2. The spring edition of Pension Insights, member/retiree e-newsletter, features the major legislation from the just-completed Session. The newsletter contains highlights of certain bills and sometimes includes separate articles about individual bills to further explain their impact on members. The newsletter also includes a hyperlink to a more detailed summary of major bills that is written and placed in one document. The Division of Communications also emails the newsletter to everyone who has provided a valid email address (approximately 207,000 addresses at last count) and posts the newsletter on the KPPA website. Previous newsletters are also archived on the website.
3. The Division of Communications produces a newsletter for Kentucky Government Officials several times each year: the April/May edition always contains a summary of major legislation. This is emailed to all 138 legislators, cabinet officials, and various staff members in state government. This newsletter is also posted to the KPPA website.
4. The Director of Communications is invited to several Kentucky Public Retirees chapter meetings throughout the state in spring/summer to speak to their members about recent legislative happenings. These meetings help to spread awareness among our retirees.
5. For the last few years Communications has written Note N – Pension Legislation for the ACFR.
6. The Director of Communications provides background information and status reports of various bills and resolutions to the executive team for use in board meetings that occur during legislative Sessions.
7. Communications regularly uses KPPA social media outlets and website to draw attention to legislative happenings. Website data shows that these pages are among the most frequently visited.
8. Communications updates webpages and publications to reflect legislative changes and develop materials that explain legislative changes.



Kentucky Public Pensions Authority

Division of Internal Audit



Overall Opinion

Process complies with relevant statutes, regulations, policies, and procedures. Internal controls are established but are not working effectively and efficiently.

Summary of Findings

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

1. Justification for Xerox Correspondence Printer Selection not Documented
2. Vendor Invoice Review is not Effective

We noted certain other matters that we communicated to the Office of Legal Services and the Office of Benefits in separate letters dated April 30, 2024.

Commendations

We would like to commend Legal and Procurement/Office Services staff for already taking action to update their procedures in response to findings noted during the audit. Additionally, staff took the time to help auditors understand the process and promptly responded to questions. We would like to extend additional thanks to staff in Legal, Procurement/Office Services, IT, Disability and Survivor Benefits, Member Services, and Retiree Health Care who we worked with extensively during this audit.

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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. KRS – Kentucky Retirement Systems
4. CEO – Chief Executive Officer
5. CFO – Chief Financial Officer
6. 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 CFO.
7. Legal – KPPA Office of Legal Services
8. Procurement/Office Services – KPPA Division of Procurement and Office Services
9. IT – KPPA Division of Enterprise and Technology Services
10. Disability and Survivor Benefits – KPPA Division of Disability and Survivor Benefits
11. Member Services – KPPA Division of Member Services
12. Retiree Health Care – KPPA Division of Retiree Health Care
13. Payroll – KPPA Division of Retiree Payroll
14. Internal Audit – KPPA Division of Internal Audit
15. PPM – Page Per Minute
16. LOB – Line of Business
17. LM – Library Manager

Objectives

The Review of Disclosures During Correspondence audit was conducted from October 2023 to April 2024. The scope of the audit was July 1, 2022 to June 30, 2023. The report was issued on April 30, 2024.

The objectives of the Review of Disclosures During Correspondence audit were to ensure internal controls have been designed and are operating effectively and efficiently. We also ensured compliance with applicable state and federal statutes and regulations as well as policies established by the KPPA, CERS and KRS Boards and procedures developed by KPPA staff.

Use of Report

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; and the KPPA Offices of Legal Services, Benefits, and Operations. 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

1. Vendor Invoice Review is not Effective

Responsible Area(s):	Division of Procurement and Office Services
Condition:	<ol style="list-style-type: none"> 1. The two Nuvera printers did not report a correct meter read for all of calendar year 2023. The review of the invoices failed to detect this issue for both correspondence machines. 2. 136 of the 168 total items reviewed did not match the contracted rate. This is 80.95% of the population for fiscal year 2023.
Criteria:	<ol style="list-style-type: none"> 1. Finance Administrative Policies 111-45-00 states, “The invoice shall only be approved if the product or service billed has been delivered per the specifications within the Contract. Examples of items that shall be monitored include...work schedule/timetable, conflicts...payments...data...” 2. During the audit, a Xerox representative told audit staff that there should be no difference between the invoice and the printer meter reads.
Cause:	<ol style="list-style-type: none"> 1. Xerox representatives believe that the Nuvera printers were in sleep mode when they meter read reports were generated, causing inaccurate data to be reported. 2. KPPA Purchasing Branch Manager did not question the difference between the information reported on the invoices and the meter read reports because this individual had been incorrectly told by a representative from Xerox that these two documents would never match.
Effect:	Approximately 1.2 million images went unbilled, resulting in an amount due to the vendor between \$4,900 and \$5,200.
Recommendations:	Prior to paying the Xerox invoice, KPPA Purchasing Branch Manager should ensure that the data on the invoice matches the data on the meter read reports. The Purchasing Branch Manager should also recalculate the invoice amount to ensure it is accurate. Any discrepancies should be resolved prior to payment. In order to assist on this review, a worksheet could be developed that would quickly compare Xerox invoices to the meter read reports and recalculate the amount due to Xerox.
Recurring Issue:	No
Management Response:	The KPPA Purchasing Branch agrees with this recommendation and agrees to send the invoices back to Xerox when the invoice differs from the meter read reports. Additionally, Procurement will create a spreadsheet for tracking invoices returned for corrections.
Implementation Date:	June 28, 2024

2. Justification for Xerox Correspondence Printer Selection not Documented

Responsible Area(s):	KPPA Executive Management Team
Condition:	<p>In May 2021, a Xerox representative made recommendations for the printers used for special and regular correspondence processes based on the following information:</p> <ol style="list-style-type: none"> 1. The average monthly print volume for correspondence machines was between 90,000 and 100,000. 2. The Xerox Nuvera printers are recommended for agencies that print between 100,000 to 1,500,000 images printed per month. 3. Four times a year, the monthly total volume was 450,000.

	<p>Auditor performed an independent review of the information available at the time Xerox made their recommendation:</p> <ol style="list-style-type: none"> 1. The averages for each printer prior were as follows: <ol style="list-style-type: none"> 1. Fiscal Year 2019: <ol style="list-style-type: none"> 1. Special Correspondence - 22,024 (monthly); 1,049 (per business day) 2. Regular Correspondence - 110,408 (monthly); 2,258 (per business day) 2. Fiscal Year 2020: <ol style="list-style-type: none"> 1. Special Correspondence - 19,627 (monthly); 935 (per business day) 2. Regular Correspondence - 88,611 (monthly); 4,220 (per business day) 2. On all Regular Correspondence printers, KPPA printed 100,000 or more images for five months in fiscal year 2019 and four months in fiscal year 2020. KPPA met the minimum recommended print volumes 41.67% of the time in fiscal year 2019 and 33.33% of the time in fiscal year 2020. The Special Correspondence printer never reached the minimum print volume requirement. 3. The month with the highest print volume was July 2018 with 220,079 pages printed on a Regular Correspondence machine. Additionally, in July 2018, the Special Correspondence machine had a total of 86,420 pages printed, which was almost four times the monthly average. This is likely because of the passage of Regular Session 2018 Senate Bill 151, which caused a significant influx in retirement. 4. The pages per minute for each printer was as follows: <ol style="list-style-type: none"> 1. Fiscal Year 2019: <ol style="list-style-type: none"> 1. Special Correspondence - 69 (maximum); 17 (average) 2. Regular Correspondence - 175 (monthly); 88 (average) 2. Fiscal Year 2020: <ol style="list-style-type: none"> 1. Special Correspondence - 22 (maximum); 16 (average) 2. Regular Correspondence - 128 (maximum); 70 (average)
Criteria:	<p>200 Kentucky Administrative Regulation 38:070 Section (2) and 3(h)(3) states, “(2) Each fiscal officer shall develop and document internal controls to both prevent and detect abuse, unintentional errors, and the fraudulent disbursement of funds or use of state assets...the fiscal officer shall work with agency personnel to implement the internal controls and monitor their effectiveness...(3) An internal control plan shall include the following...(h) Assessment of the control environment, risks, impact of abuse, unintentional errors, and potential for fraud for the following...(3) Procurement practices....”</p>
Cause:	<p>Staff have not been trained on steps to take regarding review of vendor recommendations, including documentation that should be retained supporting the final selection.</p>
Effect:	<ol style="list-style-type: none"> 1. KPPA is locked in a 5-year contact with printers that may not meet business needs. 2. IT Desktop Support staff spend a great deal of time correcting errors on the correspondence machines rather than focusing on other job-related tasks. 3. There are times when an entire correspondence batch must be discarded and reprinted as a result of the issues with the printers, which results in a waste of agency time and resources.
Recommendations:	<ol style="list-style-type: none"> 1. Procurement/Office Services Assistant Director should develop procedures to analyze actual printer usage. Actual printer usage should then be analyzed, at least annually. Additional analysis should be performed on the special and regular correspondence print volumes after the paperless project is fully implemented. The conclusions of the analysis should be utilized prior to entering into future printer contracts. Alternatively, Internal Audit staff can perform this analysis, upon request.

	<p>2. When a procurement option is selected, justification for the selection should be kept on file. It is not necessary to document every meeting or conversation had during the procurement process; however, at a minimum, the selection team should document the following:</p> <ol style="list-style-type: none"> 1. Needs of the agency. 2. How the selected option best met the agency's needs. 3. Why the other options did not meet the agency's needs. 4. In relation to the agency printers, the selection team should consider retaining metrics measuring the appropriateness of the printers considered and reasoning for accepting or declining the vendor's recommendations
Recurring Issue:	No
Management Response:	<p>1. Our team will be working on developing procedures to analyze the printer usage. We're currently working with Xerox to develop more accurate reports and address known errors. Special and regular correspondence and counts for print volume can be determined by IT. KPPA business needs are evaluated prior to entering any contract.</p> <p>2. Recommendations were also based on print speed and meeting peak print times (daily) not just average monthly performance. The thought being that if the greater of the two machines is needed only once or twice a year, we still must go with the larger machine to cover KPPA business needs. Should a reprint of correspondence be needed, the larger machine was considered for a faster run to ensure processing times would not be delayed. Reducing the number of errors was also considered. The larger printers were recommended as having less errors when running our correspondence. Error issues were a major complaint of the previous printers, which involved a lot of IT manpower to resolve. A reduction in errors was a major factor that was considered in the recommendation. From the start, the current machines have had numerous errors and still require too much IT involvement. However, we could not have predicted that at the time of printer selection. These justifications, as well as audit recommendations above, can be documented and kept on file after the next printer procurement.</p> <p>Printing jobs will never be 100% smooth every time regardless of the machine. Large batches that require hundreds/thousands of pages to be pulled through a complex system will cause jams or machine errors from time to time. If there is a hint of a mistake or disclosure the KPPA team will rerun the batch. Although the goal is to reduce the number of occurrences by getting better machines, it would likely occur with any machine by any vendor. It's important to note that Xerox holds the state master agreement and only certain units were available for KPPA to choose from at the time.</p>
Implementation Date:	December 31, 2024

Appendix B – Risks and Testing Methodology

Risk:	Inaccurate agency printer invoices
Control:	Invoices are reviewed prior to payment
COSO Element:	Control Activity
COSO Principle:	Management implements control activities through policies.
Testing Methodology:	Auditor used the contracted rates to recalculate the black/white charges and the color charges. Auditor determined if there was a difference between the recalculated amount and the amount actually charged.
Test Result:	Please see finding #1

Risk:	Inefficient use of agency printers
Control:	Actual usage is compared to recommended usage (control not yet established, but recommended)
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor compared prior printer invoiced images to new vendor’s recommended usage. Auditor, and other KPPA staff, met with Xerox representatives to discuss how the Nuvera printers were recommended, how meter read reports should be read, and trends detected in the meter read reports.
Test Result:	Please see findings #1 and #2.

Risk:	Process to report disclosures not established
Control:	Legal staff investigate all disclosures
COSO Element:	Control Activity
COSO Principle:	Management implements control activities through policies.
Testing Methodology:	Auditor reviewed correspondence disclosures that occurred during the audit scope and ensured Legal staff investigated the disclosures, notified members when needed, and retained documentation related to the disclosures.
Test Result:	Refer to Legal management letter.

Risk:	Disclosures may occur during the correspondence process.
Control #1:	Auto Stuffer Counts Pages in Each Packet
Control #2:	Special Handling is Manually Stuffed (one packet per member)
COSO Element:	Control Activity
COSO Principle:	Management implements control activities through policies.
Testing Methodology:	Auditor selected one business day based on the highest packet count and pulled a systematic sample of 60 envelopes during the selected business day. The page count of sampled packets was compared against the coversheet page count. Auditor matched recipient of contents in sampled special handling to recipient shown on the cover letter
Test Result:	Refer to KPPA Executive Management Team management letter.

Risk:	Regular and Special correspondence not mailed timely
Control:	Staff work on correspondence daily to ensure it is mailed the day it is printed.
COSO Element:	Control Activity
COSO Principle:	Management implements control activities through policies.

Testing Methodology:	Auditor confirmed that correspondence sampled was mailed on the day it was printed.
Test Result:	No exceptions noted.

Risk:	Regular and Special correspondence not completed
Control #1:	Journal comments document contents of correspondence mailed to members.
Control #2:	Specific mailings are certified.
Control #3:	Mailings related to Qualified Domestic Relations Orders are notarized.
COSO Element:	Control Activity
COSO Principle:	Management implements control activities through policies.
Testing Methodology:	Auditor confirmed that sampled correspondence included a journal comment in the member’s account. If necessary, auditor confirmed that a copy of the certified mail slip was on file in the member’s account. For sampled Qualified Domestic Relations Orders, auditor confirmed that the letter was notarized by KPPA staff.
Test Result:	No exceptions noted.

Risk:	Printer malfunctions cause delays.
Control:	IT staff address errors and printing issues.
COSO Element:	Monitoring
COSO Principle:	Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
Testing Methodology:	Auditor reviewed email notifications from IT staff who regularly deal with errors. This process started in March 2023. Auditor confirmed that correspondence was successfully printed and mailed on days where errors caused delays.
Test Result:	No exceptions noted.

Risk:	Policies and procedures not established or documented
Control:	Division Director ensures procedures are complete and available to staff on SharePoint.
COSO Element:	Information and Communication
COSO Principle:	Management communicates necessary information internally.
Testing Methodology:	Auditor reviewed division procedures to ensure they were up-to-date, reflected current practices, and were available to staff.
Test Result:	No exceptions noted.

Risk:	Trustees do not receive complete information in a timely manner.
Control:	Legal staff present disclosure related information to the KPPA Audit Committee on a quarterly basis.
COSO Element:	Information and Communication
COSO Principle:	Management communicates necessary information internally.
Testing Methodology:	Auditor verified that information related to disclosures was reported to the KPPA Audit Committee quarterly.
Test Result:	No exceptions noted.

Appendix C – Background

Correspondence requests can be generated by counselors or members. Around 8:00 p.m., the correspondence to be mailed the next day prints automatically.

DETS Process

First thing each morning, IT staff checks both printers to ensure printing was completed. If so, correspondence is collected from the server room printer (regular correspondence) and the supply room printer (special correspondence) and delivered to the mailroom. The correspondence is delivered with a printout showing the total regular correspondence and special correspondence in the batch. If the correspondence did not print, IT staff investigates to determine why. If a paper jam is found, it is cleared, and the correspondence continues to print. If an error code is found, IT staff take a picture of the error code so it can be used when logging a ticket with the printer vendor. All correspondence printed before the error occurred is placed in the mailroom's shred box. The printer is restarted, and the entire correspondence file is sent to the printer to be reprinted. IT staff notifies the mailroom and KPPA management if correspondence will not be ready by 9:00 a.m. Another email is sent if the correspondence will not be completely printed by 10:00 a.m. In these instances, the printer vendor is contacted and a service call is requested. All error codes are documented and sent to the printer vendor in a weekly update.

Mailroom process

Procurement/Office Services staff pick up incoming mail multiple times a day, starting at 7:00 a.m. The incoming mail is sorted by the appropriate division and then placed in the division's basket outside of the mailroom. KPPA divisions have a designated staff member that picks up mail.

Regular correspondence

1. Separated into 4-to-6-inch stacks and sent through the automatic envelope stuffing machine.
2. Individual correspondence items are separated with a cover sheet.
3. The last page of each correspondence is scanned first, and the coversheet is scanned last. The envelope stuffing machine reads the barcode on each coversheet to determine if the correct number of pages are included prior to the correspondence being placed in the envelope.
4. The machine then counts the number of envelopes filled. If a piece of correspondence is not stuffed by machine because of a jam, these are manually stuffed by the mailroom staff.
5. Procurement/Office Services staff compare number of envelopes to the total envelopes expected for the day to ensure the proper number of correspondence mailings.
6. Correspondence is delivered to the post office. Regular correspondence must be mailed the same day it is received by the mailroom. If the correspondence is received by the post office by 4:00 p.m., it is guaranteed to be mailed the same day.

Special correspondence

1. Sort into the four types of special handling: Disability and Survivor Benefits, Retiree Health Care, Member Services, and Payroll. Each division has a designated staff member assigned to preparing these special letters.
2. Special correspondence is prepared with each letter alternating between vertical and horizontal orientation to make a clear distinction between letters.
3. Mailroom staff collect special correspondence each day from the mail bins located near the divisions that have special mailings.
4. The special correspondence is delivered to the post office, preferably by 4:00 p.m.

Disability Special Handling Process

Staff receive special handling from the mailroom. For each packet that is created, Disability and Survivor Benefits staff looks up the member's account and reviews the journal comment in the member's account to determine what should be in the special correspondence packet. The Disability and Survivor Benefits staff member then creates a new journal comment confirming the information included in the special correspondence packet. The Disability and Survivor Benefits staff members verifies that all information is included and then places the correspondence in an envelope. The stuffed envelopes are placed in the outgoing mail bucket to be picked up by mailroom staff. An email is then sent to the Disability and Survivor Benefits group detailing which member packets have been mailed.

Insurance Special Handling Process

Staff receive special handling from the mailroom. The correspondence is separate by the member's ID. For each packet that is created, Retiree Health Care staff looks up the member's account and reviews the journal comment in the member's account to determine what should be in the special correspondence packet. Retiree Health Care staff verify that the correspondence includes all the required information and then add a journal comment with the date the correspondence was mailed. If the letter must be sent via certified mail, the Certified Mail template is used to generate the Certified Mail label, which is attached to the envelope. The mailroom takes the certified mail card to the post office for processing. The stuffed envelopes are placed in the outgoing mail bucket to be picked up by mailroom staff. Once the certified mail card is returned, the member ID and form number is added to the card, and it is sent to imaging to be added to the member's library manager.

Member Services Special Handling Process

Staff receive special handling from the mailroom. The correspondence is separated by members under 65, over 65, or not eligible for insurance. Those stacks are then separated by retirement date - current year or next year. Once everything is separate, Member Services staff make a journal comment in the member's account detailing what is included in each correspondence packet. to determine what should be in the special correspondence packet. Occasionally counselors will email wanting to change what is being sent or requesting not to send something. This could happen if the member has scheduled an appointment and will not have time to receive the packet before the appointment. This could also happen if member services staff have reason to believe there is an error in the correspondence packet. In those instances, the packet is checked, and documents are added, removed, or edited. Member Services staff then place the correspondence in an envelope. The stuffed envelopes are placed in the outgoing mail bucket to be picked up by mailroom staff. Pickup happens twice a day - around 11:30 a.m. and 2:30 p.m.

Payroll Special Handling Process

Staff receive special handling from the mailroom. For each packet that is created, Payroll staff verify the forms received and ensure the data on the forms is correct. Payroll staff then ensure all forms requested were received. The letters are signed by the division director and notarized by a KPPA staff member. If more than one individual needs to receive the correspondence, a copy is made. A copy of the correspondence is uploaded into the member's account. Payroll staff then places the correspondence in an envelope. The stuffed envelopes are placed in the outgoing mail bucket to be picked up by mailroom staff.

Disclosure Review Process

Legal staff receive an email that a potential disclosure has been reported either from the manager of the area with the potential disclosure or from call center management if a member calls in to report an issue. A worksheet of information pertaining to the potential disclosure is completed so that an investigation can be completed. Legal staff then work with the division that reported the potential disclosure to gather all relevant information. If it is determined that a disclosure occurred, the member(s) effected are notified.



Kentucky Public Pensions Authority

Division of Internal Audit



The Review of Disclosures During Correspondence audit was conducted from October 3, 2023, to April 5, 2024. The scope of the audit was July 1, 2022 to June 30, 2023. In addition to the recommendations included that report, we noted two recommendations that we wanted to communicate to the KPPA Executive Management Team. These items will be reviewed during follow-up engagements and/or during a review of open recommendations.

The objectives of the Review of Disclosures During Correspondence audit were to ensure internal controls have been designed and are operating effectively and efficiently. We also ensured compliance with applicable state and federal statutes and regulations as well as policies established by the KPPA, CERS, and KRS Boards and procedures developed by KPPA staff.

Acronyms

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. CEO – Chief Executive Officer
7. CFO – Chief Financial Officer
8. 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

Additional Recommendations

1. **The KPPA Executive Management Team should research the possibility of designating a separate room for front office staff to utilize while indexing mail and preparing special correspondence.**
2. **The KPPA Executive Management Team should work with the Procurement and Office Services Assistant Director to secure mail stored around the buildings. The following steps should be considered:**
 - a. **The big mail center by door four (Building A) has a camera pointed in the direction of the door. However, the big mailbox is about halfway on screen. Consider moving the table so that the mailbox is in full view of the door four camera.**
 - b. **Consider adding an additional step to the mail processing procedures that would require people handling the mail to email the appropriate division when mail is ready for pick-up. If something were to be misplaced or taken, the email would create a timestamp of when to start reviewing cameras. For example, if a check is put into the accounting mailbox and someone removes the check before a Division of Accounting employee can complete the pickup, the sent time on the email would provide a starting point for the time the check was removed from the box. While this solution would not prevent the opportunity for improperly removing mail, it would potentially provide a way to track items more quickly should something go missing.**

During the audit we noted the following:

1. Special Correspondence is handled by staff working at the front desk in Building A. While screens are turned away from the counter, incoming and outgoing mail could be seen if staff fail to turn the mail facedown when the counter is approached by outside parties.

2. The incoming and outgoing mail hubs in buildings A and C are accessible to all KPPA employees. No instance has been reported of a KPPA visitor or employee misplacing or improperly taking documents, therefore, KPPA staff do not believe this is likely to happen in the future. However, misplaced or improperly taken items would be difficult to locate, which may cause issues with processing member benefits.

Management Response:

1. The KPPA Executive Management Team agrees to the extent there is a separate room available for processing mail and adequate front desk coverage is available to move away from the area to do so. Currently, a separate room is being utilized to process mail, however, should that space become unavailable due to a shortage of space for employees to sit, then mail may have to be processed in the front desk area. Additionally, if adequate coverage is not available to allow the employee to leave the area, the processing will have to occur in the front desk areas. All KPPA employees are trained on member/data confidentiality requirements, required to participate in quarterly security training, and assigned KPPA Management policies to review acknowledge on an annual basis. All employees should adhere to the KPPA Access Control and Data Protection policies in all facets of their daily job duties.
2. Management provided the following responses:
 - a. Mail table was moved to fully be within security camera view.
 - b. Disagree. Since the table is within view of the security camera, if someone were to take a document/check we could pull up the footage. In response to example given, the Division of Accounting checks are hand delivered by the mailroom to Division of Accounting staff in Building C. If no one from the Division of Accounting can be found, then the check is returned to the mail table in Building A, which is within view of the security camera.

Auditor Response:

Having the mailbox in full view is an added security measure. Our additional recommendation pertaining to staff sending an email was made to assist in tracking down pieces of mail quickly, should any turn up missing. The additional step of requiring the email was recommended in an effort to assist in establishing a timeline for reviewing camera footage.

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 Management Team; and the Division of Procurement and Office Services. This report is not intended to be, and should not be, used by anyone other than the specified parties. All final reports and management letters are subject to Open Records Requests.



Kentucky Public Pensions Authority

Division of Internal Audit



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Pensions Authority

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The objectives of the Review of Disclosures During Correspondence audit were to ensure internal controls have been designed and are operating effectively and efficiently. We also ensured compliance with applicable state and federal statutes and regulations as well as policies established by the KPPA, CERS, and KRS Boards and procedures developed by KPPA staff.

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
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6. CEO – Chief Executive Officer
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8. 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

Additional Recommendations

1. **Notify member of disclosure**
2. **Consider updating the Disclosure Worksheet to include the following:**
 - **The date the disclosure letter is sent to the member.**
 - **The date the disclosure letter is uploaded to Library Manager.**
 - **The date Form 2800 is uploaded to Library Manager.**

During the audit we noted the following:

1. KPPA failed to notify one member in a timely manner about a disclosure of their information. The Office of Legal Services was transitioning the responsibility of investigating potential disclosures when this disclosure occurred. The KPPA Internal Disclosure Policy states, “If confidential member data, account information, personal information, and/or protected health information is disclosed or breached in a manner violating state or federal law, KPPA is obligated to notify all members affected by the disclosure or breach in accordance with the applicable state or federal law. Members should be notified within 35 days of discovery of a disclosure.”
2. One of ten correspondence disclosures did not have a form 2800 uploaded to Library Manager. The worksheet used to track disclosures does not contain a column noting the date the member is notified of the disclosure. Additionally, the Disclosure Worksheet procedures do not include a step to ensure letters sent to members are uploaded to Library Manager. While there is not a law or agency policy requirement to include disclosure notification letters in a member's Library Manager file, Office of Legal Services staff expressed that this was best practice.

Management Response:

1. The Office of Legal Services agrees with this recommendation and has already implemented steps to ensure that members receive prompt notification of disclosures going forward.
2. The worksheet is used for preliminary documentation for staff to provide to attorneys for review. The Sharepoint/Teams site is used for tracking and retention purposes. At the time of the specific incident where the member was not timely notified of the disclosure of their information, this process (worksheet + Sharepoint/Teams site) was not fully implemented. Now that this process is in place, the Office of Legal Services does not believe that additional tracking is warranted to ensure that members are timely notified of disclosures. There is no legal or policy requirement to include disclosure notification letters in a member's Library Manager file.

Auditor response:

As noted, we agree that there is no law or agency policy requirement to include disclosure notification letters in a member's Library Manager file. Our recommendation to update the Disclosure Worksheet was made to provide a way for Legal staff to easily see that the required steps have been completed. If management believes the current process is sufficient to ensure the required steps are completed timely, then these additional recommended steps may not be needed.

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Root Cause Analysis Explained: Definition, Examples, and Methods

The easiest way to understand root cause analysis is to think about common problems. If we're sick and throwing up at work, we'll go to a doctor and ask them to find the root cause of our sickness. If our car stops working, we'll ask a mechanic to find the root cause of the problem. If our business is underperforming (or overperforming) in a certain area, we'll try to find out why. For each of these examples, we could just find a simple remedy for each symptom. To stop throwing up at work, we might stay home with a bucket. To get around without a car, we might take the bus and leave our broken car at home. But these solutions only consider the symptoms and do not consider the underlying causes of those symptoms – causes like a stomach infection that requires medicine or a busted car alternator that needs to be repaired. To solve or analyze a problem, we'll need to perform a root cause analysis and find out exactly what the cause is and how to fix it.

In this article, we'll cover the following:

1. [Definition of root cause analysis](#)
2. [Benefits and goals of root cause analysis](#)
3. [How to conduct root cause analysis](#)
4. [Tips for performing root cause analysis](#)

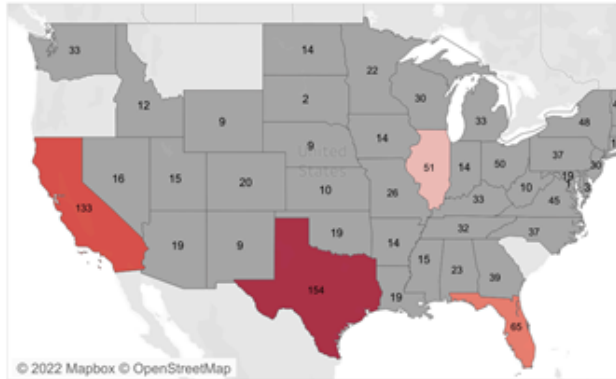
What is root cause analysis?

Root Cause Analysis - Worker Fatality in U.S for 2014

4/6/2014 to 9/23/2015

Data Source: OSHA.GOV. This dashboard is only for illustration purpose, for accurate information please visit OSHA.gov

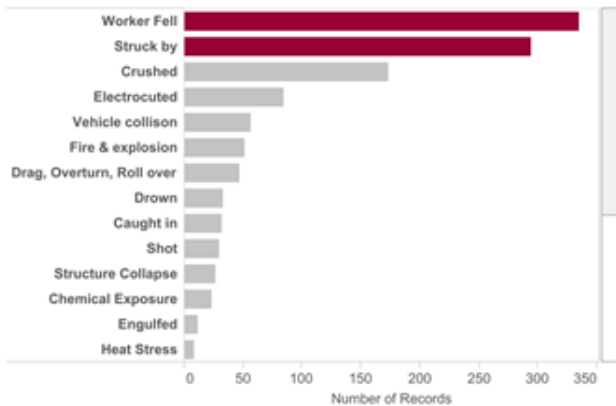
Hover over a State to see related causes



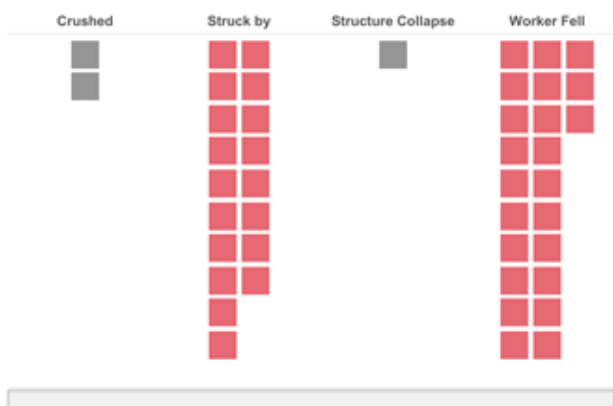
Top 3 States with fatalities



Fatal Causes



Tree related work fatalities



Root cause analysis (RCA) is the process of discovering the root causes of problems in order to identify appropriate solutions. RCA assumes that it is much more effective to systematically prevent and solve for underlying issues rather than just treating ad hoc symptoms and putting out fires. Root cause analysis can be performed with a collection of principles, techniques, and methodologies that can all be leveraged to identify the root causes of an event or trend. Looking beyond superficial cause and effect, RCA can show where processes or systems failed or caused an issue in the first place.

Core principles

There are a few core principles that guide effective root cause analysis, some of which should already be apparent. Not only will these help the analysis quality, these will also help the analyst gain trust and buy-in from stakeholders, clients, or patients.

- Focus on correcting and remedying root causes rather than just symptoms.
- Don't ignore the importance of treating symptoms for short term relief.
- Realize there can be, and often are, multiple root causes.
- Focus on HOW and WHY something happened, not WHO was responsible.
- Be methodical and find concrete cause-effect evidence to back up root cause claims.
- Provide enough information to inform a corrective course of action.
- Consider how a root cause can be prevented (or replicated) in the future.

As the above principles illustrate: when we analyze deep issues and causes, it's important to take a comprehensive and holistic approach. In addition to discovering the root cause, we should strive to provide context and information that will result in an action or a decision. Remember: good analysis is actionable analysis.

Benefits and goals of root cause analysis

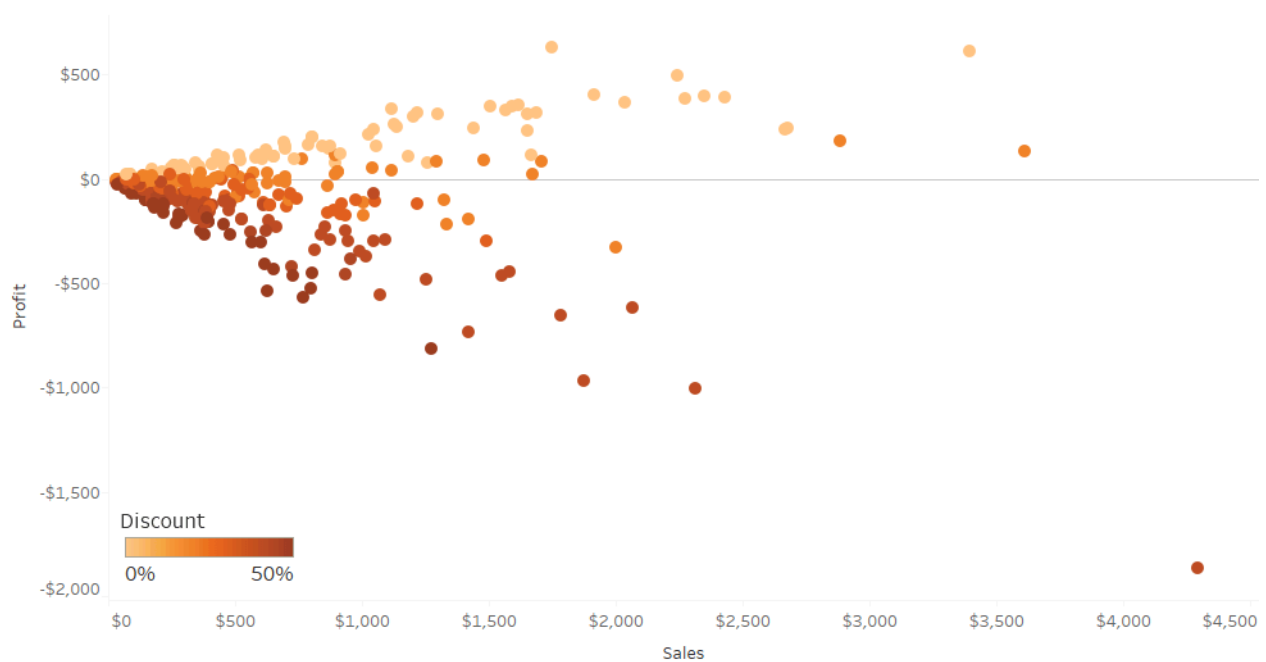
The first goal of root cause analysis is to discover the root cause of a problem or event. **The second goal** is to fully understand how to fix, compensate, or learn from any underlying issues within the root cause. **The third goal** is to apply what we learn from this analysis to systematically prevent future issues or to repeat successes. Analysis is only as good as what we do with that analysis, so the third goal of RCA is important. We can use RCA to also modify core process and system issues in a way that prevents future problems. Instead of just treating the symptoms of a football player's concussion, for example, root cause analysis might suggest wearing a helmet to reduce the risk of future concussions. Treating the individual symptoms may feel productive. Solving a large number of problems looks like something is getting done. But if we don't actually diagnose the real root cause of a problem we'll likely have the same exact problem over and over. Instead of a news editor just fixing every single omitted Oxford comma, she will prevent further issues by training her writers to use commas properly in all future assignments.

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**How to conduct an effective root cause
analysis: techniques and methods**

*Asking why, step 4:**Sales and Profit for all Tables, and Orders. Colour shows Discount.*

There are a large number of techniques and strategies that we can use for root cause analysis, and this is by no means an exhaustive list. Below we'll cover some of the most common and most widely useful techniques.

5 Whys

One of the more common techniques in performing a root cause analysis is the [5 Whys approach](#). We may also think of this as the annoying toddler approach. For every answer to a WHY question, follow it up with an additional, deeper “Ok, but WHY?” question. Children are surprisingly effective at root cause analysis. Common wisdom suggests that about five WHY questions can lead us to most root causes—but we could need as few as two or as many as 50 WHYS. **Example:** Let's think back to our football concussion example. First, our player will present a problem: Why do I have such a bad headache? This is our first WHY. First answer: Because I can't see straight. **Second why:** Why can't you see straight? Second answer: Because I my head hit the ground. **Third why:** Why did your head hit the ground? Third answer: I got hit tackled to the ground and hit my head hard. **Fourth why:** Why did hitting the ground hurt so much? Fourth answer: Because I wasn't wearing a helmet. **Fifth why:** Why weren't you wearing a helmet? Fifth answer: Because we didn't have enough helmets in our locker room. Aha. After these five questions, we discover that the root cause of the concussion was most likely from a lack of available helmets. In the future, we could reduce the risk of this type of concussion by making sure every football player has a helmet. (Of course, helmets don't make us immune to concussions. Be safe!) The 5 Whys

serve as a way to avoid assumptions. By finding detailed responses to incremental questions, answers become clearer and more concise each time. Ideally, the last WHY will lead to a process that failed, one which can then be fixed.

Change Analysis/Event Analysis

Another useful method of exploring root cause analysis is to carefully analyze the changes leading up to an event. This method is especially handy when there are a large number of potential causes. Instead of looking at the specific day or hour that something went wrong, we look at a longer period of time and gain a historical context. **1.** First, we'd list out every potential cause leading up to an event. These should be any time a change occurred for better or worse or benign. **Example:** Let's say the event we're going to analyze is an uncharacteristically successful day of sales in New York City, and we wanted to know why it was so great so we can try to replicate it. First, we'd list out every touch point with each of the major customers, every event, every possibly relevant change. **2.** Second, we'd categorize each change or event by how much influence we had over it. We can categorize as Internal/External, Owned/Unowned, or something similar. **Example:** In our great Sales day example, we'd start to sort out things like "Sales representative presented new slide deck on social impact" (Internal) and other events like "Last day of the quarter" (External) or "First day of Spring" (External). **3.** Third, we'd go event by event and decide whether or not that event was an unrelated factor, a correlated factor, a contributing factor, or a likely root cause. This is where the bulk of the analysis happens and this is where other techniques like the 5 Whys can be used. **Example:** Within our analysis we discover that our fancy new Sales slide deck was actually an unrelated factor but the fact it was the end of the quarter was definitely a contributing factor. However, one factor was identified as the most likely root cause: the Sales Lead for the area moved to a new apartment with a shorter commute, meaning that she started showing up to meetings with clients 10 minutes earlier during the last week of the quarter. **4.** Fourth, we look to see how we can replicate or remedy the root cause. **Example:** While not everyone can move to a new apartment, our organization decides that if Sales reps show up an extra 10 minutes earlier to client meetings in the final week of a quarter, they may be able to replicate this root cause success.

Cause and effect Fishbone diagram

Another common technique is creating [a Fishbone diagram, also called an Ishikawa diagram](#), to visually map cause and effect. This can help identify possible causes for a problem by encouraging us to follow categorical branched paths to potential causes until

we end up at the right one. It's similar to the 5 Whys but much more visual. Typically we start with the problem in the middle of the diagram (the spine of the fish skeleton), then brainstorm several categories of causes, which are then placed in off-shooting branches from the main line (the rib bones of the fish skeleton). Categories are very broad and might include things like "People" or "Environment." After grouping the categories, we break those down into the smaller parts. For example, under "People" we might consider potential root cause factors like "leadership," "staffing," or "training." As we dig deeper into potential causes and sub-causes, questioning each branch, we get closer to the sources of the issue. We can use this method eliminate unrelated categories and identify correlated factors and likely root causes. For the sake of simplicity, carefully consider the categories before creating a diagram. **Common categories to consider in a Fishbone diagram:**

- Machine (equipment, technology)
- Method (process)
- Material (includes raw material, consumables, and information)
- Man/mind power (physical or knowledge work)
- Measurement (inspection)
- Mission (purpose, expectation)
- Management / money power (leadership)
- Maintenance
- Product (or service)
- Price
- Promotion (marketing)
- Process (systems)
- People (personnel)
- Physical evidence
- Performance
- Surroundings (place, environment)
- Suppliers
- Skills

Tips for performing effective root cause analysis

Ask questions to clarify information and bring us closer to answers. The more we can drill down and interrogate every potential cause, the more likely we are to find a root cause. Once we believe we have identified the root cause of the problem (and not just another symptom), we can ask even more questions: Why are we certain this is the root cause instead of that? How can we fix this root cause to prevent the issue from happening again? Use simple questions like “why?” “how?” and “so what does that mean here?” to carve a path towards understanding.

Work with a team and get fresh eyes

Whether it’s just a partner or a whole team of colleagues, any extra eyes will help us figure out solutions faster and also serve as a check against bias. Getting input from others will also offer additional points of view, helping us to challenge our assumptions.

Plan for future root cause analysis

As we perform a root cause analysis, it’s important to be aware of the process itself. Take notes. Ask questions about the analysis process itself. Find out if a certain technique or method works best for your specific business needs and environments.

Remember to perform root cause analysis for successes too

Root cause analysis is a great tool for figuring out where something went wrong. We typically use RCA as a way to diagnose problems but it can be equally as effective to find the root cause of a success. If we find the cause of a success or overachievement or early deadline, it’s rarely a bad idea to find out the root cause of why things are going well. This kind of analysis can help prioritize and preemptively protect key factors and we might be able to translate success in one area of business to success in another area.

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