KPPA Audit Committee
Special Called Meeting
September 9, 2026 at 10:00 a.m. Eastern Time
Live Video Conference/Facebook Live

AGENDA

1.	Call to Order	William Summers
2.	Opening Video Teleconference Statement	Legal Services Representative
3.	Roll Call	Sherry Rankin
4.	Public Comment	Sherry Rankin
5.	**Approval of June 10, 2026 KPPA Audit Committee Minutes***	William Summers
6.	Office of Legal Services Updates	
	a. Information Disclosure Incidents	Nathan Goodrich
	b. Anonymous Tips	Stephanie Hold
7.	External Audit Updates	
	a. Financial Statements for Fiscal Year Ended June 30, 2026 (unaudited)	Mike Lamb
	b. Discussion of External Audit Timetable	Eide Bailly, LLP
8.	Audit Committee Annual Approval Items	
	a. **Audit Plan for July 1, 2026 to June 30, 2028***	Kristen Coffey
	b. **Charter for the KPPA Audit Committee***	Madeline Evans
	c. **Charter for the Division of Internal Audit***	Madeline Evans
9.	**Office Space Utilization Project***	Erin Surratt Kristen Coffey
	Optional Break (5-10 minutes)	William Summers
10.	Chief Financial Officer Updates	Mike Lamb
	a. **Finalized Retirement Allowance Account Memorandum***	
	b. **Discussion on JP Morgan Chase Bank Open Audit Items***	
11.	KPPA Audit Committee Administrative Updates	
	a. Internal Audit Budget as of June 30, 2026	Zach Curtis
	b. Status of Current Internal Audit Projects	Kristen Coffey
12.	Review of 2026-11 Employer Audits under KRS 61.5991	James Westbay Kristen Coffey
13.	**Issued Reports and/or Memorandums***	
	a. 2026-7 Tier 3 Opt-In Process	Zach Curtis
	b. 2026-15 Manual Remittance Process	Zach Curtis
	c. 2026-10 Agency Critical Processes	Will Prince
	d. 2026-12 Annual Dependent Verification Process	Madeline Evans
	e. 2026-13 Training Process for Various Leave Types	Madeline Evans
	f. 2026-14 System Build Process	Madeline Evans
	g. 2026-18 Document Imaging Process	Madeline Evans
14.	Adjourn	William Summers

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

MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
AUDIT COMMITTEE SPECIAL CALLED MEETING
JUNE 10, 2026, 2:00 P.M., E.T.
VIA LIVE VIDEO TELECONFERENCE

At the June 10, 2026, Special Called Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William Summers, V (Chair), George Cheatham, Lynn Hampton, Larry Totten, Patricia Carver, and Steve Webb. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Michael Lamb, Odette Gwandi, Victoria Hale, Nathan Goodrich, Stephanie Hold, Kristen Coffey, Madeline Evans, James Westbay, William Prince, Zachary Curtis, Wes Crosthwaite, Connie Davis, Phillip Cook, Sherry Rankin, and Mary Hill.

1. Mr. Summers called the meeting to order.

2. Ms. Hale read the ***Opening Video Teleconference Statement***.

3. Ms. Rankin ***called roll***.

4. Ms. Rankin noted that there were no ***Public Comments*** received.

5. Mr. Summers introduced agenda item ***Approval of February 24, 2026, KPPA Audit Committee Minutes.*** *(Video 00:05:44 to 00:06:17).* Ms. Hampton made a motion to approve the February 24, 2026, minutes. Mr. Cheatham seconded the motion. The motion passed unanimously.

6. Mr. Summers introduced agenda item ***Office of Legal Services Updates*** *(Video 00:06:21 to 00:09:06).* Mr. Goodrich stated the legal team reviewed fourteen (14) potential breaches, nine (9) of which were found to be a breach and seven (7) of those implicated KPPA's data disclosure notification policy. Of these, there were no HIPAA or state law breaches, however. The breaches were found to have occurred due to system errors which resulted in mail being sent to the wrong members. Mr. Summers then introduced Stephanie Hold

to discuss anonymous tips. Ms. Hold stated there were five (5) new tips received, with two (2) closed after review and three (3) currently pending. Two (2) pending tips involve prearranged agreements, and one involves retirement credit allegations. Two (2) additional open tips involve employer contributions and disability fraud allegations. Four (4) tips were closed since the last audit meeting. One (1) involved an employer not making required contributions, now addressed by ERCE. Another one concerned fraud allegations about a beneficiary change and is being monitored by IT security. One (1) related to an alleged eviction and was closed due to no involvement of a KPPA member. Lastly, a potential Medicaid fraud case was passed on with correct contact information to the tipster in order for the tipster to make the complaint with the correct agency.

*** Dr. Carver entered the meeting at this time. ***

7. Mr. Summers introduced agenda item ***Update on Retirement Allowance Account Research*** *(Video 00:09:27 to 00:35:34).* Mr. Lamb presented research findings on the Retirement Allowance Account ("RAA"), confirming it is an equivalent of a governmental accounting fund balance and has been correctly accounted for since the systems' inception. It was clarified that "retained earnings" is the private sector equivalent of "fund balance." Mr. Cheatham raised questions about clearing the audit items and the recommendations from the Finance Cabinet, suggesting a legislative adjustment may be necessary. Mr. Lamb clarified that his memo was intended to show that the recommendations from Internal Audit were concluded and KPPA remains in compliance. He also stated that after conversations with the Finance Cabinet, he does not believe they have any specific recommendations regarding the RAA and that their mention of legislative action was merely guidance in the event that KPPA felt it should take that step.

   After a brief discussion and a clarification that this item was not included for action, but for informational purposes only, it was determined that the particular audit item can likely be closed. However, there are additional audit findings that are still being researched and will be presented at the next Audit Committee meeting. Mr. Cheatham posed a question about the balances and control of trust accounts and Mr. Lamb gave a brief explanation of how those trust accounts are maintained and accounted for, including the clearing account which is monitored every day. There was further discussion and clarification regarding the

differences between bank and accounting accounts and how those accounts are maintained. Mr. Lamb stated that he will reach out to the Finance Cabinet for some clarification and a written opinion, specifically regarding the JP Morgan accounts.

8. Mr. Summers introduced agenda item ***Update on Office Space Utilization Project*** *(Video 00:35:39 to 00:52:34).* Ms. Coffey presented a response to a memo regarding the office space utilization review, initially managed by KPPA management and audited independently. Ms. Coffey stated that the memo given to her did not address all items initially requested by the Audit Committee and wanted clarification on how to proceed. It was clarified that there were no changes made to the original request and the project needed more time to complete. After a brief discussion about further clarifying the initial request and its scope, it was determined that there were to be no immediate actions until the report was completed and reviewed. At that time, it will be presented to the Audit Committee for further review.

9. Mr. Summers introduced agenda item ***KPPA Audit Committee Administrative Updates*** *(Video 00:52:50 to 01:05:15).* Mr. Prince stated the signed independent audit statements were included in the materials for review and then moved on to the internal audit budget. Mr. Westbay noted that the budget had approximately 31% left as of March 31st. As there were no questions, Ms. Coffey then presented the internal audit budget for FY27 for approval. She noted there was a 5% increase in the budget over the prior year, largely attributed to travel for the internal audit team to co-host a conference with Teachers' Retirement System ("TRS") in November. Mr. Lamb clarified for Mr. Totten that while the internal audit budget is incorporated into the KPPA budget as a whole, it is presented to the Committee in order for the Committee to stay aware of Internal Audit's specific budgeting. Following the presentation, Mr. Summers requested a motion to approve the Internal Audit budget for fiscal year 2027, as presented, and to forward it to the KPPA Board for approval. Mr. Totten made the motion and Mr. Hampton seconded. A vote was held and the motion passed unanimously.

   Mr. Summers introduced Mr. Curtis to discuss the status of current internal audit projects. Mr. Curtis stated the fiscal year audit plan includes twenty (20) completed audits, thirty-three (33) audits in progress, and two (2) audits that have been pulled from the fiscal year

27 approved audit plan. Mr. Totten inquired about a portion of the report regarding holiday and non-working hours. Ms. Coffey clarified that while employees do not work on holidays, the hours are required to be accounted for and included within the report.

Ms. Evans was introduced to give a report on the review of the post-retirement audit process. She stated that the report covered seventy-five (75) audits out of 4,607 in FY25, and there were no findings to report. Mr. Summers requested a motion to accept the Issued Report on the 2026-9 Review of the Post-Retirement Audit Process, as presented. Mr. Totten made the motion and Dr. Carver seconded. A vote was held and the motion passed unanimously.

Finally, Ms. Coffey presented a report on an audit of the administrative regulation process. The process was noted as efficient and compliant with statutes and was conducted and completed within twelve (12) days, with no issues found. Mr. Summers requested a motion to accept the Issued Report on the 2026-16 Administrative Regulation Update Process, as presented. Dr. Carver made the motion and Mr. Totten seconded. A vote was held and the motion passed unanimously.

10. There being no further business, Mr. Summers ***adjourned*** the meeting.

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CERTIFICATION

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

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Recording Secretary

I, as Chair of the Audit Committee of the Kentucky Public Pensions Authority, do certify that the Minutes of the meeting held on June 10, 2026, were approved by the Audit Committee on September 9, 2026.

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Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on June 10, 2026, for form, content, and legality.

_____

Executive Director
Office of Legal Services

KENTUCKY PUBLIC PENSIONS AUTHORITY
Ryan Barrow, Executive Director
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Kentucky Public Pensions Authority

TO: Members of the KPPA Audit Committee

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

DATE: September 3, 2026

SUBJECT: Potential Information Disclosures/Breaches Affecting the Kentucky Public Pensions Authority ("KPPA"), Fiscal Year 2026 Quarter 4

INCIDENT SUMMARY

TOTAL INVESTIGATED		
Total Investigated	**Total Members Affected**	**Type**
0	0	Implicated HIPAA/HITECH
0	0	Implicated state law
9	97	Implicated KPPA Data Disclosure Notification Policy
3	0	Found not to be a disclosure/breach
12	**97**	**total**

TOTAL BY SOURCE OF DISCLOSURE/BREACH		
Total Incidents	**Total Members Affected**	**Source**
5	44	KPPA, KRS, or CERS
0	0	External (e.g., vendor, business associate)
4	53	Unknown third-party
9	**97**	**total**

TOTAL BY METHOD OF DISCLOSURE/BREACH		
Total Incidents	**Total Members Affected**	**Method**
2	2	Email
1	1	Mail
4	53	Self-Service
0	0	Phone
0	0	Fax
2	41	Other
9	**97**	**total**

EXTENDED DESCRIPTION OF INCIDENTS

FEDERAL LAW (HIPAA/HITECH): There were **no** potential breaches of protected health information by the KPPA.

STATE LAW (KRS 61.931, ET SEQ.): There were **no** potential "security breach" of "personal information" as defined by state law by the KPPA.

KPPA INTERNAL DATA DISCLOSURE NOTIFICATION POLICY: The following disclosures occurred under the KPPA's Data Disclosure Notification Policy.

Background: Four incidents in which fifty-three (53) member self-service accounts were successfully accessed by various unknown third parties. No benefits were affected.

Root Cause: Unknown third party used personal information obtained outside of KPPA to gain unauthorized access to member self-service.

Follow-Up: KPPA restricted access to the affected self-service accounts. Changes to accounts are now limited to be made only by members of the KPPA management team. KPPA IT security team continues to monitor the accounts. Correspondence advising the members of the incident, including an ID theft guide, were mailed.

Background: One incident in which forty (40) staff members' payroll information was released without redaction of personal information in response to an open records request.

Root Cause: Staff error.

Follow-Up: Upon discovery of disclosure, staff immediately followed disclosure procedures. Disclosure notification letters were sent to the affected staff members. KPPA sought an affidavit from the staff member who received the disclosed information.

Background: One incident in which one (1) member account was affected when staff failed to separate an incoming fax and subsequently attached a document to another member's file. No benefits were affected.

Root Cause: Staff error.

Follow-Up: File was removed and placed in the correct account. Disclosure notification letters were sent to the affected members. KPPA is seeking an affidavit from the member who received the disclosed information attesting they did not copy or otherwise retain the information of the affected member.

Background: One incident in which one (1) staff member's payroll information was sent via email to another staff member.

Root Cause: Staff error.

Follow-Up: Staff immediately reached out to the unintended recipient who verified they would permanently delete the email. A disclosure notification letter was sent to the affected staff member.

Background: One incident in which one (1) member was affected when staff sent the unintended recipient a secure email containing personal information. No benefits were affected.

Root Cause: Staff error.

Follow-Up: Staff immediately reached out to IT security. Because the member sent the email securely, IT disabled the email promptly before the recipient was able to view. A disclosure notification letter was sent to the affected member.

Background: One incident in which one (1) member was affected when KPPA staff pre-populated a form containing another member's personal information.

Root Cause: Staff error.

Follow-Up: Disclosure notification letters were sent to the members. KPPA sought an affidavit from the staff member who received the disclosed information

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EXTERNAL DISCLOSURES/BREACHES

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

RECOMMENDATION

This memorandum is provided for informational purposes only. Staff will continue to monitor disclosure trends and evaluate opportunities to reduce risk of future disclosures.

KENTUCKY PUBLIC PENSIONS AUTHORITY
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MEMORANDUM

TO: Kentucky Public Pensions Authority Audit Committee

FROM: Stephanie Hold, Investigator, Office of Legal Services

DATE: September 9, 2026

SUBJECT: Tips Received Regarding Fraud, Waste, and Abuse

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

OPEN FRAUD TIP CASES

Since the Audit Committee met on May 28, 2026, the KPPA received four (4) new fraud tips. One (1) tip was closed following a review and three (3) are currently pending.

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

Date Reported	C, K, S, Other	Allegation(s)	Current Action
06/16/2024	CERS	Prearranged agreement to return to work for the same employer and failure to have the required break in service.	Fraud allegations related to the member has been resolved. The Office of Legal Services is investigating employer reporting issues and is finalizing the last action item needed.
04/21/2026	CERS	Prearranged agreement to return to work for the same employer and no break in service.	Office of Legal Services is currently investigating and obtaining further documentation.
04/29/2026	CERS	Prearranged agreement to return to work for the same employer.	Office of Legal Services is monitoring. To date, member has not provided any documentation to re-employ.

Date Reported	C, K,S, Other	Allegation(s)	Current Action
04/30/2026	CERS	Member is receiving retirement credit for time not actually worked.	Office of Legal Services is reviewing documents received and obtaining additional information.
07/30/2026	CERS	Prearranged agreement to return to work for the same employer.	Office of Legal Services is monitoring. To date, the member has not submitted any documentation to re-employ.
08/01/2026	CERS	Prearranged agreement to return to work for the same employer and no break in service.	Office of Legal Services is currently investigating.
08/01/2026	CERS	Prearranged agreement to return to work for the same employer.	Office of Legal Services is currently investigating.

FRAUD TIPS CLOSED SINCE LAST MEETING

As of the date of this memo, two (2) 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	C, K, S, Other	Allegation(s)	Disposition
01/22/2024	CERS	Disability retirement fraud.	The Office of Legal Services provided the gathered information to the medical examiner with MMRO, who did not substantiate the allegations of disability retirement fraud.
07/17/2026	Other	Social Security Disability Fraud	After review, it was determined the individual being reported was not a KPPA member.

RECOMMENDATION

This memorandum is provided for informational purposes only.

Basic Financial Statements

CERS Combining Statement of Fiduciary Net Position

As of June 30, 2026, with Comparative Totals as of June 30, 2025 ($ in Thousands)

	Pension		Insurance			
ASSETS	**Nonhazardous**	**Hazardous**	**Nonhazardous**	**Hazardous**	**Total 2026**	**Total 2025**
CASH AND SHORT-TERM INVESTMENTS						
Cash Deposits	$253	$27	$103	$27	$410	$490
Short-term Investments	370,427	160,352	118,488	56,701	705,968	837,533
Total Cash and Short-term Investments	**370,680**	**160,379**	**118,591**	**56,728**	**706,378**	**838,023**
RECEIVABLES						
Accounts Receivable	82,281	25,093	6,642	1,949	115,965	113,566
Accounts Receivable - Investments	98,720	37,895	34,300	14,842	185,757	205,798
Total Receivables	**181,001**	**62,988**	**40,942**	**16,791**	**301,722**	**319,364**
INVESTMENTS, AT FAIR VALUE						
Core Fixed Income	1,464,626	545,533	534,631	251,466	2,796,256	2,495,361
Public Equities	5,875,492	2,140,430	2,150,966	977,911	11,144,799	9,574,452
Private Equities	520,921	187,808	186,226	102,712	997,667	1,164,022
Specialty Credit	2,243,139	826,462	830,567	378,604	4,278,772	3,932,648
Derivatives	(199)	(84)	(78)	(23)	(384)	10
Real Return	794,574	286,001	285,215	134,255	1,500,045	1,090,758
Real Estate	538,127	171,089	196,602	87,359	993,177	1,020,800
Securities Lending Collateral	215,716	78,657	62,817	29,064	386,254	492,267
Total Investments, at Fair Value	**11,652,396**	**4,235,896**	**4,246,946**	**1,961,348**	**22,096,586**	**19,770,318**
Total Assets	**12,204,077**	**4,459,263**	**4,406,479**	**2,034,867**	**23,104,686**	**20,927,705**
LIABILITIES						
Accounts Payable	6,494	1,083	62	43	7,682	8,024
Accounts Payable - Investments	141,098	54,030	50,234	22,995	268,357	267,500
Securities Lending Collateral	215,716	78,657	62,817	29,064	386,254	492,267
Total Liabilities	**363,308**	**133,770**	**113,113**	**52,102**	**662,293**	**767,791**
Total Fiduciary Net Position Restricted for Benefits	**$11,840,769**	**$4,325,493**	**$4,293,366**	**$1,982,765**	**$22,442,393**	**$20,159,914**

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

CERS Combining Statement of Changes In Fiduciary Net Position For the fiscal year ended June 30, 2026, with Comparative Totals as of June 30, 2025 ($ in Thousands)						
	Pension		Insurance			
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Total 2026	Total 2025
ADDITIONS						
Member Contributions	$176,585	$70,103	$25,347	$6,314	$278,349	$261,213
Employer Contributions	674,554	308,975	14,291	18,345	1,016,165	1,016,252
Other Additions	—	—	—	—	—	—
Total Contributions & Other Additions	**851,139**	**379,078**	**39,638**	**24,659**	**1,294,514**	**1,277,465**
INVESTMENT INCOME						
Net Appreciation in FV of Investments	1,178,970	423,926	415,360	193,366	2,211,622	1,642,613
Interest/Dividends	338,791	123,364	123,811	56,964	642,930	610,739
Securities Lending Income	11,610	4,404	3,639	1,363	21,016	23,818
Less: Investment Expense	61,341	21,023	22,568	11,264	116,196	122,261
Less: Performance Fees	17,296	5,948	5,836	2,747	31,827	44,930
Less: Securities Lending Fees, Expenses, and Rebates	9,454	3,601	2,898	1,054	17,007	21,477
Net Investment Income	**1,441,280**	**521,122**	**511,508**	**236,628**	**2,710,538**	**2,088,502**
Total Additions	**2,292,419**	**900,200**	**551,146**	**261,287**	**4,005,052**	**3,365,967**
DEDUCTIONS						
Benefit Payments	1,023,972	384,338	—	—	1,408,310	1,369,705
Refunds	25,982	10,025	—	—	36,007	32,382
Administrative Expenses	27,271	2,395	574	530	30,770	29,544
Healthcare Expenses	—	—	133,054	114,432	247,486	247,205
Total Deductions	**1,077,225**	**396,758**	**133,628**	**114,962**	**1,722,573**	**1,678,836**
Net Increase in Fiduciary Net Position Restricted for Pension Benefits	1,215,194	503,442	417,518	146,325	2,282,479	1,687,131
Total Fiduciary Net Position Restricted for Benefits						
Beginning of Period	**10,625,575**	**3,822,051**	**3,875,848**	**1,836,440**	**20,159,914**	**18,472,783**
End of Period	**$11,840,769**	**$4,325,493**	**$4,293,366**	**$1,982,765**	**$22,442,393**	**$20,159,914**
See accompanying notes, which are an integral part of these combining financial statements.						

NOTE A. Summary of Significant Accounting Policies

Basis Of Accounting

CERS' combining financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Premium payments are recognized when due and payable in accordance with the insurance terms of the plan. Administrative and investment expenses are recognized when incurred. The net position represents the assets of the system available to pay pension benefits for retirees, active and inactive members, and health care premiums for current and future retirees.

Method Used To Value Investments

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

Basic Financial Statements

KRS Combining Statement of Fiduciary Net Position

As of June 30, 2026, with Comparative Totals as of June 30, 2025 ($ in Thousands)

ASSETS	Pension			Insurance			KRS	KRS
	KERS Nonhazardous	KERS Hazardous	SPRS	KERS Nonhazardous	KERS Hazardous	SPRS	Total 2026	Total 2025
CASH AND SHORT-TERM INVESTMENTS								
Cash Deposits	$273	$25	$25	$101	$24	$24	$472	$446
Short-term Investments	275,629	53,052	36,675	69,561	26,156	8,146	469,219	427,446
Total Cash and Short-term Investments	**275,902**	**53,077**	**36,700**	**69,662**	**26,180**	**8,170**	**469,691**	**427,892**
RECEIVABLES								
Accounts Receivable	100,261	9,172	4,984	6,181	511	223	121,332	102,526
Accounts Receivable - Investments	75,570	11,721	10,911	19,789	6,532	2,634	127,157	164,726
Total Receivables	**175,831**	**20,893**	**15,895**	**25,970**	**7,043**	**2,857**	**248,489**	**267,252**
INVESTMENTS, AT FAIR VALUE								
Core Fixed Income	1,623,327	127,938	226,075	196,037	78,722	30,307	2,282,406	1,905,672
Public Equities	1,997,271	580,452	280,803	901,948	360,106	137,962	4,258,542	3,574,360
Private Equities	231,464	60,018	30,605	96,774	37,225	16,497	472,583	472,777
Specialty Credit	1,164,651	314,364	161,972	486,748	192,261	76,332	2,396,328	2,125,075
Derivatives	(214)	(20)	(31)	(31)	(7)	(6)	(309)	25
Real Return	555,412	97,746	78,364	161,239	62,077	24,915	979,753	837,203
Real Estate	259,777	70,292	35,952	113,789	45,337	17,309	542,456	498,472
Securities Lending Collateral	110,387	23,841	15,436	29,549	11,714	4,561	195,488	239,101
Total Investments, at Fair Value	**5,942,075**	**1,274,631**	**829,176**	**1,986,053**	**787,435**	**307,877**	**11,127,247**	**9,652,685**
Total Assets	**6,393,808**	**1,348,601**	**881,771**	**2,081,685**	**820,658**	**318,904**	**11,845,427**	**10,347,829**
LIABILITIES								
Accounts Payable	4,762	1,838	308	54	—	—	6,962	6,177
Accounts Payable - Investments	133,135	19,057	18,971	31,785	9,720	4,010	216,678	220,297
Securities Lending Collateral	110,387	23,841	15,436	29,549	11,714	4,561	195,488	239,101
Total Liabilities	**248,284**	**44,736**	**34,715**	**61,388**	**21,434**	**8,571**	**419,128**	**465,575**
Total Fiduciary Net Position Restricted for Benefits	**$6,145,524**	**$1,303,865**	**$847,056**	**$2,020,297**	**$799,224**	**$310,333**	**$11,426,299**	**$9,882,254**

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

KRS Combining Statement of Changes In Fiduciary Net Position For the fiscal year ended June 30, 2026 , with Comparative Totals as of June 30, 2025 ($ in Thousands)								
	Pension			Insurance			KRS	KRS
	KERS Nonhazardous	KERS Hazardous	SPRS	KERS Nonhazardous	KERS Hazardous	SPRS	Total 2026	Total 2025
ADDITIONS								
Member Contributions	$110,676	$24,057	$5,948	$13,765	$2,501	$458	$157,405	$147,821
Employer Contributions	165,161	78,568	56,252	42,315	2,401	1,823	346,520	321,062
Actuarially Accrued Liability Contributions	865,744	—	—	1,992	—	—	867,736	866,382
General Fund Appropriations	300,000	—	25,000	—	—	—	325,000	325,000
Other Additions	—	—	—	1	—	—	1	4
Total Contributions & Other Additions	**1,441,581**	**102,625**	**87,200**	**58,073**	**4,902**	**2,281**	**1,696,662**	**1,660,269**
INVESTMENT INCOME								
Net Appreciation in FV of Investments	488,271	122,689	67,841	189,366	74,348	28,845	971,360	735,500
Interest/Dividends	186,961	40,077	26,879	63,301	24,355	9,805	351,378	317,248
Securities Lending Income	6,471	1,494	1,024	2,068	681	279	12,017	13,195
Less: Investment Expense	24,857	6,405	3,570	9,753	4,914	1,871	51,370	50,543
Less: Performance Fees	8,568	1,523	1,156	3,419	1,116	406	16,188	18,410
Less: Securities Lending Fees, Expenses, and Rebates	5,373	1,241	853	1,692	548	226	9,933	11,891
Net Investment Income	**642,905**	**155,091**	**90,165**	**239,871**	**92,806**	**36,426**	**1,257,264**	**985,099**
Total Additions	**2,084,486**	**257,716**	**177,365**	**297,944**	**97,708**	**38,707**	**2,953,926**	**2,645,368**
DEDUCTIONS								
Benefit Payments	1,056,094	92,087	72,105	—	—	—	1,220,286	1,199,334
Refunds	11,533	8,701	732	—	—	—	20,966	17,712
Administrative Expenses	14,619	1,733	325	558	104	77	17,416	16,972
Healthcare Expenses	—	—	—	110,961	22,483	17,769	151,213	141,906
Total Deductions	**1,082,246**	**102,521**	**73,162**	**111,519**	**22,587**	**17,846**	**1,409,881**	**1,375,924**
Net Increase in Fiduciary Net Position Restricted for Pension Benefit	1,002,240	155,195	104,203	186,425	75,121	20,861	1,544,045	1,269,444
Total Fiduciary Net Position Restricted for Benefits								
Beginning of Period	**5,143,284**	**1,148,670**	**742,853**	**1,833,872**	**724,103**	**289,472**	**9,882,254**	**8,612,810**
End of Period	**$6,145,524**	**$1,303,865**	**$847,056**	**$2,020,297**	**$799,224**	**$310,333**	**$11,426,299**	**$9,882,254**
See accompanying notes, which are an integral part of these combining financial statements.								

NOTE A. Summary of Significant Accounting Policies

Basis Of Accounting

KRS' combining financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Premium payments are recognized when due and payable in accordance with the insurance terms of the plan. Administrative and investment expenses are recognized when incurred. The net position represents the assets of the system available to pay pension benefits for retirees, active and inactive members, and health care premiums for current and future retirees.

Method Used To Value Investments

Investments are reported at fair value. Fair value is the price that would be received upon selling an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair va[illegible]. See Investments Note D for further discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain [illegible] on investments includes gains and losses

July 8, 2026

To the Board of Trustees
County Employees Retirement System (CERS)
Kentucky Retirement Systems (KRS)
Frankfort, Kentucky

This letter is provided in connection with our engagement to audit the financial statements of the County Employee Retirement System and Kentucky Retirement Systems as of and for the year ended June 30, 2026. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit and the planned scope and timing of our audit, including significant risks we have identified.

Our Responsibilities

As stated in our statement of work dated July 8, 2026, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with *Government Auditing Standards* for the purpose of forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your respective responsibilities.

Our responsibility relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in the entity's annual report includes only the information identified in our report. We have no responsibility for determining whether the introduction, investments, actuarial, and statistical sections are properly stated. We require that we receive the final version of the annual report (including all the documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor's report, or if that is not possible, as soon as practicable and, in any case, prior to the entity's issuance of such information.

Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

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Our audit will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and as a basis for designing the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. However, we will communicate to you at the conclusion of our audit, any material weaknesses or significant deficiencies identified. We will also communicate to you:

- Any violation of laws or regulations that come to our attention;
- Our views relating to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Significant difficulties, if any, encountered during the audit;
- Disagreements with management, if any, encountered during the audit;
- Significant unusual transactions, if any;
- The potential effects of uncorrected misstatements on future-period financial statements; and
- Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.

Professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks." Although we are currently in the planning stage of our audit, we have preliminarily identified the following significant risks that require special audit consideration.

- Management override of controls is considered an inherent risk according to GAAS.
- Risk of improper revenue recognition of contributions - We identified revenue recognition as a significant risk due to the potential risk related to revenue being recognized in the incorrect period because of the nature of the contributions.
- Net pension & OPEB liability – We identified the actuarial valuations of the net pension liability and net OPEB liability as a significant risk due to the nature and complexity of the calculations and the estimates and assumptions used in the calculations.
- Proper valuation of alternative investments – We identified the valuation of alternative investments as a significant risk due to the non-readily available market prices for these investments, for which the valuation of these investments is based on cash flow analysis with true-up valuation adjustments provided by investment fund managers.
- Proper calculation of initial benefit payments – We identified initial benefit calculations as a significant risk due to the nature and complexity of the benefit payment calculations.

We expect to begin our audit in July 2026 and issue our report in December 2026.

This information is intended solely for the information and use of the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Eide Bailly LLP

Boise, Idaho

Division of Internal Audit Risk Assessment

Fiscal Year 2027

Scale of Ratings

2 = No Impact	2 = Insignificant	2 = Not Likely	
4 = Indirect	4 = Minor	4 = Possible	
6 = Direct Minor	6 = Moderate	6 = Probable	1-70 = Low
8 = Direct Moderate	8 = Major	8 = Highly	71-140 = Moderate
10 = Direct Major	10 = Catastrophic	10 = Almost Certain	141+ = High

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
BOARD OF TRUSTEES									
1	Board of Trustees	Review relationship with Perimeter Park West and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure PPW revenue and expenses are properly monitored, and dividends are properly paid.	8	6	6	84	42%	2020	2019
2	Board of Trustees	Review the process for making payments to Trustees and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated.	4	2	4	24	12%	2026	2025
3	Board of Trustees	Review CERS and KRS policies, bylaws, and procedures related to required Trustees training hours. Confirm controls are established to ensure Trustees attend required training hours.	2	2	4	16	8%	2026	2025
		AVERAGE BOARD OF TRUSTEES	**5**	**3**	**5**	**37**	**19%**	-	-
EXECUTIVE DIRECTOR									
4	Executive Director	Review the process to establish agency policies and ensure compliance with statutes/regulations. Confirm controls are established to ensure policies are documented, approved, up-to-date, and shared with staff. Ensure compliance with policies.	2	6	4	32	16%	N/A	2019
5	Executive Director	Review the process for reporting financial information to the Board of Trustees. Ensure relevant information is reported to the Board of Trustees. Confirm that controls are established to ensure accurate information is reported timely.	4	4	2	16	8%	N/A	2019
6	Executive Director	Review the process to secure member data and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member information is not released without proper authorization.	4	8	2	24	12%	N/A	2019
7	Executive Director	Review the annual administrative budgetary process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the budget is properly prepared, approved, and monitored.	6	4	4	40	20%	N/A	2023
8	Executive Director	Review the biannual budgetary process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the budget is properly prepared and approved and submitted timely	6	4	4	40	20%	N/A	2024
9	Executive Director	Review the agency Strategic Plan. Ensure it was properly approved and shared with staff. Confirm controls are established to monitor compliance with the plan and report issues to Executive Management.	2	4	6	36	18%	N/A	2026
10	Executive Director	Review telecommuting process and ensure compliance with statutes/regulations/policies, including proper taxation of telecommuting employees. Confirm controls are established to monitor productivity for staff utilizing telecommuting.	2	2	4	16	8%	N/A	2026
11	Executive Director	Review the agency risk monitoring process and ensure compliance with statutes/regulations/policies. Confirm controls are established to identify and monitor risks as well as report compliance to Executive Management and Trustees.	6	6	6	72	36%	N/A	2027
12	Executive Director	Review the process for reporting investment compliance information to the Board of Trustees. Ensure relevant information is reported to the Board of Trustees. Confirm that controls are established to ensure accurate information is reported timely.	4	4	4	32	16%	N/A	2027
13	Executive Director	Review the process to report disclosures of PII and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disclosures are reported properly and timely.	2	8	2	20	10%	2019	2019
14	Executive Director	Review the procurement card (ProCard) process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure ProCard use is allowable and approved and that expenses are supported.	4	4	2	16	8%	2025	2019

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
15	Executive Director	Review the travel process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure travel is properly approved, supported, and reimbursed.	4	4	2	16	8%	2025	2019
16	Executive Director	Review executive and division procedures for establishing a succession plan (e.g. clearly established back-ups) to ensure critical agency functions can continue.	4	6	2	20	10%	2026	2019
17	Executive Director	Review the process for creating the annual financial statements and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure financial statements are accurate and completed timely.	10	6	2	32	16%	Annual	2019
18	Executive Director	Review KPPA process for implementing audit findings and ensure compliance with policies. Confirm controls are established to ensure audit recommendations are thoroughly investigated and implemented within the established time frame.	4	6	4	40	20%	Annual	2019
19	Executive Director	Review division procedures and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure business processes are documented, effective and efficient, and followed.	4	4	4	32	16%	Every Audit	2019
20	Executive Director	Review the process to report information to Trustees and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accurate information is reported timely.	4	4	4	32	16%	Every Audit	2024
		AVERAGE EXECUTIVE DIRECTOR	**4**	**5**	**3**	**31**	**16%**	-	-
		OFFICE OF INVESTMENTS							
21	Office of Investments	Review the capital call process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure capital calls are accurate, approved, properly allocated, and timely.	6	2	4	32	16%	N/A	2019
22	Office of Investments	Review the investment distribution process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure distributions are accurate, approved, properly allocated, and timely.	6	2	4	32	16%	N/A	2019
23	Office of Investments	Review the investment repurchase (aka repo) process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure repurchases are accurate, approved, properly allocated, and timely.	6	2	4	32	16%	N/A	2019
24	Office of Investments	Review the processes to set-up and/or close investment accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure investment accounts are set-up and/or closed accurately and timely.	4	4	4	32	16%	N/A	2019
25	Office of Investments	Review investment procurement process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure investment services match the contract, are properly procured, and are not provided by multiple vendors.	8	6	4	56	28%	N/A	2022
26	Office of Investments	Review the proxy voting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proxy voting is completed in accordance with CERS and KRS requirements.	4	6	4	40	20%	N/A	2024
27	Office of Investments	Review investment due diligence process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure investment staff properly and timely perform due diligence of all managers.	4	6	4	40	20%	N/A	2025
28	Office of Investments	Review process to analyze the proportion of manager and performance fees paid in relation to the returns received. Ensure this ration is comparable to industry standard and similarly sized pension systems.	2	6	4	32	16%	2020	2020
29	Office of Investments	Review daily cash projection process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure the daily cash projection is accurate and communicated timely.	6	6	4	48	24%	2022	2022
30	Office of Investments	Review Office of Investments policies and ensure they have been documented and approved. Confirm controls are established to monitor compliance with policies and report issues of non-compliance to Executive Management and Trustees.	4	4	2	16	8%	2025	2025
31	Office of Investments	Review the process for monitoring investment fees (administrative, manager, and performance) and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure fees are accurate, paid timely, and properly reported.	8	6	4	56	28%	2025	2019

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
32	Office of Investments	Review the tier 3 GAINR calculation process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure proper calculation and appropriate interest.	8	6	2	28	14%	2026	2024
		AVERAGE OFFICE OF INVESTMENTS	**6**	**5**	**4**	**37**	**19%**	-	-
		OFFICE OF LEGAL SERVICES							
33	Office of Legal Services	Review the retired/re-employed process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retired/re-employed requests are properly reviewed and approved.	2	6	4	32	16%	N/A	2019
34	Office of Legal Services	Review the Qualified Domestic Relations Order process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure QDRO amounts are accurate and paid timely.	4	6	4	40	20%	N/A	2019
35	Office of Legal Services	Review the process to create, update, and maintain forms and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure forms are accurate and the form submission process is efficient.	2	6	4	32	16%	N/A	2024
36	Office of Legal Services	Review the process related to Open Meetings and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure staff and Trustees are made aware of the Open Meeting requirements.	2	8	4	40	20%	N/A	2024
37	Office of Legal Services	Review the process related to Open Records and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure Open Record responses are sufficient and timely and ensure staff and Trustees are made aware of requirements.	2	8	4	40	20%	N/A	2024
38	Office of Legal Services	Review the vendor invoice dispute process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disputed invoices with vendors are resolved timely.	4	6	4	40	20%	N/A	2027
39	Office of Legal Services	Review the Legal Services mail/correspondence sorting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure all received mail is processed timely and delivered to the appropriate staff member.	2	2	4	16	8%	N/A	2027
40	Office of Legal Services	Review the administrative and disability appeal processes and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure documentation is on file and appeals are completed timely.	4	8	4	48	24%	2025	2019
41	Office of Legal Services	Review the process to update administrative regulations. Confirm controls are established to ensure regulations comply with statutes and are not expired.	4	2	2	12	6%	2026	2024
42	Office of Legal Services	Review the process for making payments to hearing officers and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated.	4	2	2	12	6%	2026	2026
		AVERAGE OFFICE OF INVESTMENTS	**3**	**5**	**4**	**30**	**15%**	-	-
		DIVISION OF HUMAN RESOURCES							
43	Division of Human Resources	Review the timesheet process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure timesheets reflect accurate hours, including leave and overtime. Ensure timesheets are submitted timely and properly approved	4	4	2	16	8%	N/A	2019
44	Division of Human Resources	Review employee onboarding and on-going training processes, including training on emergency procedures. Ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure staff are properly trained to perform their job tasks.	4	4	2	16	8%	N/A	2025
45	Division of Human Resources	Review the employee payroll payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure employee payroll is accurate and run timely.	8	4	2	24	12%	N/A	2027
46	Division of Human Resources	Review the employee benefit process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure employee benefits are properly established upon employment.	8	4	2	24	12%	N/A	2027
47	Division of Human Resources	Review the unemployment insurance process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure unemployment insurance is properly calculated and paid only to eligible individuals.	6	4	2	20	10%	N/A	2027

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
48	Division of Human Resources	Review process related to preventing unauthorized building access and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure contractors, vendors, visitors, etc. are monitored while on site.	2	6	2	16	8%	2019	2019
49	Division of Human Resources	Review the hiring process and ensure compliance with statutes/regulations/policies. Confirm controls are established to review and address KPPA staffing levels and to ensure vacancies are filled timely.	4	4	2	16	8%	2025	2024
50	Division of Human Resources	Review use of EEO, ADA, and FMLA and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure staff are properly trained on procedures related to EEO, ADA, and FMLA.	4	6	2	20	10%	2026	2024
		AVERAGE DIVISION OF HUMAN RESOURCES	**5**	**5**	**2**	**19**	**10%**	-	-
		DIVISION OF COMMUNICATIONS							
51	Division of Communications	Review the process for printing activities and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure printing services are monitored so that services are provided accurately and timely.	4	4	2	16	8%	N/A	2027
52	Division of Communications	Review the process for posting notices and meeting materials for Board and Committee meetings and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure notices are posted timely.	2	6	4	32	16%	N/A	2027
53	Division of Communications	Review the process for providing external communications and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure external communications are complete and accurate and issued timely.	2	6	4	32	16%	N/A	2027
54	Division of Communications	Review legislative tracking process and ensure controls are established to track of relevant legislation and report relevant legislation to Trustees and Executive Management in a timely manner.	4	6	4	40	20%	2024	2019
55	Division of Communications	Review the process for updating the KPPA website. Confirm controls are established to ensure the website reflects accurate information and is updated timely.	2	6	2	16	8%	2026	2024
56	Division of Communications	Review the process for creating the summary annual financial statements and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure summary financial statements are accurate and completed timely.	10	6	2	32	16%	Annual	2019
		AVERAGE DIVISION OF COMMUNICATIONS	**4**	**6**	**3**	**29**	**15%**	-	-
		DIVISION OF ENTERPRISE AND TECHNOLOGY SERVICES							
57	Division of Enterprise and Technology Services	Review the Disaster Recovery Plan and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure Disaster Recovery Plan is complete, up to date, and approved timely.	2	4	2	12	6%	N/A	2019
58	Division of Enterprise and Technology Services	Review IT batch run process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure batches run timely and accurately and that system generated data cannot be altered.	8	4	2	24	12%	N/A	2019
59	Division of Enterprise and Technology Services	Review process to replace/upgrade IT systems/equipment/software. Confirm controls are established to ensure operations continue in the event of a system/equipment/software failure.	4	4	6	48	24%	N/A	2019
60	Division of Enterprise and Technology Services	Review the IT security training process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure employees properly complete required training.	2	4	2	12	6%	N/A	2025
61	Division of Enterprise and Technology Services	Review IT data available to divisions and ensure it is accurate and reliable for internal analysis. Ensure duplicate reports do not exist. Determine controls in place for creating new reports.	6	4	4	40	20%	N/A	2025
62	Division of Enterprise and Technology Services	Review business rules established in Line of Business and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure business rules are operating as intended.	6	4	4	40	20%	N/A	2025
63	Division of Enterprise and Technology Services	Review the IT helpdesk ticket resolution process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure tickets are resolved timely and workarounds are not used unnecessarily.	4	2	4	24	12%	N/A	2025

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
64	Division of Enterprise and Technology Services	Review process to ensure the pension administration system (START) remains online or can be brought back online quickly. Confirm controls are established to ensure agency operations can continue in the event of a system outage failure.	4	8	4	48	24%	N/A	2027
65	Division of Enterprise and Technology Services	Review the annual IT budgetary process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the budget is properly prepared, approved, and monitored.	6	2	2	16	8%	N/A	2027
66	Division of Enterprise and Technology Services	Review the system access process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure employees have only the minimal system access required to complete their job tasks (internal and external)	4	6	4	40	20%	2022	2019
67	Division of Enterprise and Technology Services	Review legislative implementation process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure approval of proposed legislation, tracking of relevant legislation, and timely implementation.	6	4	4	40	20%	2024	2019
68	Division of Enterprise and Technology Services	Review the IT procurement process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure services match the contract, are properly procured, monitored, and best value for the agency.	4	4	2	16	8%	2026	2019
69	Division of Enterprise and Technology Services	Review the system build process and ensure compliance with statutes/regulations/policies. Confirm controls are established to sufficiently test the changed and identify errors.	4	2	2	12	6%	2026	2022
70	Division of Enterprise and Technology Services	Review the COOP and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure COOP is complete, up to date, and approved timely.	4	2	2	12	6%	2026	2024
71	Division of Enterprise and Technology Services	Review process in place to monitor personal use of KPPA accounts and equipment. Ensure policies and controls are established to address personal use of KPPA accounts and equipment.	4	6	4	40	20%	2026	2025
72	Division of Enterprise and Technology Services	Review the process to secure mission critical systems and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure operations can continue in the event of a cyberattack.	10	6	2	32	16%	Annual	2024
AVERAGE DIVISION OF ENTERPRISE AND TECHNOLOGY SERVICES			**5**	**4**	**3**	**28**	**14%**	-	-
DIVISION OF PROCUREMENT AND OFFICE SERVICES									
73	Division of Procurement and Office Services	Review member correspondence process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member correspondence is properly disseminated.	2	6	4	32	16%	N.A	2019
74	Division of Procurement and Office Services	Review the record retention process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure agency records are properly secured.	2	4	4	24	12%	N.A	2024
75	Division of Procurement and Office Services	Review the mail sorting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure all received mail is processed timely and delivered to the appropriate staff member.	2	2	4	16	8%	N/A	2024
76	Division of Procurement and Office Services	Review the inventory process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure inventory is properly tracked and disposed.	6	4	8	80	40%	2025	2019
77	Division of Procurement and Office Services	Review the procurement process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure services match the contract, are properly procured, monitored, and best value for the agency.	6	4	2	20	10%	2026	2019
78	Division of Procurement and Office Services	Review the document imaging process (including KOFAX) and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure all received mail is imaged and timely provided to the proper division.	2	6	4	32	16%	2026	2019
AVERAGE DIVISION OF PROCUREMENT AND OFFICE SERVICES			**3**	**4**	**4**	**33**	**17%**	-	-

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
DIVISION OF ACCOUNTING									
79	Division of Accounting	Review the service purchases process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure service purchase are properly calculated, paid, and applied to member accounts.	6	6	4	48	24%	N/A	2019
80	Division of Accounting	Review the employer contribution receipt process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure contributions are split properly as well as received accurately and timely.	10	8	4	72	36%	N/A	2019
81	Division of Accounting	Review member overpayment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure overpayments are collected timely and properly reported (including on financial statements).	6	6	4	48	24%	N/A	2019
82	Division of Accounting	Review the journal entry process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure journal entries are accurate, supported, approved, and timely.	6	2	4	32	16%	N/A	2019
83	Division of Accounting	Review the pension spiking process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure pension spiking is calculated accurately and paid by the correct entity.	6	8	4	56	28%	N/A	2019
84	Division of Accounting	Review process for receiving cash and/or checks and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure cash and checks received are properly recorded, stored, and deposited.	6	2	4	32	16%	N/A	2023
85	Division of Accounting	Review accounts receivable process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure receivables are properly tracked, recorded, coded, allocated, and reconciled. Ensure process is effective and efficient	6	2	4	32	16%	N/A	2024
86	Division of Accounting	Review the excise tax process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the excise tax is properly calculated and paid.	6	2	4	32	16%	N/A	2024
87	Division of Accounting	Review the process related to unclaimed accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure unclaimed accounts are properly paid and reported (including on financial statements).	6	2	4	32	16%	N/A	2024
88	Division of Accounting	Review the employee payroll (monthly and supplemental) payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure employee payroll is accurate and run timely.	6	6	4	48	24%	N/A	2027
89	Division of Accounting	Review the member invoicing process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure invoices are properly prepared and collected timely.	6	4	4	40	20%	N/A	2027
90	Division of Accounting	Review account reconciliation processes and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accounts are properly reconciled and variances are resolved timely. As a part of this audit, Review the process for monitoring outstanding check balances and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure outstanding checks are monitored and proper follow-up is taken.	6	2	6	48	24%	2020	2019
91	Division of Accounting	Review the employer penalty invoice waiver process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure waivers are properly applied and approved.	6	6	2	24	12%	2022	2022
92	Division of Accounting	Review the employer qualification process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure monies collected from employers are qualified accurately and timely.	8	8	4	64	32%	2022	2022
93	Division of Accounting	Review use of non-custodial accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper account access, accurate transfers, and proper reconciliation. Ensure account balances are not excessive.	10	6	6	96	48%	2023	2023
94	Division of Accounting	Review administrative expense process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accurate transfers and proper reconciliation.	6	2	4	32	16%	2023	2023

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
95	Division of Accounting	Review the accrual process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accruals are properly supported, reversed, and approved.	8	2	2	20	10%	2025	2019
96	Division of Accounting	Review the accounts payable process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.	6	2	4	32	16%	2025	2022
97	Division of Accounting	Review process to apply interest to member accounts and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure interest is applied accurately and timely. Ensure proper interest is reported on financial statements.	10	8	2	36	18%	2025	2024
		AVERAGE DIVISION OF ACCOUNTING	7	4	4	**44**	22%	-	-
		DIVISION OF EMPLOYER REPORTING, COMPLIANCE, AND EDUCATION							
98	Division of Employer Reporting, Compliance, and Education	Conduct employer audits and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employees are properly reported and accurate contributions are obtained.	10	8	10	180	90%	N/A	2019
99	Division of Employer Reporting, Compliance, and Education	Review the employer reporting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accurate employer reports are received timely.	8	6	6	84	42%	N/A	2019
100	Division of Employer Reporting, Compliance, and Education	Review the employer balancing process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are balanced accurately and timely.	6	4	6	60	30%	N/A	2019
101	Division of Employer Reporting, Compliance, and Education	Review the employer error correction process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure errors are corrected properly and timely and adjustments made to employer account are accurate.	6	4	6	60	30%	N/A	2019
102	Division of Employer Reporting, Compliance, and Education	Review the employer training process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure new employers are trained, ongoing training is provided, and follow-up is conducted for continual reporting errors.	4	6	6	60	30%	N/A	2019
103	Division of Employer Reporting, Compliance, and Education	Review the hazardous duty classification process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure hazardous duty classification is properly reviewed and approved.	6	6	4	48	24%	N/A	2024
104	Division of Employer Reporting, Compliance, and Education	Review the employer invoicing process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure invoices are properly prepared and collected timely.	8	6	6	84	42%	2025	2019
105	Division of Employer Reporting, Compliance, and Education	Review the employer audit process required by KRS 61.5991 and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are audited as required and that audits are completed timely.	10	6	10	160	80%	2026	2019
		AVERAGE DIVISION OF EMPLOYER REPORTING, COMPLIANCE AND EDUCATION	7	6	7	**88**	44%	-	-
		DIVISION OF MEMBERSHIP SUPPORT							
106	Division of Membership Support	Review the process for answering member calls and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure calls are answered timely and issues are properly resolved or escalated.	2	6	4	32	16%	N/A	2019
107	Division of Membership Support	Review the process to create, update, and maintain retirement applications and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure applications are accurate and the submission process is efficient.	4	6	4	40	20%	N/A	2019
108	Division of Membership Support	Review the process for updating member information and ensure compliance with statutes/regulations/policies. Confirm controls are established to prevent unauthorized changes to member accounts	2	8	4	40	20%	N/A	2019
109	Division of Membership Support	Review the process for changing a member's beneficiary and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure changes are properly approved by member and made timely.	2	8	4	40	20%	N/A	2025

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
110	Division of Membership Support	Review the process for utilizing certified mail and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure certified mail is used when required.	2	4	4	24	12%	N/A	2025
111	Division of Membership Support	Review the Tier 3 Opt-In process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accounts are accurately converted (i.e. service credit, service purchases, and interest) and cannot revert back to Tier 2	6	4	2	20	10%	2026	2024
		AVERAGE DIVISION OFMEMBERSHIP SUPPORT	**3**	**6**	**4**	**33**	**17%**	-	-
		DIVISION OF MEMBER SERVICES							
112	Division of Member Services	Review the process for verifying dependents and ensure compliance with statutes/ regulations/ policies. Confirm controls are established to ensure support is provided for each dependent. Confirm annual verification on file for hazardous members.	2	8	4	40	20%	N/A	2019
113	Division of Member Services	Review the service averaging process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member averages proper number of hours per month to earn a month of service.	6	8	6	84	42%	N/A	2025
114	Division of Member Services	Review the new PLSO option, effective January 1, 2024 and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retirement calculations are accurate and the process is efficient.	4	6	4	40	20%	N/A	2025
115	Division of Member Services	Review the member retirement process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retirement calculations are accurate and the process is efficient.	6	8	4	56	28%	2024	2019
116	Division of Member Services	Review member refund process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure refunds are properly calculated and approved.	6	8	4	56	28%	2025	2019
		AVERAGE DIVISION OF MEMBER SERVICES	**5**	**8**	**4**	**55**	**27%**	-	-
		DIVISION OF QUALITY ASSURANCE							
117	Division of Quality Assurance	Review the reciprocity process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure reciprocity recalculations are properly performed and applied to the members' account.	6	8	4	56	28%	N/A	2019
118	Division of Quality Assurance	Review the pre-retirement audit process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure pre-retirement audits are completed timely and accurately.	6	8	4	56	28%	N/A	2019
119	Division of Quality Assurance	Review the legacy recalculation process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure legacy recalculations are completed timely and accurately.	6	8	4	56	28%	N/A	2027
120	Division of Quality Assurance	Review the post-retirement audit process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure post-retirement audits are completed timely and accurately.	6	8	2	28	14%	2026	2019
		AVERAGE DIVISION OF QUALITY ASSURANCE	**6**	**8**	**4**	**49**	**25%**	-	-
		DIVISION OF DISABILITY AND SURVIVOR BENEFITS							
121	Division of Disability and Survivor Benefits	Review the status of disability recipients and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure status is periodically reviewed and confirmed. Ensure disability benefits are discontinued when necessary.	4	8	4	48	24%	N/A	2019
122	Division of Disability and Survivor Benefits	Review the disability benefit application approval process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disability benefits are properly calculated and approved.	6	6	4	48	24%	N/A	2024
123	Division of Disability and Survivor Benefits	Review determinations made by the medical review vendor and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure all proper documentation is prepared and on file.	6	8	4	56	28%	N/A	2024
124	Division of Disability and Survivor Benefits	Review medical review vendor contract and ensure compliance with the contract and ensure the vendor is cost beneficial to KPPA.	4	4	4	32	16%	N/A	2024

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
125	Division of Disability and Survivor Benefits	Review the processing of in the line of duty and duty related disability or survivor benefits and ensure compliance with statutes/regulations/policies. Confirm that benefits are properly calculated, applied correctly, and paid timely.	6	8	4	56	28%	N/A	2025
126	Division of Disability and Survivor Benefits	Review the survivor benefits (retired and active) approval process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure benefits are properly calculated and approved.	6	8	4	56	28%	N/A	2027
127	Division of Disability and Survivor Benefits	Review the active member beneficiary death process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure the member account is properly updated.	2	8	2	20	10%	N/A	2027
128	Division of Disability and Survivor Benefits	Review process to stop payments to deceased members and beneficiaries and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure death matching batches run as scheduled and member's death is properly verified.	2	8	2	20	10%	2026	2025
129	Division of Disability and Survivor Benefits	Review the disability benefit payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disability payments are made timely, accurately, and to the proper individual.	8	8	4	64	32%	2026	2025
		AVERAGE DIVISION OF DISABILITY AND SURVIVOR BENEFITS	**5**	**7**	**4**	**43**	**22%**	-	-
		DIVISION OF RETIREE PAYROLL							
130	Division of Retiree Services Payroll	Review the process for calculating offsets, specifically related to worker's compensation and social security and ensure compliance with statutes/regulations/policies. Confirm offsets are calculated properly and applied accurately and timely.	6	2	4	32	16%	N/A	2019
131	Division of Retiree Services Payroll	Review the Electronic Fund Transfer Return process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure EFT returns are processed timely and accurately.	4	4	4	32	16%	N/A	2019
132	Division of Retiree Services Payroll	Review the retiree payroll (monthly and supplemental) payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retiree payroll is accurate and run timely.	6	8	2	28	14%	N/A	2019
133	Division of Retiree Services Payroll	Review the beneficiary benefit payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure payments are made timely and accurately.	6	8	2	28	14%	N/A	2027
134	Division of Retiree Services Payroll	Review 1099-R process to ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure 1099-Rs are prepared accurately, provided to required members, and mailed timely.	2	6	2	16	8%	2025	2019
135	Division of Retiree Services Payroll	Review the member benefit payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure payments are made timely and accurately.	6	8	2	28	14%	2026	2024
		AVERAGE DIVISION OF RETIREE PAYROLL	**5**	**6**	**3**	**29**	**15%**	-	-

Item Number	Audited Office or Division	Identified Risk	Financial Statement Impact	Reputational Impact	Likelihood	Total Risk Score	Chance of Material Adverse Impact	Last Year Audited	Year Risk First Identified
DIVISION OF RETIREE HEALTH CARE									
136	Division of Retiree Health Care	Review Medicare as a Secondary Payer process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure KPPA follows proper processes related to Medicare as a Secondary Payer.	2	6	4	32	16%	N/A	2019
137	Division of Retiree Health Care	Review the insurance enrollment process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure system updates are completed accurately and timely. Additionally, ensure member qualifies for selected plan.	4	8	2	24	12%	N/A	2024
138	Division of Retiree Health Care	Review the 2022 Senate Bill 209 implementation process and ensure compliance with statutes/regulations/policies. Confirm members' benefits were properly converted in a timely manner and accurate refunds were issued.	4	8	4	48	24%	N/A	2026
139	Division of Retiree Health Care	Review the insurance discrepancy process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure errors with insurance files, premium payments, selected plan, dependents, etc., are corrected timely.	4	4	2	16	8%	2023	2019
140	Division of Retiree Health Care	Review the annual hazardous dependent verification process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure annual verification is received timely.	4	8	2	24	12%	2026	2019
141	Division of Retiree Health Care	Review the manual remittance process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure manual remittance is processed accurately and timely.	4	2	4	24	12%	2026	2025
		AVERAGE DIVISION OF RETIREE HEALTH CARE	**4**	**6**	**3**	**29**	**15%**	-	-

Internal Audit Plan

Fiscal Year 2027 and 2028

Approved by Audit Committee during 2025 as a part of the proposed fiscal year 2027 Audit Plan
Audits currently in progress

Fiscal Year 2027 Audits/Projects								1,957.50	1,960.50	1,960.50	1,960.50	1,960.50	
Audit Number	**Number on Risk Assessment**	**Audited Office or Division**	**Project Number**	**Audit Scope**	**Total Risk Score**	**Chance of Material Adverse Impact**	**Budget Hours**	**Will**	**Zach**	**James**	**Madeline**	**Kristen**	**Estimated Other KPPA Staff Hours**
1	111	Division of Membership Support	2026-7	Review the Tier 3 Opt-In process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accounts are accurately converted (i.e. service credit, service purchases, and interest) and cannot revert back to Tier 2	33	17%	10	0	1	0	1	8	
2	105	Division of Employer Reporting, Compliance, and Education	2026-11	Review the employer audit process required by KRS 61.5991 and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are audited as required and that audits are completed timely.	160	80%	28	0	0	10	8	10	
3	140	Division of Retiree Health Care	2026-12	Review the annual hazardous dependent verification process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure annual verification is received timely.	24	12%	10	0	0	0	2	8	
4	69	Division of Enterprise and Technology Services	2026-14	Review the system build process and ensure compliance with statutes/regulations/policies. Confirm controls are established to sufficiently test the changed and identify errors.	12	6%	10	0	0	0	2	8	
5	141	Retiree Health Care	2026-15	Review the manual remittance process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure manual remittance is processed accurately and timely.	24	12%	221	0	170	0	30	21	
6	71	Division of Enterprise and Technology Services	2026-17	Review process in place to monitor personal use of KPPA accounts and equipment. Ensure policies and controls are established to address personal use of KPPA accounts and equipment.	12	6%	295	250	0	0	0	45	
7	78	Division of Procurement and Office Services	2026-18	Review the document imaging process (including KOFAX) and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure all received mail is imaged and timely provided to the proper division.	32	16%	236	0	0	0	200	36	
8	Prior Year	Division of Internal Audit	2026-21	FY 2027 Risk Assessment and Audit Plan	-	-	63	0	0	0	0	63	
9	7	Executive Director	2027-1	Review the annual administrative budgetary process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the budget is properly prepared, approved, and monitored.	40	20%	300	0	45	0	240	15	20-45
10	8	Executive Director	2027-2	Review the biannual budgetary process and ensure compliance with statutes/regulations/policies. Confirm internal controls have been established to ensure the budget is properly prepared and approved and submitted timely	40	20%	300	0	45	0	240	15	20-45
11	21	Office of Investments	2027-3	Review the capital call process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure capital calls are accurate, approved, properly allocated, and timely.	32	16%	300	0	240	45	0	15	20-35
12	26	Office of Investments	2027-4	Review the proxy voting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proxy voting is completed in accordance with CERS and KRS requirements.	40	20%	300	0	240	45	0	15	20-35
13	34	Office of Legal Services	2027-5	Review the Qualified Domestic Relations Order process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure QDRO amounts are accurate and paid timely.	40	20%	350	0	55	280	0	15	20-40
14	43	Division of Human Resources	2027-6	Review the timesheet process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure timesheets reflect accurate hours, including leave and overtime. Ensure timesheets are submitted timely and properly approved	16	8%	150	20	0	120	0	10	10-15
15	52	Division of Communications	2027-7	Review the process for posting notices and meeting materials for Board and Committee meetings and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure notices are posted timely.	32	16%	250	200	0	35	0	15	10-25
16	58	Division of Enterprise and Technology Services	2027-8	Review IT batch run process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure batches run timely and accurately and that system generated data cannot be altered.	24	12%	350	15	0	0	280	55	20-40
17	74	Division of Procurement and Office Services	2027-9	Review the record retention process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure agency records are properly secured.	24	12%	300	240	0	45	0	15	15-30
18	76	Division of Procurement and Office Services	2027-10	Review the inventory process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure inventory is properly tracked and disposed.	80	40%	35	25	0	0	0	10	5-10
19	79	Division of Accounting	2027-11	Review the service purchases process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure service purchase are properly calculated, paid, and applied to member accounts.	48	24%	300	45	0	240	0	15	20-40
20	89	Division of Accounting	2027-12	Review the member invoicing process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure invoices are properly prepared and collected timely.	40	20%	300	0	240	0	45	15	15-30
21	98	Division of Employer Reporting, Compliance, and Education	2027-13	Conduct employer audits and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employees are properly reported and accurate contributions are obtained.	180	90%	400	40	60	100	0	200	25-50

22	109	Division of Membership Support	2027-14	Review the process for changing a member's beneficiary and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure changes are properly approved by member and made timely.	40	20%	350	280	15	0	0	55	20-40
23	113	Division of Member Services, QA, ERCE	2027-15	Review the service averaging process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member averages proper number of hours per month to earn a month of service.	84	42%	350	0	15	0	280	55	20-40
24	118	Division of Quality Assurance	2027-16	Review the pre-retirement audit process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure pre-retirement audits are completed timely and accurately.	56	28%	350	55	0	280	0	15	20-40
25	123	Division of Disability and Survivor Benefits	2027-17	Review determinations made by the medical review vendor and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure all proper documentation is prepared and on file.	56	28%	350	280	0	0	55	15	20-35
26	130	Division of Disability and Survivor Benefits	2027-18	Review the process for calculating offsets, specifically related to worker's compensation and social security and ensure compliance with statutes/regulations/policies. Confirm offsets are calculated properly and applied accurately and timely.	32	16%	350	0	280	0	15	55	20-35
27	138	Division of Retiree Health Care	2027-19	Review the 2022 Senate Bill 209 implementation process and ensure compliance with statutes/regulations/policies. Confirm members' benefits were properly converted in a timely manner and accurate refunds were issued.	48	24%	300	0	0	265	15	20	20-40
28	-	Board of Trustees	2027-20	SPRS Trustee Election	-	-	70	0	50	0	10	10	70
29	-	Board of Trustees	2027-21	Election Vendor RFP	-	-	100	0	0	0	0	100	
30	-	Executive Director	2027-22	Review of Office Space Utilization			25	0	0	0	0	25	50
31	-	Executive Director	2027-23	Open Audit Recommendation Review	-	-	25	0	15	0	0	10	
32	-	Executive Director	2027-24	ACFR/SAFR Review	-	-	30	20	0	0	0	10	
33	-	Division of Internal Audit	2027-25	FY 2028 Risk Assessment and Audit Plan	-	-	75	0	0	0	15	60	
34	-	Division of Internal Audit	2027-26	2027 Staff Performance Evaluations	-	-	200	25	25	25	25	100	
	-		**Other Projects**										
35	-	Division of Internal Audit	2027-30.1	KPPA Executive Requests	-	-	20	0	0	0	0	20	-
36	-	Division of Internal Audit	2027-30.2	CERS Requests	-	-	35	0	0	0	0	35	-
37	-	Division of Internal Audit	2027-30.3	KRS Requests	-	-	5	0	0	0	0	5	-
38	-	Division of Internal Audit	2027-30.4	FY 2027 Audit Project Setup	-	-	5	0	0	0	0	5	-
39	-	Division of Internal Audit	2027-30.5	Key Performance Indicators and Monthly Reports	-	-	20	0	0	0	0	20	-
40	-	Division of Internal Audit	2027-30.6	Process Documentation and Template Updates	-	-	30	0	0	0	0	30	-
41	-	Division of Internal Audit	2027-30.7	Security Access Review	-	-	2	0	0	0	2	0	-
42	-	Division of Internal Audit	2027-30.8	Charter Updates	-	-	2	0	0	1	0	1	-
43	-	Division of Internal Audit	2027-30.9	APPFA Conference	-	-	60	10	5	10	30	5	-
44	-	Division of Internal Audit	2027-30.10	Continuing Professional Education	-	-	200	40	40	40	40	40	-
	-		**Board and Committee Meetings**										
45	-	Division of Internal Audit	2027-31.1	Audit Committee Meetings and Preparation	-	-	50	5	5	5	5	30	-
46	-	Division of Internal Audit	2027-31.2	KPPA Board Meetings	-	-	30	5	5	5	5	10	-
47	-	Division of Internal Audit	2027-31.3	CERS Board and Committee Meetings	-	-	80	10	10	10	10	40	-
48	-	Division of Internal Audit	2027-31.4	KRS Board and Committee Meetings	-	-	35	5	5	5	5	15	-
	-		**Non-Board Meetings**										
49	-	Division of Internal Audit	2027-32.1	Internal Audit Meetings	-	-	250	50	50	50	50	50	-
50	-	Division of Internal Audit	2027-32.2	KPPA Executive Meetings	-	-	20	5	5	5	5	30	-
51	-	Division of Internal Audit	2027-32.3	Meetings with CEOs	-	-	50	0	0	0	0	50	-
52	-	Division of Internal Audit	2027-32.4	Meetings with KPPA Staff	-	-	30	5	5	5	5	10	-
53	-	Division of Internal Audit	2027-32.5	Quarterly Director's Meetings	-	-	4	0	0	0	0	4	-
54	-	Division of Internal Audit	2027-32.6	Quarterly All Employee Meetings	-	-	10	2	2	2	2	2	-
55	-	Division of Internal Audit	2027-32.7	IT Governance	-	-	4	0	0	0	0	4	-
56	-	Division of Internal Audit	2027-32.8	External Meetings	-	-	50	8	8	8	8	18	-
-	-	Division of Internal Audit	-	Other Administration	-	-	180	20	20	20	20	100	-
-	-	Division of Internal Audit	-	Other Leave	-	-	1000	200	200	200	200	200	-
-	-	Division of Internal Audit	-	Holiday	-	-	485	97	97	97	97	97	-
				Scheduled hours for Fiscal Year 2027			9,740	1,957	1,953	1,953	1,947	1,960	
				Reserve hours for unplanned projects			59.50	0.50	7.50	7.50	13.50	0.50	

Fiscal Year 2028 Audits/Projects

								1,957.50	1,960.50	1,960.50	1,960.50	1,960.50	
Audit Number	**Number on Risk Assessment**	**Audited Office or Division**	**Project Number**	**Audit Scope**	**Total Risk Score**	**Chance of Material Adverse Impact**	**Budget Hours**	**Will**	**Zach**	**James**	**Madeline**	**Kristen**	**Estimated Other KPPA Staff Hours**
1	4	Executive Director	2028-1	Review the process to establish agency policies and ensure compliance with statutes/regulations. Confirm controls are established to ensure policies are documented, approved, up-to-date, and shared with staff. Ensure compliance with policies.	32	16%	350	280	0	55	0	15	20-40
2	11	Executive Director	2028-2	Review the agency risk monitoring process and ensure compliance with statutes/regulations/policies. Confirm controls are established to identify and monitor risks as well as report compliance to Executive Management and Trustees.	72	36%	300	0	0	15	240	45	20-40
3	25	Office of Investments	2028-3	Review investment procurement process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure investment services match the contract, are properly procured, and are not provided by multiple vendors.	56	28%	300	0	240	0	15	45	20-40
4	27	Office of Investments	2028-4	Review investment due diligence process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure investment staff properly and timely perform due diligence of all managers.	40	20%	350	15	280	0	0	55	20-35
5	38	Office of Legal Services	2028-5	Review the vendor invoice dispute process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure disputed invoices with vendors are resolved timely.	40	20%	350	15	0	280	0	55	20-35
6	45	Division of Human Resources	2028-6	Review the employee payroll payment process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure employee payroll is accurate and run timely.	24	12%	350	280	0	55	0	15	20-35
7	53	Division of Communications	2028-7	Review the process for providing external communications and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure external communications are complete and accurate and issued timely.	32	16%	250	200	0	35	0	15	10-25
8	59	Division of Enterprise and Technology Services	2028-8	Review process to replace/upgrade IT systems/equipment/software. Confirm controls are established to ensure operations continue in the event of a system/equipment/software failure.	48	24%	300	0	15	0	240	45	20-35
9	73	Division of Procurement and Office Services	2028-9	Review member correspondence process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure member correspondence is properly disseminated.	32	16%	350	55	0	280	0	15	20-35
10	76	Division of Procurement and Office Services	2028-10	Review the inventory process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure inventory is properly tracked and disposed.	80	40%	35	0	0	25	0	10	5-10
11	80	Division of Accounting	2028-11	Review the employer contribution receipt process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure contributions are split properly as well as received accurately and timely.	72	36%	350	0	15	0	280	55	25-50
12	83	Division of Accounting	2028-12	Review the pension spiking process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure pension spiking is calculated accurately and paid by the correct entity.	56	28%	450	0	25	0	350	75	20-45
13	99	Division of Employer Reporting, Compliance, and Education	2028-13	Review the employer reporting process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accurate employer reports are received timely.	84	42%	350	0	280	0	15	55	20-40
14	108	Division of Membership Support	2028-14	Review the process for updating member information and ensure compliance with statutes/regulations/policies. Confirm controls are established to prevent unauthorized changes to member accounts	40	20%	400	320	0	65	0	15	20-40
15	114	Division of Member Services	2028-15	Review the new PLSO option, effective January 1, 2024 and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure retirement calculations are accurate and the process is efficient.	40	20%	300	0	15	0	240	45	15-30
16	117	Division of Quality Assurance	2028-16	Review the reciprocity process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure reciprocity recalculations are properly performed and applied to the members' account.	56	28%	350	0	280	0	15	55	20-40
17	126	Division of Disability and Survivor Benefits	2028-17	Review the survivor benefits (retired and active) approval process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure benefits are properly calculated and approved.	56	28%	350	0	280	0	15	55	20-40
18	131	Division of Retiree Services Payroll	2028-18	Review the Electronic Fund Transfer Return process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure EFT returns are processed timely and accurately.	32	16%	350	0	15	280	0	55	20-35
19	136	Division of Retiree Health Care	2028-19	Review Medicare as a Secondary Payer process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure KPPA follows proper processes related to Medicare as a Secondary Payer.	32	16%	350	0	15	280	0	55	20-35
20	-	Board of Trustees	2028-20	Election Vendor RFP	-	-	100	0	0	0	0	100	
21	-	Executive Director	2028-21	Open Audit Recommendation Review	-	-	25	0	0	15	0	10	
22	-	Executive Director	2028-22	ACFR/SAFR Review	-	-	30	20	0	0	0	10	
23	-	Division of Internal Audit	2028-23	FY 2027 Risk Assessment and Audit Plan	-	-	75	0	0	0	25	50	
24	-	Division of Internal Audit	2028-24	Staff Performance Evaluations	-	-	200	25	25	25	25	100	
	-		**Other Projects**										
25	-	Division of Internal Audit	2028-30.1	KPPA Executive Requests	-	-	20	0	0	0	0	20	-
26	-	Division of Internal Audit	2028-30.2	CERS Requests	-	-	50	0	0	0	0	50	-
27	-	Division of Internal Audit	2028-30.3	KRS Requests	-	-	5	0	0	0	0	5	-
28	-	Division of Internal Audit	2028-30.4	FY 2029 Audit Project Setup	-	-	10	0	0	0	0	10	-
29	-	Division of Internal Audit	2028-30.5	Key Performance Indicators and Monthly Reports	-	-	36	0	0	0	18	18	-
30	-	Division of Internal Audit	2028-30.6	Process Documentation and Template Updates	-	-	50	0	0	0	0	50	-

31	-	Division of Internal Audit	2028-30.7	Security Access Review	-	-	2	0	0	0	2	0	-
32	-	Division of Internal Audit	2028-30.8	Charter Updates	-	-	3	0	0	0	1	2	-
33	-	Division of Internal Audit	2028-30.9	Continuing Professional Education	-	-	200	40	40	40	40	40	-
	-		**Board and Committee Meetings**										
34	-	Division of Internal Audit	2028-31.1	Audit Committee Meetings and Preparation	-	-	65	10	10	10	10	25	-
35	-	Division of Internal Audit	2028-31.2	KPPA Board Meetings	-	-	40	5	5	5	5	20	-
36	-	Division of Internal Audit	2028-31.3	CERS Board and Committee Meetings	-	-	80	10	10	10	10	40	-
37	-	Division of Internal Audit	2028-31.4	KRS Board and Committee Meetings	-	-	40	5	5	5	5	20	-
	-		**Non-Board Meetings**										
38	-	Division of Internal Audit	2028-32.1	Internal Audit Meetings	-	-	250	50	50	50	50	50	-
39	-	Division of Internal Audit	2028-32.2	KPPA Executive Meetings	-	-	55	5	5	5	5	35	-
40	-	Division of Internal Audit	2028-32.3	Meetings with CEOs	-	-	50	0	0	0	0	50	-
41	-	Division of Internal Audit	2028-32.4	Meetings with KPPA Staff	-	-	40	5	5	5	5	20	-
42	-	Division of Internal Audit	2028-32.5	Quarterly Director's Meetings	-	-	4	0	0	0	0	4	-
43	-	Division of Internal Audit	2028-32.6	Quarterly All Employee Meetings	-	-	10	2	2	2	2	2	-
44	-	Division of Internal Audit	2028-32.7	IT Governance	-	-	4	0	0	0	0	4	-
45	-	Division of Internal Audit	2028-32.8	External Meetings	-	-	52	8	8	8	8	20	-
-	-	Division of Internal Audit	-	Other Administration	-	-	200	20	20	20	40	100	-
-	-	Division of Internal Audit	-	Other Leave	-	-	1000	200	200	200	200	200	-
-	-	Division of Internal Audit	-	Holiday	-	-	485	97	97	97	97	97	-
				Scheduled hours for Fiscal Year 2028			9,366	1,667	1,942	1,867	1,958	1,932	
				Reserve hours for unplanned projects			433.50	290.50	18.50	93.50	2.50	28.50	

Kentucky Public Pensions Authority

Charter for the KPPA Audit Committee

Throughout the~~is~~ Charter for the KPPA Audit Committee (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 *Global Internal Auditing Standards*~~Institute of Internal Auditors~~, internal auditing is *an independent, objective assurance and advisory service ~~consulting activity~~ designed to add value and improve an organization's operations. It helps an ~~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.*

Commented [KC1]: Updated to reflect the new name of the Standards.

Commented [KC2]: Updated to reflect wording included in the new Standards.

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 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 Chairs of the CERS and KRS Boards may also each appoint one non-Authority trustee to serve on the KPPA Audit Committee.

Commented [KC3]: Reflects change that CERS and KRS Board Chair can appoint an additional Audit Committee member.

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.

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

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

by the KPPA Audit Committee. Agendas are posted to the KPPA website in compliance with Kentucky's Open Meetings Act[2].

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 Ethics[3] 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.

[2] See Kentucky Open Meetings Act
[3] Kentucky Revised Statutes - Chapter 11A

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. 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, consider evaluating 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.

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. Review of Charter for the KPPA Audit Committee

Commented [KC4]: This was added after prior discussion of whether the Charter must be reviewed annually if there are no changes to the document.

The Charter shall be reviewed and approved by the KPPA Audit Committee every three years or upon one of the following events:

1. Change to the majority of Audit Committee members.
2. Change to the majority of the Authority members.
3. Significant changes to the *Standards*, which leads to substantial updates to the Charter.

IX. Approvals

We, the undersigned, do certify that this Charter was approved on the 19th day of March 2026.

Chair
KPPA Audit Committee

Date

Board Chair
Kentucky Public Pensions Authority

Date

History: Initial Approval Date: June 28, 2023
Amended: June 27, 2024; March 19, 2026

Kentucky Public Pensions Authority

Charter for the Division of Internal Audit

Throughout the~~is~~ Charter for the Division of Internal Audit (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. Mission of Internal Audit

The Division 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.

II. Audit Standards

Internal Audit shall adhere to the *Global ~~International Standards for the Professional Practice of~~ Internal Auditing Standards*[1] (*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)~~.

Commented [KC1]: Updated to reflect new name of Standards

Commented [KC2]: This is now incorporated in various aspects of the Standards and is not a separate document.

Internal Audit will ~~adhere~~ follow ~~to~~ the International Professional Practices Framework, which includes the *Standards*, Topical Requirements, and Global Guidance~~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*, and the definition of internal auditing (see section VI)~~. The International Professional Practices Framework ~~Mandatory Guidance~~ addresses current internal audit practices while enabling practitioners and stakeholders globally to be flexible and responsive to the ongoing needs for high-quality internal auditing in diverse environments and organizations of different purposes, sizes, and structures~~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~~.

III. ~~Core~~ Guiding Principles for Effective ~~of~~ Internal Auditing

Commented [KC3]: Changes to reflect new wording in the Standards

1. Demonstrate integrity.
2. Maintain objectivity.~~Remain independent, which is defined as objective and free from undue influence.~~
3. Demonstrate competency. ~~e and due professional care.~~
4. Exercise due professional care.
5. Maintain confidentiality. ~~Support the strategies, objectives, and risks of the organization.~~
6. Authorized by the Board.
7. Positioned independently. ~~Remain appropriately positioned and adequately resourced.~~
8. Overseen by the Board.
9. Plan strategically. ~~Provide risk-based assurance.~~
10. Manage resources. ~~Remain insightful, proactive, and future focused.~~

[1] Institute of Internal Auditors Global Internal Audit Standards

11. Communicate effectively.
12. Enhance quality. ~~Promote organizational improvement.~~
13. Plan engagements effectively. ~~Demonstrate quality and continuous improvement.~~
14. Conduct engagement work.
15. Communicate engagement results and monitor action plans.

IV. KPPA Audit Committee

The purpose, statutory authorization, composition, and responsibilities of the KPPA Audit Committee are outlined in the Charter for the KPPA Audit Committee[2].

V. The Internal Audit Function

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.

Definition

As defined by the ~~*IIA*~~*Standards*, internal auditing is "*an independent, objective assurance and advisory service ~~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 governance, risk management, and control~~, and governance~~ processes.*"

Commented [KC4]: Changed to match wording in new Standards.

Purpose Statement

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the Authority, CERS and KRS Boards, and KPPA management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Commented [KC5]: Added to meet new Standards, which now require a Purpose Statement for Internal Audit.

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.

VI. Internal Audit Mandate

Commented [KC6]: Required by Standards

This Charter establishes the authority, role, and responsibilit~~y~~ies of Internal Audit.

[2] KPPA Website - Board Policies

A. Authority

Internal Audit's authority is created by its direct reporting relationship to the Authority. This reporting structure allows for free and unrestricted access to the Authority, as well as all activities across the organization. For example, records, personnel, and physical property. 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.

Commented [KC7]: Standards require that Internal Audit authority be stated.

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.

B. ~~Purpose and Objective~~Role

The primary role of Internal Audit is to conduct internal audit activities and deliver internal audit services. There may be situations where roles beyond internal auditing are part of the Chief Auditor or Internal Audit staff responsibilities, such as risk management or compliance.

Commented [KC8]: Name change and new information added as required by Standards.

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.

C. ~~Activities~~Responsibilities

Internal Audit's responsibilities comprise its accountability and obligations to carry out its role, as well as the specific expectations of key stakeholders. For example, responsibilities typically include expectations regarding performance of audit services; communications; compliance with laws, regulations, and policies; conformance with the *Standards*; and other activities incumbent in the role. In order fulfill the Internal Audit mission, staff will be responsible for the following activities:

Commented [KC9]: Updated to match new requirements of Standards.

Responsibilities to the Authority

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).

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.

Working with External Auditors

The Chief Auditor will ~~A~~assist~~ance 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.

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~~ responsibilities (e.g., information technology and data security reviews). 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.

VII. 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. Additionally, Internal Audit staff should enhance their awareness and understanding of honesty and professional courage by seeking opportunities to obtain ethics-related continuing professional education.

Commented [KC10]: Added to match requirements of Standards regarding ethics training.

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.

Commented [KC11]: Currently, the Chief Auditor evaluation is conducted in accordance with 18A guidelines. The Chief Auditor is statutorily excluded from 18A. Is clarification needed on the format of the Chief Auditor evaluation process?

Commented [KC12]: Does this need to be expanded to include the full Audit Committee as well as those with whom the Chief Auditor is statutorily required to work?

Commented [KC13]: There have been comments that the Chief Auditor is supervised by KPPA HR, which is not in line with the statute. Is clarification needed?

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.

VIII. 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.~~

Commented [KC14]: Moved to External Assessment section

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

The *Standards* require that an external assessment be conducted at least once every five years~~Internal Audit should strive to have~~ by 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.

IX. Internal Control System

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued the Internal Control – Integrated Framework [3] 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 Government[5] 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, Chief Financial Officer, Executive Director-Office of Operations, Executive Director-Office of Benefits, and Executive Director-Office of Legal Services. Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of the internal control system.

[3] COSO Internal Control - Integrated Framework Principles
[4] GFOA Internal Control Framework
[5] GAO Standards for Internal Control in the Federal Government

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).

X. 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 assurance and advisory ~~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 assurance and advisory ~~audits, consulting, and assurance~~ services to contribute to the overall governance, risk management, and compliance framework of KPPA, promoting transparency, accountability, and the achievement of strategic objectives.

Commented [KC15]: Changes to match wording in new Standards

Assurance Services ~~Audits~~

Commented [KC16]: New headings match to Standards. Additional details were provided to better describe the various services currrently performed by Internal Audit.

1. Compliance Audits – Compliance audits provide results on whether ~~determine whether~~ an organizational ~~area has complied with~~ federal law, state law (Kentucky Revised Statutes, Kentucky Administrative Regulations), agency policies and procedures, and division specific procedures.

2. Operational Audits – Operational audits provide results on ~~analyze~~ how effectively and efficiently an organization's operations, processes, and procedures are functioning. These audits are conducted to improve resource utilization, identify opportunities for process enhancement, and achieve organizational goals~~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~~.

3. Financial Audits – Financial audits provide results on an organization's statements, records, transactions, and compliance ~~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.

4. Information Technology (IT) Audits – IT ~~A~~audits provide results on an organization's IT infrastructure, systems, and processes. These audits examine the security, availability, and confidentiality of information as well as the efficiency of IT controls. ~~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.

5. Investigative Audits – Investigative audits provide results related to fraud that may have occurred within the organization. ~~may result from findings during a routine audit or from information received from sources outside of Internal Audit.~~ These audits are normally requested by trustees or staff of the KPPA, CERS, or KRS as a result of information received from a ~~tip~~tip but may also be recommended as a result of a routine audit. These audits focus on alleged, irregular conduct. Reasons for investigative audits may include internal theft, misuse of agency property, and/or conflicts of interest. If during the performance of another type of audit or as the result of a received tip, the Chief Auditor believes an investigative audit is needed, ~~T~~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. If so, the KPPA Audit Committee will determine if the investigative audit will be conducted by Internal Audit or an outside party~~, in accordance with Internal Audit procedures~~. These audits may require ~~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. When determining who will perform the investigative audit, the KPPA Audit Committee should consider that the IIA has provided guidance stating that an organization should not expect its internal audit staff to have the expertise of a person whose primary responsibility is to investigate fraud and such investigations are best carried out by those experienced to undertake such assignments.

Commented [KC17]: Added based on new Standards

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 audits. With the exception of investigative audits, a review of internal controls will be included as a part of all assurance services. An ~~I~~internal ~~C~~control review ~~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 to ~~. An Internal Control audit can~~ identify weaknesses, gaps, and potential vulnerabilities and make recommendations to correct any such noted deficiencies ~~within systems, which enables KPPA to implement corrective measures and strengthen their control environment~~.

~~6. 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.~~

Commented [CK(18]: This is incorporated under operational audits as investments is an operation of KPPA.

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

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. Internal Audit staff may participate in various work groups including, but not limited to, the KPPA Information Technology Governance team, the Continuity of Operations team, the Strategic Plan 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.

XI. 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: Determine the ~~O~~objectives and scope of the audit ~~to be conducted~~.
2. During the audit (these steps happen at various stages throughout the audit and not all at once):
    a. Document~~ation~~ the~~of~~ audit processes, including information that will be used to develop the audit background ~~of the~~ , which is included as a part of the Control Matrix in 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, including ~~and may also be provided to~~ the Executive Director ~~over the area under review, if requested~~.
    b. Perform testing based on requirements of applicable statutes, regulations, policies, and/or staff procedures. During testing, audit staff will work with the area under review to resolve any issues found.
    c. Communicate potential ~~Preliminary~~ findings ~~and recommendations~~. Issues that cannot be resolved as a part of item #2b, ~~These~~ will be provided to the following individuals. ~~staff in charge of the area under review and may also be provided to the Executive Director over the area under review, if requested.~~ This communication will include a request for information that could be used to clear the findings. If this information is not available, staff will be asked to provide insight into what caused the issue as well as steps that can be taken to prevent the issue from occurring in the future.
        i. Staff in charge of the area under audit.
        ii. KPPA Executive Management team, which includes the KPPA Executive Director, KPPA Deputy Executive Director, and the KPPA CFO. The team also includes the KPPA CIO (if investment related audit), KPPA Benefits Executive Director (if benefits related audit), and KPPA Legal Services Executive Director (if Legal related audit)
    d. Communicate ~~F~~final findings and recommendations. An Exit Conference will be conducted with the following individuals. At this meeting staff and Internal Audit will have an additional chance to review the findings and recommendations to determine if updates are needed. ~~These will be released to management over the area under review so a response can be provided.~~
        i. Staff in charge of the area under audit.
        ii. KPPA Executive Management team (optional attendees)
    e. Release the ~~D~~draft audit report, without management's final responses. This will be released to the KPPA Executive Management team ~~Director over the area under review and the KPPA Executive Director~~ and the CEOs for CERS and KRS.
3. ~~Upon c~~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 will be released to the Audit Committee.

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.

XII. 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.

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.

During the course of performing ~~various types of audit, consulting, and assurance~~assurance and advisory 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.

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.

The Risk Assessment and Audit Plan ~~methodology is based upon the following~~ process includes the following activities:

1. Seeking input on organizational risks from the Audit Committee, CERS and KRS CEOs, and various KPPA staff.
2. Reviewing the risks received and identifying the associated auditable processes. These auditable processes ~~Identifying KPPA, CERS, and KRS activities/processes (these~~ become the "audit universe"~~)~~.
3. Scoring the ~~organizational~~ risk~~s~~ for each process identified in the audit universe.
    - 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 an even-point value with ~~zero~~ two (2~~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.~~
4. Ranking the processes by overall risk.
5. Creating the Audit Plan, which includes estimated audit staff hours and estimated starting dates for each audit.
6. Reviewing the proposed Risk Assessment and Audit Plan with KPPA Executive Management and adjusting as necessary.
7. Obtaining estimated non-audit staff hours for proposed audits.
8. Submitting proposed Risk Assessment and Audit Plan to the Audit Committee Chair and Co-Chair for approval.
9. Presenting the proposed Risk Assessment and Audit Plan to the KPPA Audit Committee for approval.
10. Presenting the approved Risk Assessment and Audit Plan to the KPPA Board for ratification.

Commented [KC19]: This reflects changes made to the Risk Assessment and Audit Plan over the past year.

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.

XIII. Internal Audit Procedures

Detailed Internal Audit procedures can be found on the Internal Audit Process Documentation SharePoint site.

XIV. Review of Charter for Division of Internal Audit

Commented [KC20]: This was added after various discussions concerning if the Charter was required to be reviewed annually, if there were no changes to the document.

The Charter shall be reviewed and approved by the KPPA Audit Committee every three years or upon one of the following events:

1. Change to the majority of Audit Committee members.
2. Change to the Chief Auditor.
3. Significant changes to the *Standards*, which leads to substantial updates to the Charter.

XV. Approvals

We, the undersigned, do certify that this Charter was approved on 19th day of March 2026.

KPPA Audit Committee Chair	Date
Board Chair Kentucky Public Pensions Authority	Date
Chief Auditor	Date

History: Approval Date: September 28, 2023
Amended: March 19, 2026

KENTUCKY PUBLIC PENSIONS AUTHORITY
Ryan Barrow, Executive Director
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Kentucky Public Pensions Authority

MEMORANDUM

To: KPPA Audit Committee

From: Erin Surratt, Deputy Executive Director
Kentucky Public Pensions Authority

Date: September 9, 2026

Re: Office Space Utilization Study

Objective

At the request of the Kentucky Public Pensions Authority (KPPA) Audit Committee, management was asked to evaluate KPPA's current office space utilization and assess the feasibility of reducing leased space through consolidation or by leasing portions of the existing buildings to other entities. Because this request involved evaluating a previous operational decision rather than conducting an audit, management assumed responsibility for the assessment with coordination with KPPA Internal Audit staff. This memorandum summarizes management's findings and provides an analysis of the operational, financial, and logistical considerations.

Background

KPPA leases approximately 85,357 square feet of office space. This space consists of two separate one story buildings. The property shares 352 parking spaces, covers approximately 8.5 acres, and includes walkways, landscape beds, and green spaces. See details below.

Name	Building A	Building C
Location	1260 Louisville Rd	1270 Louisville Rd
Property Type	Offices, Mailroom	Offices, Boardroom
Assigned Full-time Equivalents (FTE)	165	119
Leased Square Feet (SF)	46,380	38,977
Annual Price/SF	$12.50	$12.50

Lease Term	Dec 1, 2019 - TBD	Dec 1, 2019 - TBD

KPPA currently has 284 authorized full-time positions, 20 interim positions, and one part-time position. Prior to the COVID-19 pandemic, all staff worked primarily in the office. Since that time, staffing levels have increased due to state budget approved position capacity (cap) increases while much of the workforce has transitioned to hybrid work schedules per the State Personnel Cabinet rules and regulations.

Space	Building A	Building C
Location	1260 Louisville Rd	1270 Louisville Rd
Lobby	2 (lower/upper – only lower is used for public)	2 (Hearing/Boardroom-public and Accounting)
Canteens	2 (1- fully furnished; 1- partially furnished)	3 (2- fully furnished; 1-partially furnished)
Mailroom	1 with loading ramp	NA
Server room	1	NA
Boardroom	NA	1
Conference room	2 (lower/upper)	2
Training room	2 (lower/upper)	1
Hearing room	NA	1
Storage room	3	NA
Restrooms	8 multi-stall, 2 single stalls in lobbies	8 multi-stall, 5 single stalls
Nursing Mother's room	1	1
Outreach Production room	1	NA
Offices	86	65
Cubicles	82	82
Janitor Closets	9	3

The current office layout includes numerous specialized spaces necessary for KPPA operations. These spaces support core agency functions and cannot efficiently be repurposed without affecting daily operations.

KPPA leases the property from Perimeter Park West, Inc. (PPW), a separate legal entity organized under 501(c)(25)(C). PPW uses KPPA employees as their agents to conduct the day-to-day business transactions of the corporation per the PPW, Inc Leasing Policy and Bylaws. KPPA pays rent to PPW per the lease agreement and PPW reimburses KPPA annually for their employees' time and ancillary costs via a monthly rent reduction.

Under Article VI of the Articles of Incorporation, "The exclusive purpose of the corporation [PPW] shall be the acquiring of and holding title to real property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to one or more shareholders who meet the qualifications described in Section 501(c)(25)(C) of the Internal Revenue Code of 1986, as amended (the "Code"). PPW's sole purpose is to invest in real estate and to pay dividends to the shareholders in the amount of any earnings in excess of expenses.

Under the PPW Dividend Policy, dated May 9, 2023, PPW must retain a minimum of $500,000 cash on hand for annual expenses. The policy allows the PPW Board to declare an amount over $500,000 as a dividend to be paid to the shareholders according to the shareholders' stock allocation. The PPW Board is authorized to take into consideration anticipated budget needs for the next fiscal year and can declare the need to retain an amount higher than the $500,000 cash to pay for anticipated repairs, etc. in the upcoming year. The PPW Board annually determines if a dividend will be provided based on the cash on balances at June 30th each year after the June bank statements have been reconciled. Any dividends declared should be paid to the shareholders within 45 days of the declaration, or around July 31st of each year and may be paid by wire transfer. All large building expenses (e.g. roof replacement, HVAC replacement, flood/water damage mitigation) will affect the dividend payment.

Dividends Since 2020		
06/17/2020	Dividend Payment Wire	$500,000.00
07/29/2021	Dividend Payment Wire	$703,302.50
07/28/2022	Dividend Payment Wire	$472,901.20
07/25/2023	Dividend Payment Wire	$405,687.48
07/31/2024	Dividend Payment Wire	$472,845.05
07/30/2025	Dividend Payment Wire	$206,142.01
07/29/2026	Dividend Payment Wire	$445,231,10

Telecommuting Authority

KPPA is an Executive Branch agency controlled by Kentucky Revised Statutes - Chapter 18A, the Governor of the Commonwealth of Kentucky, and the Personnel Cabinet. The personnel policies and regulations, including telecommuting, are controlled by the Personnel Cabinet. Further, the Kentucky General Assembly has debated and considered legislative action mandating certain personnel actions by amending 18A statutes as evidenced by recently proposed bills - RS 2023 SB 148 and RS 2025 SB 79.

The current telecommuting policy in effect as of September 12, 2022, requires all Executive Branch employees to be in the office a minimum of three (3) days a week unless an exception is granted by the Personnel Cabinet. At the onset of the current Personnel Telecommuting Policy, KPPA requested and was granted various exceptions to the three days a week requirement for all non-member facing divisions. Additionally, with the drastic reduction of members utilizing the in-person services offered after the offices were re-opened following the COVID-19 pandemic and productivity metrics maintaining consistency from pre-pandemic levels, additional exceptions were granted. Per approval by the Personnel Cabinet, all member-facing divisions have set schedules to accommodate necessary in-person services, and they vary by division and are driven by member needs. Certain times of the year, such as heavy retirement months, open enrollment and tax season, require additional staff to be in the office to meet visitor demand. Additionally, higher in-office attendance occurs when “All Employee” meetings are held (quarterly), and division specific trainings/meetings occur which happen more frequently.

Existing Space Utilization

KPPA currently uses approximately 85,357 square feet of office space between Buildings A and C, while workstations are not occupied 100 percent of the time due to hybrid work schedules, all office space throughout the Frankfort campus is assigned to employees or dedicated to essential business functions. As employees rotate between in-office and remote workdays, the assigned workspaces are utilized throughout the workweek. Conference rooms, training rooms, hearing rooms, the Board Room, mailroom, server room, and other operational areas are used as business needs require. Therefore, daily occupancy fluctuates but the KPPA's footprint is utilized throughout the week.

Return-to-Office Capacity

Staff evaluated whether the existing office space could accommodate all employees if Executive Branch employees were required to return to the office five days per week.

Prior to the COVID-19 pandemic, office space was generally occupied with little excess capacity. Since then, KPPA's workforce has grown by approximately 29 employees. Based on current staffing levels, Buildings A and C could accommodate employees assigned to the Frankfort campus; however, doing so would likely require reducing meeting space, repurposing other operational areas, and reconfiguring existing work areas to create additional assigned workstations.

In June 2025, KPPA staff also conducted a high-level review of both buildings to estimate the number of additional workstations that could be created within the existing footprint. This review was based on observations and discussion rather than architectural drawings and did not account for code requirements or all operational constraints.

The review estimated that approximately:

- 88 additional workstations could potentially be added in Building A.
- 70 additional workstations could potentially be added in Building C.

These estimates assume that conference rooms, training rooms, storage rooms, executive offices, and other operational spaces could be converted into office space. Because many of these areas are essential to agency operations, staff believe these estimates should be reduced by at least 20 percent to reflect realistic business needs[1].

Estimated Cost of a Full Return to the Office

To estimate the potential operating costs associated with a full return to five day a week in-office work, current operating expenses were compared to the last full calendar year in which KPPA operated with employees reporting to office five days per week (Calendar Year 2019).

Lease expenses are fixed and are not dependent upon building occupancy. Accordingly, a full return to in-office work would not be expected to affect lease costs. It is important to

[1] Safety and zoning requirements may result in a decrease of additional desks that could be added.

note any future increases in lease expenses can only occur if altered by a new lease agreement or termination of lease.

Natural gas expenditures increased by approximately 52.2% between calendar years 2019 and 2025. However, natural gas costs are primarily influenced by factors such as commodity pricing, weather conditions, and the need to heat and maintain the buildings regardless of occupancy. The additional energy caused by having more people in the building is usually much smaller than people expect. A search revealed that 70-90% of the heating load is from heat loss through walls, windows, roof and ventilation system which would not be related to occupancy. Consequently, natural gas expenditure may not be considered a meaningful indicator of the operating costs associated with changes in employee occupancy.

Electricity and water expenditures, by comparison, decreased by approximately 42.3% between calendar years 2019 and 2025. Because calendar year 2019 represents the last full year in which employees reported to the office five days per week, and calendar year 2025 reflects a significantly greater level of remote work, these utility expenditures provide the most relevant point of comparison for estimating the potential impact of a full return to in-office work. While utility costs are also affected by factors such as utility rates, weather conditions, and operational efficiencies, the observed reduction in electricity and water expenditures is consistent with lower building utilization during the period.

Current Building Operating Costs

For FY 2026, the estimated annual cost to operate Buildings A and C is approximately:

Expense	Annual Cost
Rent	$961,968.00
Natural Gas	$38,734.80
Electric, Water, Sewer & Security Monitoring:	$91,018.51
Total Annual Cost	$1,091,721.31
Average Monthly Cost	$90,976.78

Louisville Office

KPPA recently entered into a lease for approximately 3,345 square feet of office space in Louisville, which is currently being prepared for occupancy. Once occupied, the office will house employees of the Investment Division who reside in Louisville and are currently working remotely. The Louisville office operates under a separate lease agreement procured by the Finance Cabinet at a current monthly cost of $7,621.83, which includes

utilities, janitorial services, and twelve reserved parking spaces. The lease also provides for an annual four (4) percent annual increase. Because these employees are not currently assigned workspace at the Frankfort campus and will report to the Louisville office regardless of any future return-to-office mandate, staff do not anticipate the Louisville office having any impact on the overall space utilization analysis for the Frankfort campus.

Feasibility of Reducing Leased Space

KPPA management evaluated three potential options for reducing leased space:

(1) consolidating all operations into a single building

(2) leasing a portion of one of KPPA's existing facilities to another tenant and

(3) closing a portion of one of KPPA's existing buildings.

Consolidating Operations into One Building

KPPA staff evaluated the feasibility of consolidating all operations into either Building A or Building C while leasing the remaining building.

Although current employee attendance patterns under today's hybrid work schedules suggest one building could theoretically accommodate staff with strategic hoteling (i.e. sharing of workstations), the operational requirements make consolidation considerably more complex than simply relocating offices.

Several mission-critical functions are located within specific buildings.

- Building A houses KPPA's primary server room, mailroom, and loading dock.
- Building C contains the Board Room, Legal Hearing Room, and meeting space, each of which contains specialized technology and infrastructure necessary to conduct board meetings, disability and administrative hearings, and other statutory functions.

Consolidating into Building C would require construction of a new server room capable of supporting KPPA's production systems. Staff believe this option would be prohibitively expensive. The existing server room recently underwent significant infrastructure improvements, including replacement of the UPS and Liebert environmental systems at a cost approaching $550,000. These systems are permanently integrated into the building and cannot be relocated without substantial expense. A new server room would require dedicated environmental controls, fire suppression systems, electrical infrastructure, and

redundant power systems. Also, the fire system for Building C is up to code. However, if any significant renovations occur (more than 50% of the square footage) or new ownership takes place, the fire system will also need to be replaced under the revised building code which adds a material expense. Significant renovations may trigger other building code upgrades with additional capital costs.

Consolidating into Building A presents a different set of challenges. New Board Room and Legal Hearing Room facilities would need to be constructed to replace the modified spaces currently located in Building C. An estimate recently obtained by KPPA indicated that replacing the existing audiovisual and display equipment to meet current demand alone would cost approximately $244,000, exclusive of any construction or renovation cost required to create a new Board Room. It has not been determined whether the existing audiovisual equipment could be relocated and reused or whether replacement systems would be required but the relocation cost would be material. Similarly, the current Legal Hearing Room would need to be replaced. Disability and administrative hearings must be conducted in spaces that meet specific operational requirements, including proximity to public restrooms and recording capabilities. Available locations within Building A are limited and would likely require extensive renovation to accommodate these needs.

Creating these specialized rooms would also reduce the number of available workstations, requiring additional office renovations to convert storage areas and irregularly shaped spaces into employee work areas. These modifications would involve relocating walls, electrical systems, data cabling, HVAC ductwork, and potentially plumbing. As with any major renovation, permitting, engineering, construction, and code compliance would significantly increase both project costs and implementation time.

Regardless of which building was retained, consolidation would also create a substantial surplus of office furniture and equipment. Staff would need to determine whether to lease off-site storage or dispose of excess furniture through the Commonwealth's surplus property process. Should future Executive Branch policy require additional employees to return to the office, replacing previously disposed furniture would create additional costs.

KPPA staff do not believe the operational savings associated with consolidation outweigh the significant construction costs, infrastructure modifications, and long-term operational risks identified during this review. Additionally, one building would not be sufficient if employees were required to return to the office.

Leasing a Portion of an Existing Building

From a space utilization perspective, it may be possible to separate a portion of one of KPPA's existing buildings for lease to another tenant. Based on the analysis of consolidating to one building, and the need to retain specific spaces, the most likely scenario would be to retain all of Building C and rent out the upper portion of Building A (any lease would have to conform to the requirements set out in the lease agreement). However, doing so would require significant building modifications, infrastructure improvements, and additional engineering evaluation before the feasibility and cost of such an option could be determined.

A firewall extending from the floor to the roof deck would need to be constructed to separate the two occupancies. The impact of this addition on the existing sprinkler and fire alarm systems has not been quoted by a contractor but will require the systems to be separated into two independent footprints. In addition, utilities serving both portions of the building would require extensive modifications and multiple re-metering of utilities.

The electrical system would need to be reconfigured by rerouting lighting circuits and relocating electrical service to a new distribution point that does not currently exist. Existing HVAC ductwork crosses the proposed separation line at multiple locations and would require substantial rerouting. While preliminary observations indicate that the existing gas service may continue to support the rooftop HVAC units serving the leased space, additional engineering review would be necessary. Water lines do not appear to cross the proposed separation point, although this would also require confirmation.

Building modifications of this nature could trigger additional building code requirements. Required permits, inspections, and any associated code upgrades would increase both the cost and timeline of the project.

Operational considerations extend beyond the building systems. KPPA's security camera and electronic badge access systems need to be divided between the two occupancies or modified entirely depending on the tenant's security requirements. Additionally, the proposed leased space may lack a dedicated loading dock depending on which building/space is leased. Constructing a new loading area would likely require additional site work and roadway improvements, the cost of which has not been determined.

While leasing a portion of the building is technically possible, management believes the construction, infrastructure, and operational challenges require significant additional study before this option could be considered financially viable. Based on the current price per square foot of $12.50, it's likely that there will be a net loss in rental income in the first year or two due to cost of renovations and code improvements that will be needed.

Closing a Portion of an Existing Building

Closing off a portion of an existing building to reduce operating costs may not result in meaningful savings due to the integrated nature of the building's mechanical, electrical, plumbing, and life safety systems, which are designed to serve the facility as a whole rather than isolated areas. Achieving measurable utility savings could require significant infrastructure modifications, and certain building systems would likely need to remain operational to protect the facility and ensure code compliance.

In addition, maintaining an unoccupied section of the building presents operational challenges, including reduced routine observation of the space, which may delay the detection of maintenance issues such as water leaks, equipment failures, pest intrusion, or other conditions that could result in property damage or increased repair costs. As a result, the potential operational risks and costs associated with closing off a portion of the building could outweigh any anticipated reduction in utility expenses.

KPPA Management asked the PPW Facility Agent to contact the insurance company that covers the commercial property insurance for PPW to inquire whether there would be any impact on insurance premiums or coverage if a portion of the building is closed off. The insurance company confirmed there wouldn't be any change to premium for that reason, and that additional justification may be required for claims processing if an event occurred in a space that had been unoccupied for a significant period.

Conclusion

Because the General Assembly and the State Personnel Cabinet ultimately controls the in-office and telecommuting schedules and based on the specific business needs we have constructed, the current configuration is optimal and best for future scenarios such as if all employees are required to return to the office for even a minimum of three or five days per week. If adequate space is not maintained and a mandate to return to the office is given, KPPA would have to look for new space to lease to accommodate the mandate at likely substantially higher per square foot cost and erode the efficiency of one central location for employees and members. This process would be controlled by the Department of Real Properties, which may result in the full KPPA staff being relocated and likely have a long duration on the acquisition of new space. Due to the limited flexibility to give up space, and because the space that could be relinquished may not offer desirable lease space and would pose a significant construction cost, it is the opinion of management that KPPA continue to lease the current space without modification.

KENTUCKY PUBLIC PENSIONS AUTHORITY
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Kentucky Public Pensions Authority

To: KPPA Audit Committee

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

Date: September 9, 2026

Subject: The Retirement Allowance Account

Issue:

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

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

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

Conclusion:

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

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

Analysis and Basis for Conclusion:

Statutes:

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

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

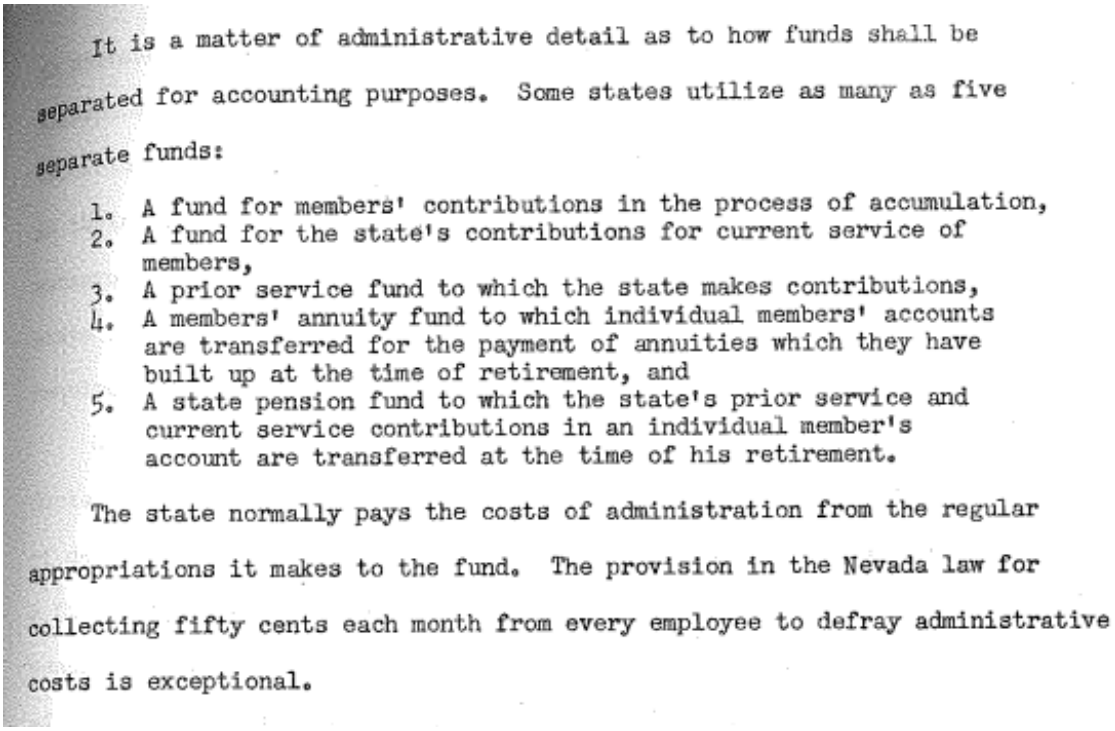
Note: The Statutory name of "The Members Account" was changed from "The Members' ~~**Contribution**~~ Account" as part of SB 2 (2013) which introduced Tier 3.

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

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

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

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



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

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

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

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

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

(3) Accounts established to pay for medical benefits under 26 U.S.C. sec. 401(h). The 3rd account referenced in the above statutes are the accounts established to pay for medical benefits under 26 U.S.C. sec. 401(h), and are ~~essentially are the plans established in the Insurance Trust Fund and include the employee and employer contributions to the Insurance Trust and~~ not part of the Members' Account and/or the RAA.

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

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

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

> **Exception:** In 2013, a decision was made to no longer utilize the Series 600-**Member Fund Balance Accounts** within the system of accounting/booking accounts. Research has not determined exactly why this changed; however, the following indications may have contributed to the change.
>
> - With the implementation of Tier 3 via SB 2 (2013) there was statutory language change from the Member Contribution Account to just Member Account.
> - The pension administration system has always maintained an individual **Member Account** for every member that shows accumulated balance for that member, and a cumulative member balance can be generated (showing the entire Member Balance at any time).
> - Due to GAAP and GASB changes, The Annual reports were no longer segregating the Member Contribution Account and the RAA as part of fund balance.

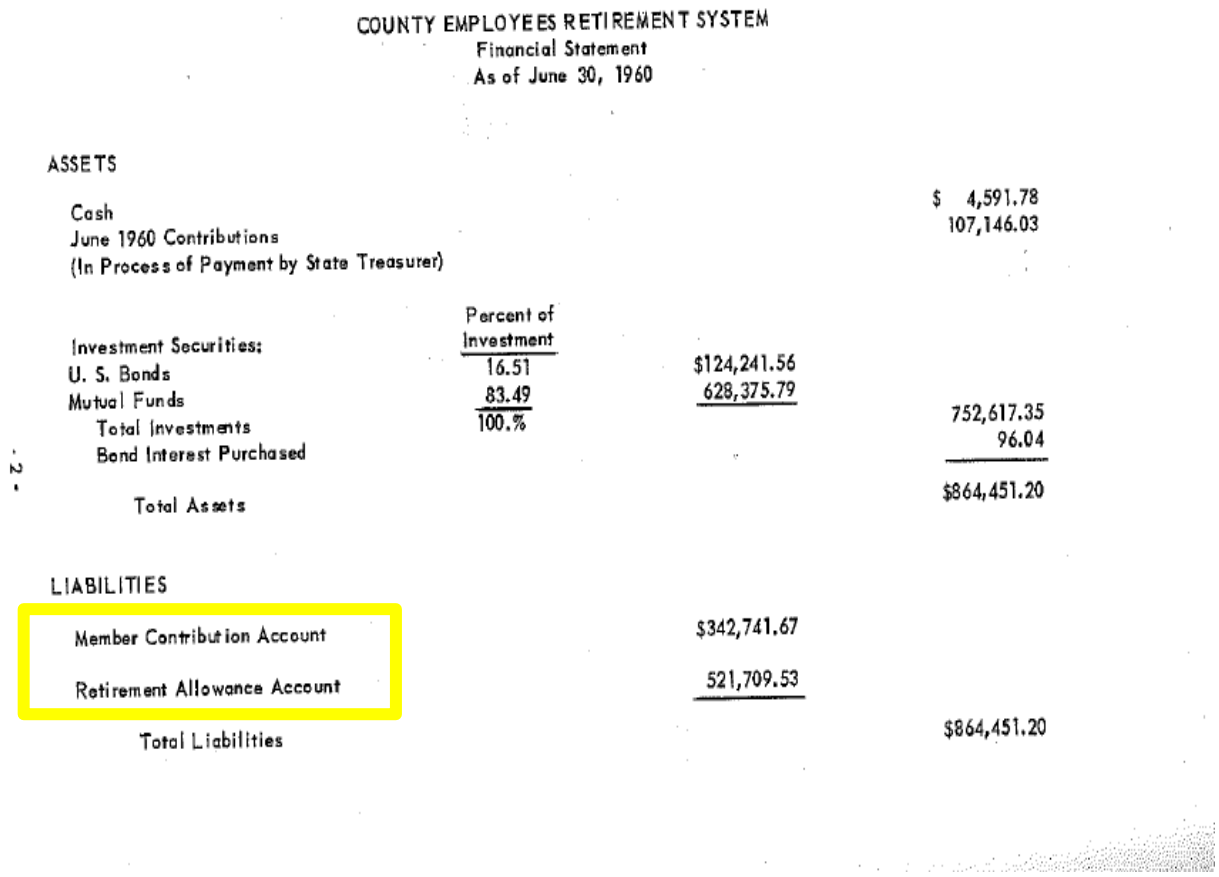
These Series 600 fund balance accounts were brought back to the general ledger in fiscal year 2023, and the Series 700 fund balance (Retirement Allowance Accounts) have always been in the general ledger/bookkeeping accounts since the Systems' inception as evidenced in the following Annual Reports presented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

The first financial statements

There are two financial statements in these annual reports.

In the example below, the first financial statement shows the Assets and Liabilities of the CERS System as of June 30, 1960, with the liabilities separated between the accumulated balance of the **Member Contribution Account** and the **Retirement Allowance Account.** In this financial statement, the RAA does not represent a bank, custodial, or investment account, or series of such accounts, but rather a fund balance.

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



COUNTY EMPLOYEES RETIREMENT SYSTEM
Financial Statement
As of June 30, 1960

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

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

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

COUNTY EMPLOYEES RETIREMENT SYSTEM
Analysis of Cumulative Cash Receipts and Disbursements
Period 7/1/1958 - 6/30/1960

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

The Annual Reports 1961-1990

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

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

COUNTY EMPLOYEES RETIREMENT SYSTEM
BALANCE SHEETS

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

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

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

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

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

The Annual Reports for 1991-1995

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

BALANCE SHEETS
JUNE 30, 1991 AND 1990

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

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

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

See notes to financial statements.

COUNTY EMPLOYEES RETIREMENT SYSTEM

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

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

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

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

The Annual Reports for 1996-2018

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

NOTE C. Change in Accounting Principles

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Individual Member Account & The RAA

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

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

Contribution History Information

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

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

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

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

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

System: 4/24/2026 9:28:31 AM
User Date: 4/24/2026

TRIAL BALANCE SUMMARY FOR 2026
Kentucky Retirement Systems
General Ledger

Page: 1
User ID: acase

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

Sorted By: Account
Include: Posting

Inactive	Account	Description	Beginning Balance	Debit	Credit	Net Change	Ending Balance
	56-CG-600	Fund Balance-Member	($2,157,409,921.00)	$0.00	$167,151,176.35	($167,151,176.35)	($2,324,561,097.35)
	56-CG-700	Retirement Allowance Account	($7,560,216,065.45)	$0.00	$740,798,162.41	($740,798,162.41)	($8,301,014,227.86)

	Accounts	Beginning Balance	Debit	Credit	Net Change	Ending Balance
Grand Totals:	2	($9,717,625,986.45)	$0.00	$907,949,338.76	($907,949,338.76)	($10,625,575,325.21)

System: 4/24/2026 9:26:12 AM
User Date: 4/24/2026

TRIAL BALANCE SUMMARY FOR 2026
Kentucky Retirement Systems
General Ledger

Page: 1
User ID: acase

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

Sorted By: Account
Include: Posting

Inactive	Account	Description	Beginning Balance	Debit	Credit	Net Change	Ending Balance
	51-KG-600	Fund Balance-Member	($1,449,467,943.63)	$0.00	$104,867,176.35	($104,867,176.35)	($1,554,335,119.98)
	51-KG-700	Retirement Allowance Account	($2,848,103,014.33)	$0.00	$740,846,180.54	($740,846,180.54)	($3,588,949,194.87)

	Accounts	Beginning Balance	Debit	Credit	Net Change	Ending Balance
Grand Totals:	2	($4,297,570,957.96)	$0.00	$845,713,356.89	($845,713,356.89)	($5,143,284,314.85)

Basic Financial Statements

CERS Combining Statement of Fiduciary Net Position

As of June 30, 2025, with Comparative Totals as of June 30, 2024 ($ in Thousands)

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

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

Basic Financial Statements

KRS Combining Statement of Fiduciary Net Position

As of June 30, 2025, with Comparative Totals as of June 30, 2024 ($ in Thousands)

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

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

CERS Combining Statement of Changes In Fiduciary Net Position

For the fiscal year ended June 30, 2025, with Comparative Totals as of June 30, 2024 ($ in Thousands)

	Pension		Insurance			
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Total 2025	Total 2024
ADDITIONS						
Member Contributions	$167,083	$65,788	$22,847	$5,495	$261,213	$248,354
Employer Contributions	677,429	306,031	12,842	19,950	1,016,252	1,118,858
Other Additions	—	—	—	—	—	12,082
Total Contributions & Other Additions	**844,512**	**371,819**	**35,689**	**25,445**	**1,277,465**	**1,379,294**
INVESTMENT INCOME						
Net Appreciation in FV of Investments	872,213	311,368	310,970	148,062	1,842,613	1,507,635
Interest/Dividends	321,416	115,259	118,334	55,730	610,739	566,984
Securities Lending Income	12,932	4,839	4,298	1,749	23,818	20,244
Less: Investment Expense	64,089	22,005	23,941	12,226	122,261	117,831
Less: Performance Fees	23,797	8,108	8,520	4,505	44,930	36,302
Less: Securities Lending Fees, Expenses, and Rebates	11,663	4,366	3,875	1,573	21,477	18,313
Net Investment Income	**1,107,012**	**396,987**	**397,266**	**187,237**	**2,088,502**	**1,922,417**
Total Additions	**1,951,524**	**768,806**	**432,955**	**212,682**	**3,365,967**	**3,301,711**
DEDUCTIONS						
Benefit Payments	993,357	376,348	—	—	1,369,705	1,284,097
Refunds	24,377	6,005	—	—	32,382	33,807
Administrative Expenses	25,841	2,262	917	524	29,544	30,350
Healthcare Expenses	—	—	142,084	105,121	247,205	221,030
Total Deductions	**1,043,575**	**386,615**	**143,001**	**105,645**	**1,678,836**	**1,569,284**
Net Increase in Fiduciary Net Position Restricted for Pension Benefits	907,949	382,191	289,954	107,037	1,687,131	1,732,427
Total Fiduciary Net Position Restricted for Benefits						
Beginning of Period	**9,717,626**	**3,439,860**	**3,585,894**	**1,729,403**	**18,472,783**	**16,740,356**
End of Period	**$10,625,575**	**$3,822,051**	**$3,875,848**	**$1,836,440**	**$20,159,914**	**$18,472,783**

See accompanying notes, which are an integral part of th[ese] combining financial statements.

KRS Combining Statement of Changes In Fiduciary Net Position

For the fiscal year ended June 30, 2025 , with Comparative Totals as of June 30, 2024 ($ in Thousands)

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

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

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

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

Other retirement systems and Industry Guidance:

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

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

> *§ 51.1-148. Retirement allowance account.*
>
> *A. All employer contributions, all amounts transferred from the members' contribution account, and all income from the invested assets of the retirement system shall be credited to the retirement allowance account. All benefits under the retirement system, other than refunds of members' accumulated contributions, and all administrative expenses of the retirement system, except to the extent that such expenses are otherwise paid, shall be paid from the retirement allowance account. At the discretion of the Board, contributions, penalties, and interest assessments may be deducted from the retirement allowance account of the employer.*
>
> *B. The amount of the interest allowances provided for in this chapter shall be transferred from the retirement allowance account to the members' contribution account annually.*
>
> *C. The records of the retirement allowance account shall be maintained so that the portion that is applicable to each respective employer may be ascertained at all times.*

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

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

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

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

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

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

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

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

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

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

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

The Cash Flow Memo

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

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

Minutes of April 7, 2022, Joint Audit Committee Meeting

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

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

April 20, 2026, KPPA Compliance Officer RAA research Memo

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

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

KENTUCKY PUBLIC PENSIONS AUTHORITY
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Kentucky Public Pensions Authority

DRAFT

To: Kristen Coffey, Chief Auditor;
KPPA Audit Committee: William Summers V, Chair.

From: Mike Lamb, KPPA, Executive Director or Operations, and CFO

Date: September 9, 2026

Subject: KPPA Management Response to the February 20, 2023, Internal Audit report *Review of Chase Accounts* Finding 1: Use of Non-Custodial Accounts.

Background:

The Kentucky Public Pensions Authority (KPPA) Division of Internal Audit issued an audit report titled *Reivew of Chase Accounts* on February 20, 2023. The first finding in the audit results section of that report is titled **1. Use of Non-Custodial Accounts** (**Finding 1**). This finding encompassed several issues and had five specific recommendations.

KPPA Executive Managements response to **Finding 1** was as follows:

> "The issues and recommendations are complex and may require statutory changes. As such, the KPPA Executive Director will form a study task force to examine all the recommendations and seek to identify other issues that may warrant action and/or legislation as well. Our timetable for completion will likely be 12 to 24 months."

The "study task force" included: David Eager, KPPA Executive Director; Rebecca Adkins, KPPA Deputy Executive Director; Michael Board, KPPA Office of Legal Services, Executive Director; Erin Surrat, KPPA Office of Benefits Executive Director; Mike Lamb, KPPA CFO, and a memo was initially completed by the "study task force" as a DRAFT prior to Mr. David Eager's departure in June of 2024; however, the memo was never finalized through the transition from Mr. Eager to Mr. Ryan Barrow, and the audit finding remained open.

During the Fall of 2025 the following members of the KPPA executive management team: Ryan Barrow, Erin Surratt, Michael Board, and Mike Lamb, reviewed the conclusions of the "study task force", further investigated the issues, and now present this memo outlining KPPA's conclusions to the specific Internal Audit recommendations.

Summary of Internal Audit recommendations and KPPA conclusions:

RECOMMENDATIONS (s)	CONCLUSION(s)
Recommendation 1: Define "unitized managed custodial account"	A custody account, or series of accounts, where unitization is applied to represent and track legal ownership of the underlying assets
Determine if Trustees have legal ownership and control over assets not held in the custodial account.	All assets of the trust (whether in a custodial account, depository account, or an actual physical asset), are legally owned by the Trusts and are fully and solely controlled by CERS and KRS through KPPA.
Recommendation 2: Review the unitization method with BNY Mellon	KPPA utilizes the unitization method. However, there are times when KPPA must use custom allocations for incoming and outgoing wires, and custom allocations do not utilize the current allocation of the unitized account. For example, paying adminstrative expenses, using the KPPA Board approved hybrid %, is a custom allocation.
Recommendation 3: Cash Flow and Account Structure	The current structure is an adequate method to ensure cash flow occurs in an efficient manner and in a way that limits opportunities for error and fraud.
Recommendation 4: Determine if continued use of non-fiduciary state depository bank is appropriate and determine if it is feasible to move all trust fund activity to the custodial bank.	KPPA has concluded that it is appropriate to continue to use a non-fiduciary, state depository bank, and that it is not feasible, necessary, or statutorily allowed, to move all trust fund activity to the custodial bank
Can all contributions received be deposited in a clearing account at BNY Mellon?	No. BNY Mellon is capable of providing a depository clearing account as part of their DDA (Demand Deposit Accounts) services; However, KRS 41.070(2) requires that "all receipts of any character of any budget unit…shall be deposited in state depositories...", and KRS 61.660(1) designates the State Treasurer as the custodian of the funds received under the retirement fund statutues (KRS 16, 61, and 78).
Can eMARS be linked to the custodial accounts.	No. BNY Mellon is capable, through their DDA services; however, eMARS is the statewide accounting system, not owned or controlled by KPPA, and linking such system to anything other than the state's depository accounts would be at the discretion of the Finance & Administration Cabinet.
Would BNY Mellon charge an additional fee to perform the accounting services	Yes, per dicussion with the BNY Mellon DDA Services team, any services outside the custodian relationship would require a separate contract with associated implementation and on-going servicing fees.
Recommendation 5: Consider reducing the number of non-custodial accounts in use.	Having one JPM Chase account per pension and insurance fund allows for more transparent and accurate accounting and reconciliation. However, efficiencies will continue to be evaluated by KPPA.

Detail of Internal Audit recommendations and KPPA conclusions:

Recommendation 1:

> "KPPA Executive Director of Legal Services should work with the CERS and KRS legal counsels to determine the definition of the unitized managed custodial account as referenced in KRS 16.642, 61.650, and 78.790. Based upon that definition, it should be determined if the Boards of Trustees have legal ownership and control over assets not held in the custodial account at BNY Mellon. While current staff and Trustees may agree that the Boards of Trustees have full oversight, it is necessary to have a legal opinion on file that provides guidance to current and future staff and Trustees.

Conclusion(s):

KPPA has defined the unitized managed custodial account as follows:

> A custody account, or series of accounts, where unitization is applied to represent and track legal ownership of the underlying assets.

The definition above does not apply to non-custodial accounts, as a definition of a custodial account cannot apply to something that is non-custodial. KPPA has also concluded that the Boards of Trustees do have legal ownership and control of the assets not held in the custodial account at BNY Mellon.

Basis for Conclusion(s)

Kentucky Revised Statute (KRS) 16.510(2), KRS 61.515(2)(a)(b) and KRS 78.520(2)(a)(b), established funds that shall consist of all the assets of the systems (not just assets in custodial accounts, but all assets), and declares that all assets shall be deemed trust funds to be held and applied as provided in the applicable retirement systems statutes.

Furthermore, KRS 16.642(1), 61.650(1)(a), and 78.790(1)(a), declare that the board(s) shall be the trustee(s) of the funds created by the statutes above (KRS 16.510(2), KRS 61.515(2)(a)(b) and KRS 78.520(2)(a)(b)). The unitized managed custodial account is not addressed in the statutes that established the funds nor the statutes declaring that the funds be trust funds.

The unitized managed custodial account is first identified (but not defined) in paragraph (2) of KRS 16.642(2), 61.650(2), and 78.790(2). These statutues state that "the board, through adopted written policies, shall maintain ownership and control over its assets held in its unitized managed custodial account." This language was implemented during separation and gives the CERS and KRS boards the authority to identify their own investments (assets) held at the custodial bank through adopted written policies, despite those assets being titled in KRS's name.
Governmental Accounting Standards Board (GASB) *Statement Number 84, Fiduciary Activities,* paragraph 12 (Control of Assets), reads:

> "A Government controls the assets of an activity if the government (a) holds the assets or (b) has the ability to direct the use, exchange, or employment of the assets in a manner that

provides benefits to the specified or intended recipients. Restrictions for legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government's control of the assets."

Both CERS and KRS, are considered special-purpose governments under GASB and both boards can direct the use of all assets, whether they are in custodial or non-custodial accounts.

KPPA has reviewed the processes and procedures related to the flow of cash between non-custodial and custodial accounts. In addition, through discussion with the State Treasurer's Office and the Finance & Administration Cabinet there is no evidence that the assets held in the non-custodial accounts are not controlled fully and solely by CERS and KRS through KPPA.

Recommendation 2:

"The CIO should meet with BNY Mellon and review the unitization method discussed in more detail in Appendix A. Changing to the unitization method could potentially reduce the number of times cash is moved per transaction. In turn, this would reduce the risk of error and/or fraud for each transaction."

Conclusion(s):

KPPA has concluded that the unitization method is being utilized.

However, there are times when KPPA must use custom allocations for incoming and outgoing wires, and custom allocations ignore the current allocation of the unitized account so each plan can be adjusted accordingly.

Examples of custom allocations include incoming employer contributions, outgoing payroll, and outgoing administrative expenses, and yes, the use of custom allocations require additional transactions to capture the incoming or outgoing of assets to specified plans. However, changing the process for custom allocations, as suggested by Internal Audit, would not reduce the number of times cash is moved, nor reduce the risk of error and/or fraud for each transaction.

Basis for Conclusion(s):

In Appendix A of the audit report, Internal Audit indicates that a representative from BNY Mellon confirmed that the segregated model is the current structure being used by KPPA Accounting regarding cash flow between BNY Mellon and the non-custodial accounts (JPM Chase).

However, the example presented to BNY Mellon by Internal Audit was an example of an outgoing administrative expense (a custom allocation). The administrative transfer is five wires completed twice a month to move cash from the BNY Mellon cash account (a single unitized account) to 5 pension bank accounts at JPM Chase.

The allocation of the wire is based on a predetermined allocation (the Hybrid %) approved by the KPPA Board. The wire must transfer money from BNY Mellon to each plan's bank account at JPM Chase. The BNY Mellon cash account is a single unitized account with units owned by each plan. Since the cash is being wired to five separate bank accounts, five separate wires must be completed. The wires have a custom allocation (the Hybrid %) that is different from the current units owned by each plan in the BNY Mellon unitized account; therefore, additional transactions are necessary.

There are two options for completing a custom allocation to ensure each plan is impacted as directed:

- Option 1 (currently being used): Set the wires up to transfer from each plan account at BNY Mellon to be wired to each plan account at JPM Chase. The plan accounts at BNY Mellon do not hold assets, they only hold units that represent the total assets of each plan. The assets are held in the specific unitized accounts (ex. Cash, Equity Manager, Fixed Income Manager, etc.) So, to wire money from the plan accounts, a book transfer must be completed at BNY Mellon to move cash from the single cash account to each plan account. The allocation is captured based on the amount of cash transferred to each plan. The cash is then wired to JPM Chase. In the event that BNY Mellon did not complete the book transfer, the plan account would be overdrawn.

- Option 2: Five wires would be set up to be transferred directly from the single unitized cash account. The allocation of each wire would be manually recorded by the BNY Mellon accounting team. If the BNY Mellon accounting team does not manually allocate, then by default, the wire would be allocated based on the current cash allocation which would likely be very different than the custom allocation.

Appendix A further elaborates that changing to the unitization method could be accomplished by simply changing the template used by KPPA Accounting, and Internal Audit concluded that doing so would reduce the amount of times cash is moved, thus reducing the opportunity for error and/or fraud.

KPPA has concluded that this would essentially mean adopting Option 2, which would eliminate the book transfer completed by BNY Mellon; however, the book transfer would be replaced with a manual accounting entry by the BNY Mellon accounting team.

Neither option is an example of unitization or segregation, as they are both just options for processing custom allocations, and changing options does not reduce the number of entries needed to be made, just the type. There would still be five wires, and either a book entry or a manual accounting entry.

Recommendation 3:

> "The KPPA Executive management team and the KPPA CFO should work with the CEO's and Boards of Trustees of CERS and KRS to determine the account structure needed to ensure cash flows occur in an efficient manner and in a way that limits opportunities for error and fraud,

whether utilizing the custodial bank for all transactions or continuing to use both custodial and non-custodial bank accounts."

Conclusion(s):

KPPA has concluded that KPPA will continue to use both the custodial and non-custodial bank accounts and has determined the account structure is appropriate.

Basis for Conclusion(s)

By evaluating the current policies and procedures, KPPA has concluded that the current structure is adequate to ensure cash flows occur in an efficient manner and in a way that limits opportunities for error and fraud. However, as KPPA Accounting continues to review processes and procedures, they will continue to insist on a culture of continuous improvement to ensure excellence remains the standard.

Recommendation 4:

"Kentucky Revised Statutes identify all assets received in the fund as trust funds. KPPA Executive management, the KPPA CFO, and the CEOs of CERS and KRS, should work together to determine if it is appropriate to continue use of a non-fiduciary, state depository bank. While it is understood that an Attorney General Opinion was provided on this topic in 1979, that opinion may not be relevant as it indicates that funds received by KPPA are public funds and not trust funds. KPPA staff outlined in this recommendation [should] determine if it is feasible to move all trust fund activity to the custodial bank. The following items would need to be considered:

a. Can all contributions received be deposited in a clearing account at BNY Mellon?
b. Can eMARS be linked to the custodial accounts so that all expenses are paid directly from the trust accounts?
c. Would BNY Mellon charge an additional fee to perform the accounting services that would be needed if trust fund activity were to be moved to the custodial bank? The current BNY Mellon contract contains a fee for accounting services so it is possible no additional fee would be incurred."

Conclusion(s):

KPPA has concluded that it is appropriate to continue to use a non-fiduciary, state depository bank, and that it is not feasible, necessary, or statutorily allowed, to move all trust fund activity to the custodial bank.

Basis for Conclusion(s):

KRS 41.070(2) requires that "all receipts of any character of any budget unit…shall be deposited in state depositories in the most prompt and cost-efficient manner available…", and KRS 61.660(1) designates the State Treasurer as the custodian of the funds received under authority of the

retirement fund statutues (KRS 16, 61, and 78). Therefore, KPPA concludes that statutorily we cannot pursue having all contributions be deposited in a clearing account at BNY Mellon as suggested in (a) above.

In addition, all PC001 entities (employers who participate in KERS and SPRS, as well as some CERS employers) pay their contributions through eMARS, which is linked to the JPM Chase accounts, and in regard to (b) above: eMARS is the statewide accounting system, not owned or controlled by KPPA, and linking the BNY Mellon custodial accounts to eMARS would be at the discretion of the Finance & Administration Cabinet, and not practical or efficient for PC001 entities.

Furthermore, KPPA has concluded that all expenses cannot be paid from BNY Mellon, as KRS 61.660(1) requires that "…all payments from the fund be made by him [The State Treasurer], on warrants issued by the Finance & Administration Cabinet…"

For (c) above, the services and support KPPA receives from the Commonwealth and JPM Chase with regard to banking services under the current contract are inexpensive and invaluable. Examples include fraud protection, fraud research, direct deposit execution, NSF administration; stale dating, reconciliation services, and check writing, printing, and mailing.

KPPA has had discussions with BNY Mellons DDA services (Demand Deposit Account) Team. During those discussions it was concluded that KPPA could establish similar accounts at BNY Mellon that mimic what is currently being utilized at JPM Chase, including a clearing account, checking and disbursement accounts, etc. In addition, BNY Mellon would be willing to work with the Finance & Administration Cabinet in linking to eMARS. However, any services outside the current custodian relationship would require a separate contract with associated implementation and on-going service fees. In addition, this would require approval and coordination with the Finance & Adminstration Cabinet and State Treasurer.

With regard to trust funds and non-fiduciary depository accounts:

KPPA concurs with Internal Audit in that KRS 16.510(2), KRS 61.515(2)(a)(b) and KRS 78.520(2)(a)(b), identify all assets of the systems as trust funds. This designation as trust funds applies to the assets whether they are held in a custodial or non-custodial account, and whether those accounts are fiduciary or non-fiduciary.

KPPA understands and accepts the risk that JPM Chase is not a fiduciary for the funds being held at their bank under the current contractual arrangement. This risk is well mitigated by the fact that under the contract held between the Finance & Administration Cabinet and JPM Chase, JPM Chase does not provide any investment services, only grants interest. In addition, all movement of cash in or out of the JPM Chase accounts is fully controlled by KPPA and KPPA has recently reduced the amount of trust funds held at JPM Chase at any one time.

Furthermore, per discussion with the BNY Mellon DDA services team, and review of the current BNY Mellon Custodial contract which indicates that BNY Mellon, as a custodian, is only acting as a fiduciary when required to by law, and utilization of BNY Mellon DDA Services would not alleviate the non-

fiduciary concern of Internal Audit, as a separate contract would need to be established and would not inlcude BNY Mellon acting as a fiduciary in their depository capacity.

17.7 Non-Fiduciary Status

"Customer hereby acknowledges and agrees that BNY is not a fiduciary by virtue of accepting and carrying out its obligations under this Agreement and has not accepted any fiduciary duties, responsibilities or liabilities with respect to its services hereunder, including with respect to the management, investment advisory or sub-advisory functions of Customer. Nevertheless, to the extent that, in performing its duties hereunder, BNY exercises discretionary authority that would, under applicable law, impose upon BNY obligations as a fiduciary with respect to the Accounts, it shall exercise such discretionary authority with the care and skill required of such fiduciary to the extent required under such applicable law."

Recommendation 5:

"If a non-custodial bank will continue to be utilized, KPPA Executive management, the KPPA CFO, and the CEOs of CERS and KRS should consider reducing the number of non-custodial accounts in use. Physically, separate accounts are not required. Assets can be held in a limited number of accounts (as currently seen at the custodial bank) as long as steps are taken to ensure that funds belonging to one plan do not pay expenses for another plan. A form of unitization already occurs with the accounting entries made in Great Plains.

a. One non-custodial clearing account could be maintained to receive contributions. Two non-custodial accounts (one pension and one insurance) could be maintained to pay expenses. Monthly, staff could determine the amount of funds needed to pay the current month's expenses. As contributions are received, the amount needed to pay current expenses could be transferred from the clearing account into the appropriate pension or insurance non-custodial account. Excess contributions should be immediately transferred to the custodial bank. This would reduce the number of transfers between bank accounts. If the contributions received are not enough to pay all monthly expenses, additional funds could be transferred from the custodial bank.
    i. There should be proper documentation kept on file for the amount that is retained in the non-custodial accounts.
    ii. Each payment made from the non-custodial account should be properly supported.
b. If a non-custodial bank continues to be utilized as a depository bank, KPPA Executive Management, the KPPA CFO, and the CEOs of CERS and KRS should consider the benefit of linking eMARS to the custodial bank. This would greatly reduce the number of transfers and would ensure all payments are treated consistently (all expenses would be paid directly from the custodial bank). Currently, funds flow out of the custodial bank and into the non-custodial accounts and then out of the non-custodial accounts and into a state-owned General Fund. Linking eMARS to the custodial bank would allow funds to stay within the oversight of those charged with fiduciary responsibility of the assets."

Conclusion(s):

KPPA has concluded that it is appropriate to continue to use the non-custodial bank and has considered Internal Audit's recommendation of reducing the number of non-custodial accounts in use, However, at this time, KPPA has chosen not to reduce the number of JPM Chase accounts but will continue to evaluate that possibility. Regarding the linking of eMARS to the custodial bank: eMARS is the statewide accounting system, not owned or controlled by KPPA, and linking the BNY Mellon custodial accounts to eMARS would be at the discretion of the Finance & Administration Cabinet.

Basis for Conclusion(s)

Although physical, separate accounts may not be required, the KPPA accounting division believes having one account per pension and insurance fund allows for more accurate accounting and reconciliation.

Kentucky Public Pensions Authority

Division of Internal Audit

To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA
Chief Auditor

Date: September 9, 2026

Subject: Fiscal Year 2026 Internal Audit Budget as of June 30, 2026

Account Number	Account Name	FYE 2026 Budget	FY 2026 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries	$ 400,000.00	$ 359,017.99	$ 40,982.01	10.25%
121	Employer Paid FICA	30,600.00	25,859.61	4,740.39	15.49%
122	Employer Paid Retirement	169,372.36	154,386.68	14,985.68	8.85%
123	Employer Paid Health Insurance	50,000.00	63,647.22	(13,647.22)	-27.29%
124	Employer Paid Life Insurance	60.00	59.00	1.00	1.67%
259T	Conference Expenses	4,000.00	825.00	3,175.00	79.38%
361T	Travel - In State	1,000.00	22.36	977.64	97.76%
362T	Travel - Out State	3,000.00	833.46	2,166.54	72.22%
381T	Dues & Subscriptions	1,500.00	1,013.50	486.50	32.43%
399T	Miscellaneous	-	-	-	-
847T	Computer Equipment	16,500.00	30,236.55	(13,736.55)	-83.25%
	Total	**$ 676,032.36**	**$ 635,901.37**	**$ 40,130.99**	**5.94%**

259T Conference Expenses

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

361T In State Travel

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

362T Out of State Travel

1. $833.46 - Travel Reimbursement to APPFA Conference (Z. Curtis)

381T Dues and Subscriptions

1. $103.50 - CPA License (J. Westbay)
2. $500 - Annual dues Association of Public Pension Fund Auditors (KPPA)
3. $200 - Dues for Institute for Internal Auditors (M. Evans)
4. $210 - AGA Dues (M. Evans and W. Prince)

847T Computer Equipment

1. $14,469.10 - This is for the audit software utilized by Internal Audit. Amount paid in 1st Quarter covers all audit employees for June 2025 to May 2026 (due in prior fiscal year, but correct invoice not received until FY 2026).
2. $15,767.45 is subscription for June 2026 to May 2027.

Status of Internal Audit Projects, as of June 30, 2026

Project Code	Project Name	Phase	Scheduled Start	Actual Start	Scheduled End	Actual End	Total FY 2026 Hours to Date	Estimated Hours	Estimated Hours Variance	Percentage Variance Estimated vs. Actual
2025-8	Inventory Process	Completion	7/1/2025	7/1/2025	8/29/2025	1/30/2026	113.75	100.00	20.00	6%
2026-1	GAINR Calculation	Completion	7/1/2025	7/1/2025	9/30/2025	9/22/2025	112.50	120.00	(7.50)	-7%
2026-2	Process for Updating the KPPA Website	Completion	7/1/2025	7/1/2025	9/19/2025	10/14/2025	262.00	250.00	12.00	5%
2026-3	Trustees Payments	Completion	7/1/2025	7/1/2025	9/17/2025	11/10/2025	412.00	300.00	112.00	27%
2026-4	Normal Member Benefit Payments	Completion	8/11/2025	9/15/2025	12/5/2025	2/9/2026	668.75	350.00	318.75	48%
2026-5	Disability Benefit Payments	Completion	8/11/2025	9/15/2025	12/5/2025	2/9/2026	356.75	350.00	6.75	2%
2026-6	Procurement Process	Completion	9/2/2025	9/2/2025	12/19/2025	2/16/2026	657.25	400.00	257.25	39%
2026-7	Tier 3 Opt-in Process	Fieldwork	1/14/2026	1/14/2026	4/17/2026	Carry Over to 2027	515.50	500.00	15.50	3%
2026-8	Hearing Officer Payments	Completion	7/1/2025	7/1/2025	9/17/2025	9/29/2025	289.25	300.00	(10.75)	-4%
2026-9	Post-retirement Audit Process	Completion	12/1/2025	12/15/2025	2/13/2026	3/17/2026	228.25	250.00	(21.75)	-10%
2026-10	Establishment of Process Back-ups	Completion	12/1/2025	1/14/2026	3/13/2026	6/24/2026	439.50	450.00	(10.50)	-2%
2026-11	Employer Audit Process (specific to House Bill 8)	Planning	2/2/2026	2/2/2026	5/15/2026	Carry Over to 2027	622.00	650.00	73.50	10%
2026-12	Annual Dependent Verification Process	Planning	5/4/2026	5/4/2026	6/30/2026	Carry Over to 2027	102.25	200.00	(97.75)	-96%
2026-13	Training Related to Various Leave Types	Completion	4/20/2026	4/20/2026	6/19/2026	6/10/2026	78.25	100.00	(21.75)	-28%
2026-14	System Build Process	Completion	4/1/2026	3/2/2026	6/30/2026	Carry Over to 2027	225.00	370.00	(145.00)	-64%
2026-15	Manual Remittance Process	Fieldwork	5/1/2026	4/2/2026	6/30/2026	Carry Over to 2027	279.00	500.00	(221.00)	-79%
2026-16	Administrative Regulations Update Process	Completion	5/1/2026	3/4/2026	6/30/2026	3/18/2026	45.75	75.00	(29.25)	-64%
2026-17	Personal Use of IT Accounts and Equipment	Planning	6/9/2026	6/9/2026	6/30/2026	Carry Over to 2027	54.50	100.00	(45.50)	-83%
2026-18	Document Imaging Process	Fieldwork	6/9/2026	6/9/2026	6/30/2026	Carry Over to 2027	63.75	120.00	(56.25)	-88%
2026-20	KERS Trustee Election	Completion	7/1/2025	7/1/2025	4/30/2026	4/15/2026	122.25	150.00	(27.75)	-23%
2026-21	FY 2027 Risk Assessment and Audit Plan	Fieldwork	1/5/2026	2/12/2026	6/30/2026	Carry Over to 2027	62.75	125.00	(62.25)	-99%
2026-22	Open Audit Recommendation Review	Completion	1/5/2026	12/22/2025	3/31/2026	2/2/2026	25.75	25.00	0.75	3%
2026-23	Staff Performance Evaluations	Completion	7/1/2025	7/1/2025	6/30/2026	6/26/2026	235.75	250.00	(14.25)	-6%
2026-24	ACFR/SAFR Review	Completion	8/18/2025	9/1/2025	2/13/2026	1/7/2026	25.75	30.00	(4.25)	-17%
2027-20	SPRS Trustee Election	Planning	4/1/2026	5/28/2026	6/30/2026	Carry Over to 2027	27.00	14.00	13.00	48%
2027-22	Review of Office Space Utilization	Not Started	5/1/2026	6/26/2026	6/30/2026	Carry Over to 2027	4.50	30.00	(25.50)	-567%
2026-25	**Special Projects**									
2026-25.1	KPPA Executive Requests	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	34.50	50.00	(15.50)	-45%
2026-25.2	CERS Requests	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	129.50	150.00	(20.50)	-16%
2026-25.3	KRS Requests	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	0.00	5.00	(5.00)	#DIV/0!
2026-25.4	FY 2026 Audit Project Setup	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	7.50	10.00	(2.50)	-33%
2026-25.5	Election Batch and Process Update	Completion	7/1/2025	7/1/2025	6/30/2026	2/27/2026	16.75	20.00	(3.25)	-19%
2026-25.6	Key Performance Indicators and Monthly Reports	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	31.50	36.00	(4.50)	-14%
2026-25.7	Process Documentation and Template Updates	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	205.00	200.00	5.00	2%
2026-25.8	Quarterly Open Recommendations Report	Completion	7/1/2025	7/1/2025	4/30/2026	4/6/2026	3.00	4.00	(1.00)	-33%
2026-25.9	Security Access Review	Completion	8/1/2025	8/26/2025	2/27/2026	3/9/2026	1.50	2.00	(0.50)	-33%

2026-25.10	Charter and Policy Updates	Completion	7/1/2025	1/29/2026	6/30/2026	6/30/2026	0.75	4.00	(3.25)	-433%
2026-25.11	APPFA Conference	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	127.75	50.00	77.75	61%
2026-25.12	Election Administrative Regulation Update	Completion	7/1/2025	7/1/2025	6/30/2026	9/30/2025	15.00	20.00	(5.00)	-33%
2026-25.13	KPPA Inventory Project	Completion	3/1/2026	3/10/2026	4/15/2026	4/2/2026	1.50	4.00	(2.50)	-167%
2026-25.14	Review of Office Space Utilization	Not Started	5/1/2026	6/26/2026	6/30/2026	Carry Over to 2027	0.00	0.00	0.00	#DIV/0!
2026-30	**Board and Committee Meetings**									
2026-30.1	Audit Committee Meetings and Preparation	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	55.25	56.00	(0.75)	-1%
2026-30.2	KPPA Board Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	34.00	40.00	(6.00)	-18%
2026-30.3	CERS Board and Committee Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	76.25	80.00	(3.75)	-5%
2026-30.4	KRS Board and Committee Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/3/2026	41.00	35.00	6.00	15%
2026-31	**Non-Board Meetings**									
2026-31.1	Internal Audit Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	300.50	350.00	(49.50)	-16%
2026-31.2	KPPA Executive Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	48.50	50.00	(1.50)	-3%
2026-31.3	Meetings with CEOs	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	55.25	75.00	(19.75)	-36%
2026-31.4	Meetings with KPPA Staff	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	31.50	40.00	(8.50)	-27%
2026-31.5	Quarterly Director's Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	1.00	4.00	(3.00)	-300%
2026-31.6	Quarterly All Employee Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	12.50	10.00	2.50	20%
2026-31.7	IT Governance	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	0.00	4.00	(4.00)	#DIV/0!
2026-31.8	Employer Outstanding Invoices Work Group	Completion	7/1/2025	7/1/2025	8/31/2025	8/29/2025	1.00	5.00	(4.00)	-400%
2026-31.9	External Meetings	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	58.75	68.00	(9.25)	-16%
2026-32	Continuing Professional Education	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	180.75	200.00	(19.25)	-11%
2026-33	On-The-Job Staff Training	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	366.25	370.00	(3.75)	-1%
2026-34	KPPA Leadership Program	Completion	7/1/2025	7/1/2025	6/30/2026	12/10/2025	13.00	15.00	(2.00)	-15%
2026-35	Internal Audit Staff Hiring	Completion	7/1/2025	2/20/2026	6/30/2026	2/20/2026	0.00	0.00	0.00	#DIV/0!
	Administrative Hours	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	240.25	350.00	(109.75)	-46%
	Non-Working Hours	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	1,299.75	875.00	424.75	33%
	Holiday	Completion	7/1/2025	7/1/2025	6/30/2026	6/30/2026	468.75	500.00	(31.25)	-7%

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

Total Hours Worked	**9,888.25**
Total Hours Scheduled	**9,791.50**
Total Overtime Hours	**96.75**
Average OT by Employee	**19.35**

Explanation of Overages 10% or greater

2026-3: Lead auditor assigned was still in training, and the reviewer changed part of the way through the audit. Both resulted in additional time being spent on the audit than originally estimated.

2026-4: Changes were made to the audit scope as the audit was nearing completion. This caused additional hours to be spent on the audit.

2026-6: Reasoning for excess time spent on this audit is a personnel issue that has been addressed with audit team.
2026-11: The scope of this audit changed as well as the lead auditor. Total hours include the hours spent on the original audit and the revised audit.

2027-20: Training members of the audit team on how to conduct elections. Able to work on this project more than anticipated.

2026-25.11: KPPA has never hosted conference, so time spent was an estimate. Most activity related to this project has been completed.

2026-30.4: This is the first year Internal Audit estimated time for these meetings.
2026-31.6: This is the first year Internal Audit estimated time for these meetings.

All projects were completed during fiscal year 2026, except the following:
2026-15 - delay in completing this audit as we were awaiting information from other divisions
2026-17 - audit not started until June, pulled from previously approved 2027 Audit Plan
2026-18 - audit not started until June, pulled from previously approved 2027 Audit Plan

Hours Charged to Projects, as of June 30, 2026

FY 2026 Audit Plan

Carry-Over from FY 2025 Plan

Over Budget

Fiscal Year 2026 Audits/Projects					1,957.50	1,959.50	1,959.50	1,955.50	1,959.50	FY 2025 Hours Available			
	Division	**Audit Number**	**Audit Name**	**Estimated Audit Hours**	**Auditor I**	**Auditor II**	**Internal Auditor**	**Internal Auditor**	**Chief Auditor**	**Total Audit Staff Hours**	**Difference in Actual vs Estimate for Completed Projects**	**Other KPPA Staff Audit Hours Spent on Project (estimated)**	**Non-audit staff time as a percent of audit staff time**
1	Procurement and Office Services	2025-8	Review the inventory process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure inventory is properly tracked and disposed.	100	0.00	21.50	0.00	1.75	90.50	**113.75**	(13.75)	46.25	14%
2	Investments	2026-1	Review the tier 3 GAINR calculation process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure proper calculation and appropriate interest.	120	0.00	0.00	0.00	87.00	25.50	**112.50**	7.50	19.25	17%
3	Communications	2026-2	Review the process for updating the KPPA website. Confirm controls are established to ensure the website reflects accurate information.	250	207.00	2.00	0.00	21.50	31.50	**262.00**	(12.00)	17.50	7%
4	Board of Trustees	2026-3	Review the process for making payments to Trustees and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.	300	0.00	8.50	315.50	38.00	50.00	**412.00**	(112.00)	38.75	9%
5	Retiree Payroll	2026-4	Review the member benefit payment process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure payments are made timely and accurately. Confirm controls are established to ensure payments are not made to deceased members.	350	0.75	65.50	568.25	14.25	20.00	**668.75**	(318.75)	4.25	1%
6	Disability and Survivor Benefits	2026-5	Review the disability benefit payment process and ensure compliance with statutes/ regulations/policies. Confirm controls are established to ensure disability payments are properly calculated, made timely and accurately, and paid to the proper individual.	350	0.75	331.50	0.00	5.50	19.00	**356.75**	(6.75)	11.00	3%
7	Procurement and Office Services	2026-6	Review the procurement process and ensure compliance with statutes/regulations/policies. Confirm controls have been established to ensure services match the contract, are properly procured, monitored, and best value for the agency.	400	576.00	1.50	3.50	9.00	67.25	**657.25**	(257.25)	19.75	3%
8	Membership Support	2026-7	Review the process for when a member opts into Tier 3, including the removal of interest, and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure proper interest amount is removed and process is completed timely.	500	0.00	453.00	0.00	20.75	41.75	**515.50**	(15.50)	16.75	3%
9	Executive Management	2026-8	Review the process for making payments to hearing officers and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure expenses are properly paid, supported, tracked, coded, and allocated. Ensure process is effective and efficient.	300	0.00	260.00	0.00	8.00	21.25	**289.25**	10.75	4.00	1%
10	Quality Assurance	2026-9	Review the post-retirement audit process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure post-retirement audits are completed timely and accurately.	250	0.00	38.50	0.00	172.00	17.75	**228.25**	21.75	22.75	10%
11	Corporate Governance	2026-10	Ensure a back-up has been established for executive and division functions. Ensure process documentation is on file for each division.	450	292.00	0.00	82.00	18.50	47.00	**439.50**	10.50	28.00	6%
12	ERCE	2026-11	Review the employer audit process (specific to House Bill 8) and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are audited as required and that audits are completed timely.	650	0.00	2.50	530.00	27.50	62.00	**622.00**	28.00	4.00	1%
13	Retiree Health Care	2026-12	Review the process for annually verifying dependents for hazardous members and ensure compliance with statutes/ regulations/ policies. Confirm controls are established to ensure support is provided for each dependent.	200	0.00	0.00	11.00	82.50	8.75	**102.25**	97.75	7.50	7%
14	Human Resources	2026-13	Review training provided to staff regarding various types of leave. Ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure staff are properly trained on leave procedures as well as required leave documentation.	100	0.00	0.00	0.00	70.00	8.25	**78.25**	21.75	21.25	27%
15	IT	2026-14	Review the system build process and ensure compliance with statutes/regulations/policies. Confirm controls are established to sufficiently test the changed and identify errors. Confirm controls are established to ensure errors are corrected prior to changes being put into production.	370	0.00	19.50	0.00	183.50	22.00	**225.00**	145.00	26.25	12%
16	Retiree Health Care	2026-15	Review the manual remittance process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure manual remittance is processed accurately and timely.	500	63.50	210.75	0.00	3.25	1.50	**279.00**	221.00	5.00	2%
17	Legal Services	2026-16	Review the process to update administrative regulations. Confirm controls are established to ensure regulations comply with statutes and are not expired.	75	0.00	0.00	5.00	3.00	37.75	**45.75**	29.25	1.50	3%
18	DETS	2026-17	Review the process for monitoring personal usage of IT accounts and equipment. Confirm controls are established to ensure IT accounts and equipment are not improperly used.	100	54.50	0.00	0.00	0.00	0.00	**54.50**	45.50		0%

Fiscal Year 2026 Audits/Projects					1,957.50	1,959.50	1,959.50	1,955.50	1,959.50	FY 2025 Hours Available			
	Division	**Audit Number**	**Audit Name**	**Estimated Audit Hours**	**Auditor I**	**Auditor II**	**Internal Auditor**	**Internal Auditor**	**Chief Auditor**	**Total Audit Staff Hours**	**Difference in Actual vs Estimate for Completed Projects**	**Other KPPA Staff Audit Hours Spent on Project (estimated)**	**Non-audit staff time as a percent of audit staff time**
19	Procurement and Office Services	2026-18	Review the Document Imaging process and ensure compliance with statutes/ regulations/ policies. Confirm controls are established to ensure documents are properly indexed and added to member accounts.	120	0.00	0.00	6.50	55.25	2.00	**63.75**	56.25		0%
20	Board of Trustees	2026-20	KERS Trustee Election	150	0.00	22.00	0.00	0.00	100.25	**122.25**	27.75	24.75	20%
21	Internal Audit	2026-21	FY 2027 Risk Assessment and Audit Plan	125	0.00	0.00	0.00	0.00	62.75	**62.75**	62.25	2.00	3%
22	Internal Audit	2026-22	Open Audit Recommendation Review	25	0.00	7.00	0.00	0.00	18.75	**25.75**	(0.75)	19.75	77%
23	Internal Audit	2026-23	Staff Performance Evaluations	250	40.25	3.00	1.00	95.25	96.25	**235.75**	14.25	-	-
24	Internal Audit	2026-24	ACFR/SAFR Review	30	0.00	12.00	0.00	0.00	13.75	**25.75**	4.25	-	-
25	Internal Audit	2027-20	SPRS Trustee Election	14	0.00	0.00	16.00	5.50	5.50	**27.00**	(13.00)		
26	Internal Audit	2027-22	Review of Office Space Utilization	30	0.00	0.00	0.00	0.00	4.50	**4.50**	25.50	-	-
		2026-25	**Special Projects**										
27	Executive Management	2026-25.1	KPPA Executive Requests	50	0.00	0.00	0.00	3.50	31.00	**34.50**	15.50	-	-
28	Board of Trustees	2026-25.2	CERS Requests	150	26.00	0.00	0.00	19.00	84.50	**129.50**	20.50	-	-
29	Board of Trustees	2026-25.3	KRS Requests	5	0.00	0.00	0.00	0.00	0.00	**0.00**	5.00	-	-
30	Internal Audit	2026-25.4	FY 2026 Audit Project Setup	10	0.00	0.00	0.00	0.00	7.50	**7.50**	2.50	-	-
31	Internal Audit	2026-25.5	Election Batch and Process Update	20	0.00	0.00	0.00	0.00	16.75	**16.75**	3.25	-	-
32	Internal Audit	2026-25.6	Key Performance Indicators and Monthly Reports	36	0.00	0.00	0.00	0.00	31.50	**31.50**	4.50	-	-
33	Internal Audit	2026-25.7	Process Documentation and Template Updates	200	0.00	0.00	0.00	131.50	73.50	**205.00**	(5.00)	-	-
34	Internal Audit	2026-25.8	Quarterly Open Recommendations Report	4	0.00	0.00	0.00	0.00	3.00	**3.00**	1.00	-	-
35	Internal Audit	2026-25.9	Security Access Review	2	0.00	0.00	0.00	0.00	1.50	**1.50**	0.50	-	-
36	Internal Audit	2026-25.10	Charter and Policy Updates	4	0.00	0.00	0.00	0.25	0.50	**0.75**	3.25	-	-
37	Internal Audit	2026-25.11	APPFA Conference	50	85.25	2.00	1.00	38.50	1.00	**127.75**	(77.75)	-	-
38	Internal Audit	2026-25.12	Election Administrative Regulation Update	20	0.00	0.00	0.00	0.00	15.00	**15.00**	5.00	-	-
39	Internal Audit	2026-25.13	KPPA Inventory Project	4	0.00	0.00	0.00	0.00	1.50	**1.50**	2.50	-	-
		2026-30	**Board and Committee Meetings**										
40	Board of Trustees	2026-30.1	Audit Committee Meetings and Preparation	56	5.00	6.00	3.00	7.00	34.25	**55.25**	0.75	-	-
41	Board of Trustees	2026-30.2	KPPA Board Meetings	40	9.50	7.50	2.00	3.50	11.50	**34.00**	6.00	-	-
42	Board of Trustees	2026-30.3	CERS Board and Committee Meetings	80	16.00	20.00	1.00	11.50	27.75	**76.25**	3.75	-	-
43	Board of Trustees	2026-30.4	KRS Board and Committee Meetings	35	5.00	13.00	2.00	9.50	11.50	**41.00**	(6.00)	-	-
		2026-31	**Non-Board Meetings**										
44	Internal Audit	2026-31.1	Internal Audit Meetings	350	102.00	67.00	10.75	17.50	103.25	**300.50**	49.50	-	-
45	Executive Management	2026-31.2	KPPA Executive Meetings	50	0.50	0.00	0.00	1.00	47.00	**48.50**	1.50	-	-
46	Board of Trustees	2026-31.3	Meetings with CEOs	75	0.00	1.00	0.00	0.00	54.25	**55.25**	19.75	-	-
47	Executive Management	2026-31.4	Meetings with KPPA Staff	40	0.00	0.00	0.00	0.00	31.50	**31.50**	8.50	-	-
48	Executive Management	2026-31.5	Quarterly Director's Meetings	4	0.00	0.00	0.00	0.00	1.00	**1.00**	3.00	-	-
49	Executive Management	2026-31.6	Quarterly All Employee Meetings	10	3.00	3.50	1.00	2.00	3.00	**12.50**	(2.50)	-	-
50	Executive Management	2026-31.7	IT Governance	4	0.00	0.00	0.00	0.00	0.00	**0.00**	4.00	-	-
51	Executive Management	2026-31.8	Employer Outstanding Invoices Work Group	5	0.00	0.00	0.00	0.00	1.00	**1.00**	4.00	1.00	100%
52	Internal Audit	2026-31.9	External Meetings	68	9.00	14.50	9.50	7.50	18.25	**58.75**	9.25	-	-

Fiscal Year 2026 Audits/Projects					1,957.50	1,959.50	1,959.50	1,955.50	1,959.50	FY 2025 Hours Available			
	Division	**Audit Number**	**Audit Name**	**Estimated Audit Hours**	**Auditor I**	**Auditor II**	**Internal Auditor**	**Internal Auditor**	**Chief Auditor**	**Total Audit Staff Hours**	**Difference in Actual vs Estimate for Completed Projects**	**Other KPPA Staff Audit Hours Spent on Project (estimated)**	**Non-audit staff time as a percent of audit staff time**
53	Internal Audit	2026-32	Continuing Professional Education	200	4.75	113.50	14.50	24.50	23.50	**180.75**	19.25	-	-
54	Internal Audit	2026-33	On-The-Job Staff Training	370	0.00	84.00	57.00	225.25	0.00	**366.25**	3.75	-	-
55	Internal Audit	2026-34	KPPA Leadership Program	15	0.00	0.00	0.00	7.00	6.00	**13.00**	2.00	-	-
56	Internal Audit	2026-35	Internal Audit Staff Hiring	0	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	-	-
57	Internal Audit		Other Administration	350	11.00	12.50	12.00	46.50	158.25	**240.25**	109.75	-	-
58	Internal Audit		Other Leave	875	354.00	75.00	218.25	397.75	254.75	**1,299.75**	(424.75)	-	-
59	Internal Audit		Holiday	500	93.75	93.75	93.75	93.75	93.75	**468.75**	31.25	-	-
			Scheduled hours for FY 2026	**9,791**	**1,959.50**	**1,972.00**	**1,964.50**	**1,969.00**	**2,023.25**	**9,888.25**		**341.25**	**5%**
			Reserve Hours for Unplanned Projects	**0.50**	**-2.00**	**-12.50**	**-5.00**	**-13.50**	**-63.75**				

KPPA
Kentucky Public Pensions Authority

2026-11

Review of Employer Audit Process, as required by Kentucky Revised Statutes 61.5991

Final Audit Report

Lead Auditor: James Westbay

Issue Date: July 14, 2026

Acronyms

The following acronyms will be used throughout the report:

1. KPPA – Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KRS – Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO – Chief Executive Officer
6. CFO – Chief Financial Officer
7. KPPA Executive Management Team – KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director of Benefits, and KPPA CFO
8. ERCE – KPPA Division of Employer Reporting, Compliance, and Education
9. Legal Services – KPPA Office of Legal Services
10. Internal Audit – KPPA Division of Internal Audit
11. PPOB – Public Pension Oversight Board
12. LOB – Line of Business

Report Contents

Overall Opinion

Internal Audit was unable to complete the audit; therefore, an overall opinion on the process cannot be provided.

Strategic Risk Addressed (Objective)

Review the employer audit process required by Kentucky Revised Statutes 61.5991 and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure employers are audited as required and that audits are completed timely.

Audit Scope

The Review of Employer Audit Process, as required by Kentucky Revised Statutes 61.5991 audit was conducted from February 16, 2026 to June 23, 2026. The scope of the audit was all employer audits required by Kentucky Revised Statutes 61.5991 that had been completed as of February 2026.

The employer audits were conducted by ERCE during fiscal years 2023, 2024, and 2025 and covered fiscal years 2022, 2023, and 2024, respectfully.

Summary of Findings, Observations, and Opportunities for Improvement

Due to lack of documentation, we were unable to fully execute our audit procedures, which may impact the audit results. Please see Appendix A - Procedures and Results for additional details on the audit methodology, restrictions on completion of procedures, and audit results.

Recommendations for Future Audits

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

1. Ensure the averaging process is accurate, so that participating and non-participating employees are being reported correctly.
2. Ensure retirement contributions are being paid on annual bonus payments over $1,000.
3. Ensure the Office of Legal Services reviews employee contracts and verifies accuracy of how employers report these employees to KPPA.

Audit Standards

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

Use of Report

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

General statement on restrictions to complete audit

ERCE has completed 15 employer audits required under Kentucky Revised Statutes 61.5991. As noted in item #7, the records for most of the employers were either insufficient or unavailable at the time of the audit. Additionally, there were no ERCE work papers available for review. Given the lack of sufficient employer records, Internal Audit could not complete many of the designed testing procedures, including reperforming the employer audits to ensure accuracy of the results. Since there were no working papers to review, Internal Audit cannot ensure that ERCE followed their outlined audit procedures. As a result, Internal Audit cannot provide assurance that the results of the completed ERCE employer audits are accurate.

Since the audit could not be completed, Internal Audit is unable to provide official issues and recommendations. However, Internal Audit has made some suggestions for management's consideration. In addition to those suggestions, the KRS Board should determine if an employer audit should be conducted in the future on the 15 employers reviewed as a part of this audit.

Item	Procedure	Audit Work Performed	Audit Results	Management Comments and Corrective Action Date
1.	Ensure results of audits required under Kentucky Revised Statutes 61.5991 audit are presented to the KRS Board	1. Reviewed meeting materials to determine if audits were presented to the KRS Board. 2. Attempted to compare KRS Board meeting materials to ERCE's audit work papers to ensure full audit results were presented to the KRS Board.	1. ERCE presented results for the reviews conducted for fiscal years 2022 and 2024 to the KRS Board. The results for fiscal year 2023 were not presented to the Board. 2. No audit work papers available for review, so Internal Audit was unable to ensure full audit results were presented to the KRS Board.	KPPA management concurs, and: 1. ERCE, starting with FY 2025 audits, will present the results of audits performed under KRS 61.5991 to the KRS Board annually in November. 2. With the staffing of the new ERCE compliance and education branch (in January 2026), FY 2025 audits have work papers available for review.
2.	Evaluate division procedures	Reviewed procedures to determine if they are documented and available for staff review. Evaluated division procedures for efficiency and effectiveness.	ERCE Employer Audit procedures are established, documented, and available to staff. However, staff could consider adding the following items to strengthen the procedures: 1. Requirement to send an audit results letter for every audit, even if there are no findings. 2. Requirement to present audit results to the proper Board of Trustees or Board Committee.	KPPA management concurs, and: 1. Starting with FY 2025 audits, all employers audited under KRS 61.5991 will be provided with an audit results letter even if there are no findings. 2. ERCE, starting with FY 2025 audits, will present the results of audits performed under KRS 61.5991. to the KRS Board annually in November.
3.	Confirm the ERCE audit plan was approved by the KRS Board and provided to the PPOB	Reviewed the KRS Board and the PPOB meeting materials and ensured the audit plan was presented and approved.	The ERCE Audit Plan was approved by the KRS Board on March 1, 2023, and was presented to the PPOB on September 27, 2022.	KPPA management concurs.
4.	Confirm the required number of employer audits were completed each fiscal year	1. Reviewed the "Listing of Compliance Reviews Completed" to determine which employers were schedule for an audit each year beginning with fiscal year 2022. 2. Reviewed Library Manager for employers on the list and ensured an audit was completed. 3. Ensured that at least five audits were completed each fiscal year.	ERCE has completed the required number of Kentucky Revised Statutes 61.5991 employer audits for each fiscal year.	KPPA management concurs.
5.	Compare the ERCE Audit Program to requirements outlined in Kentucky Revised Statutes 61.5991	Compared the ERCE audit procedures to the reporting requirements of Kentucky Revised Statutes 61.5591.	ERCE has established some procedures but has not developed an official Audit Program. The ERCE audit procedures include a review of all items outlined in Kentucky Revised Statute 61.5991.	KPPA management concurs that the audit procedures do include a review of all items outlined in KRS 61.5991. However, an "official" audit program has not been developed. See management response in item 6 below.

Item	Procedure	Audit Work Performed	Audit Results	Management Comments and Corrective Action Date
6.	Compare the ERCE Audit Program to the employer audit programs of peer pension systems	Compared the ERCE audit procedures to the employer audit programs used by peer pension systems, specifically Kentucky Teacher's Retirement System.	ERCE has established some procedures but has not developed an official Audit Program. ERCE staff could consider establishing an Audit Program. In addition to the steps currently in the audit procedures, ERCE could consider adding the following steps to the Audit Program: 1. Conducting a formal Entrance Conference. 2. Conducting a formal Exit Conference. 3. Completing an internal controls questionnaire. 4. Completing the reporting obligations to the Legislative Research Commission and State Budget Director.	KPPA management concurs, that an "official" audit program documented procedures has not been developed. As the newly staffed ERCE compliance and education branch (January 2026) matures in their capabilities, the development of an official, formal audit program for audits performed under KRS 61.5991 will be formally documented. This is estimated to be in place prior to the start of the FY 2026 KRS 61.5991 audits, as the FY 2025 audits have already been completed.
7.	Determine if employers submitted required information by established deadline	1. Auditor located the annual Form 6756 submissions for all fifteen employers and verified that employee contracts were attached for Legal Services review. 2. Auditor reviewed employer information in LOB to determine if an audit correspondence letter was sent to each employer outlining the items ERCE needed in order to complete their review. 3. Auditor reviewed employer information uploaded to LOB to determine if the employer provided the required audit documentation. 4. Auditor reviewed employer information in LOB to determine if an audit results letter was provided to the employer. 5. Auditor compared the date the employer's records were uploaded to LOB to the due date specified in the correspondence letter to determine if the employer submitted documentation on time.	1. All employers submitted Form 6756 and the accompanying contract for all independent contractors. All employers accounted for non-participating members for all fiscal years in audit period. 2. Of the 15 audits completed, 13 employers were sent an audit notification letter. Notification letters for the other two employers were not sent. 3. Only three employers submitted complete payroll records. The remaining 12 were incomplete, not independent, missing, or uploaded late. a. Five employers submitted the monthly KPPA records rather than the independent payroll records requested. b. Three employers did not submit any payroll records. c. Two employers submitted payroll records that did not include the hourly rate of pay. d. Two employer's payroll records were not uploaded to Library Manager until after Internal Audit requested the records. 4. Of the 15 audits completed by ERCE, only one employer was provided with an audit results letter. 5. Employer records were not stamped with a receipt date. The only date available for comparison to the required due date was the date the employer records were uploaded to LOB. Based on the upload date, none of the employers submitted the required information by the due date.	1. KPPA management concurs 2. KPPA management concurs that only 13 of the 15 employers were sent an "audit notification letter". The other two employers were not provided with a letter as the employer records and information needed to perform the KRS 61.5991 audits were already in KPPA's possession (due to on-going ERCE/LEGAL reviews) and did not need to be re-requested via an audit notification letter. 3. KPPA management concurs that employer documentation submitted to ERCE was uploaded late, incomplete, or non-independent. With the staffing of the new ERCE compliance and education branch now complete (January 2026), all audits performed under KRS 61.5991, starting with FY 2025, will require complete, independent payroll records for the entire fiscal year from the employer. 4. KPPA management concurs that only one employer was provided with an audit results letter. (The only one of the 15 that had findings). However, starting with FY 2025 all employers audited under KRS 61.5991 will be provided with an audit results letter even if there are no findings. 5. KPPA management concurs. The staffing of the new ERCE compliance and education branch (January 2026) will allow for more timely follow up on employers who do not submit required information by the due date.
8.	Confirmed an audit results letter was provided to the proper reporting official	Compared the address and contact person listed on the audit results letter to the information in LOB to ensure letter was sent to the appropriate individual.	Of the 15 audits completed, only one employer was provided with an audit results letter. The reporting official and address on that audit results letter were accurate. *Note: ERCE staff indicated that in the future, an audit results letter will be sent after every audit.*	KPPA management concurs that only one employer was provided with an audit results letter. The only one of the 15 that had "findings". However, starting with FY 2025 all employers audited under KRS 61.5991 will be provided with an audit results letter even if there are no findings.
9.	Confirm that corrective action has occurred	Auditor located audit results letter in LOB and compared required deadline for corrective action to the actual receipt date of the updated reporting forms.	Of the fifteen employer audits completed since 2022, only one audit results letter was issued with required corrective action. The required updated information was submitted to KPPA after the deadline in the audit results letter. It took five additional months for the employer to begin reporting the non-participating employees.	KPPA management concurs that the one employer was delayed in accurately reporting the non-participating employees. Starting with FY 2025, ERCE has worked a follow-up step into the process for all audits performed under KRS 61.5991.

Item	Procedure	Audit Work Performed	Audit Results	Management Comments and Corrective Action Date
10.	Reperform audits conducted by ERCE	Internal Audit attempted to reperform an audit following the ERCE audit procedures.	Due to the lack of sufficient documentation, the selected audit could not be reperformed. Based on the information that was available the following concerns were noted: 1. Internal Audit identified a member who may qualify as a participating member even though they are being reported as part time by the employer. This was not noted in the review conducted by ERCE. • When attempting to reperform the fiscal year 2024 employer audit, Internal Audit staff found information that indicated this employee may have averaged more than 100 hours. If so, contributions should have been collected. Using the employer records submitted by the employer, Internal Audit performed averaging on the employee for fiscal years 2023-2025 and determined the employee worked an average of less than 100 hours for each of those fiscal years. However, for fiscal year 2026 (records available through May 2026), it appears the employee's average may exceed 100 hours. • For fiscal year 2026, using the Form 4225 submitted by the employer, Internal Audit calculated the employee as working an average of under 100 hours (through May 2026). There was no explanation for why Form 4225 did not match the employer records for fiscal year 2026. • When Internal Audit inquired about this discrepancy, ERCE staff indicated they did not complete the averaging process during the fiscal year 2024 review and would have to go back and review records to determine if this employee should be reported as participating. **Internal Audit suggests that averaging be completed for this employee to determine if she should be included as a participating member. If so, contributions should be collected for this individual.** 2. Several employees received year-end bonuses that were not reported as creditable compensation; these bonuses have potentially been paid for at least ten years. This was not noted in the review conducted by ERCE. • There is a Form 7250 on file that indicates the employer pays Christmas bonuses, paid in December. There is a letter from KPPA indicating these Christmas bonuses are creditable compensation and that contributions should be paid on these bonuses. • During the audit it was noted that bonuses were paid in June (rather than December), which does not correspond with the Christmas bonus. No Form 7250 was on file explaining these bonuses and likewise there was no letter from KPPA indicating whether these bonuses should be considered creditable compensation. • When Internal Audit inquired about these bonuses, ERCE indicated they would have to reach out to the agency to get documentation related to these bonuses. **Internal Audit suggests that KPPA determine whether these bonuses count as creditable compensation and issue an official letter to the employer on this determination. If these bonuses are determined to meet the criteria for creditable compensation, contributions on these bonuses should be collected.**	1. KPPA management concurs as follows: ERCE notified the employer to start reporting the employee on the monthly report. The employer has started reporting this employee. ERCE provided a form 4225 to the employer to complete to determine if any prior service not reported is eligible to be purchased. That form has been completed and returned to KPPA, and is being reviewed by the KPPA benefits team, who have requested more information from the employer to check for averaging, and will bill omitted for any additional service that averages. Averaging is performed on both a fiscal year & calendar year basis. (the Averaging performed by Internal Audit was only through the May 2026 report, which is inaccurate as the fiscal year is not complete). However, upon receipt of the June 2026 report, ERCE completed the averaging for this employee, and concluded that the employee did average, and omitted is being billed to the agency. 2. KPPA management concurs as follows: ERCE has reviewed the Form 7250 the agency submitted, however, additional information was needed to make a determination. ERCE is awaiting that information from the employer. Upon receipt, ERCE will conclude as to whether this is creditable compensation. If so, ERCE will complete adjustments and bill the employer for the contributions **Auditor Response:** Management states, "the Averaging performed by Internal Audit was only through the May 2026 report, which is inaccurate as the fiscal year is not complete." Internal Audit indicated that **based on the information available to us** it appeared **this employee may** average to 100 hours for fiscal year 2026. We never stated that the employee absolutely averaged since we are fully aware (and acknowledged) that the fiscal year had not yet ended. That is why we suggested that staff perform averaging on the employee. To imply that the work performed by Internal Audit staff during this audit was inaccurate or incomplete is misleading, especially given the fact that the employee did average to over 100 hours for fiscal year 2026.

Item	Procedure	Audit Work Performed	Audit Results	Management Comments and Corrective Action Date
11.	Ensure non-compliant entities were reported to the Legislative Research Committee and the Office of the State Budget Director	1. Auditor obtained ERCE's annual presentations to the KRS Board and determined which employers were deemed non-compliant for fiscal years 2022 to 2024. 2. Auditor reviewed the KRS Board meeting minutes and determined the date the non-compliant employer information was presented to the Legislative Research Committee and the Office of the State Budget Director.	1. One noncompliant agency, Mountain Comprehensive Care Center, was reported to the Legislative Research Committee for fiscal years 2022 and 2024. No information was available or provided for fiscal year 2023. Due to lack of available information, Internal Audit was unable to confirm if any other employers were non-compliant for fiscal years 2022, 2023, and 2024. 2. ERCE has completed employer audits for fiscal years 2022 to 2024. Results for all three fiscal years were presented timely to the Legislative Research Committee and the Office of the State Budget Director.	1. KPPA management concurs that Mountain Comprehensive Care Center was reported to LRC/OSBD, as non-compliant for fiscal years 2022 and 2024, However, they were also reported to LRC/OSBD as non-compliant for fiscal year 2023 as well. (see copy of email provided to LRC/OSBD on 8/28/2023). KPPA management also concurs that ERCE failed to maintain adequate documentation for internal audit to determine if any other employers should have been reported for fiscal years 2022, 2023, and 2024. This has been remedied for all audits performed under KRS 61.5991 for FY 2025 by the new ERCE Compliance and Education team. 2. KPPA management concurs that Results for fiscal year 2022, 2023, and 2024 were presented timely to LRC and OSBD.

KPPA

Kentucky Public Pensions Authority

2026-7

Tier 3 Opt-In Process

Final Audit Report

Lead Auditor: Zachary Curtis

Issue Date: July 17, 2026

Acronyms

The following acronyms will be used throughout the report:

1. KPPA – Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KERS – Kentucky Employees Retirement System
4. SPRS – State Police Retirement System
5. KRS – Kentucky Retirement Systems
6. Board(s) – Board of Trustees
7. CEO – Chief Executive Officer
8. CFO – Chief Financial Officer
9. KPPA Executive Management Team – KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director of Benefits, and KPPA CFO
10. Quality Assurance/QA – KPPA Division of Quality Assurance
11. Member Services – KPPA Division of Member Services
12. Membership Support/MSUP – KPPA Division of Membership Support
13. ERCE – KPPA Division of Employer Reporting, Compliance and Education
14. Accounting – KPPA Division of Accounting
15. LOB – Line of Business
16. QC – Quality Control

Report Contents

Overall Opinion

Process generally complies with relevant statutes, regulations, policies, and procedures. Internal controls are established but steps could be taken to strengthened the controls or make the process more effective and/or efficient.

Strategic Risk Addressed (Objective)

Review the Tier 3 Opt-In process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure accounts are accurately converted (i.e. service credit, service purchases, and interest) and cannot revert back to Tier 2

Audit Scope

The Tier 3 Opt-In Process audit was conducted from January 14, 2026 to June 16, 2026. The scope of the audit was all Tier 3 Opt-In members through fiscal year 2025.

Summary of Findings, Observations, and Opportunities for Improvement

A finding is defined as a breakdown, or partial breakdown of a process or major non-compliance with statutes and/or regulations. Development of a corrective action plan is recommended in the next three months with full implementation recommended within one year. **No findings were noted during our review**.

An observation is defined as a minor deviation from an otherwise well-implemented process or a minor oversight by staff. Corrective action is recommended, but timing is more flexible based on staffing needs and availability. **No observations were noted during our review**.

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. The following Opportunities for Improvement were noted during our review:

1. KPPA staff potentially providing unsolicited financial advice to members
2. Tier 3 Opt-In details not shared with Trustees

Additional details related to the findings, including the corresponding recommendations, can be found in Appendix A.

Commendations

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

1. Private Letter Ruling was received and implemented accordingly.
2. Members were eligible to opt-in to Tier 3.
3. Submission date of Form 2013 did not occur prior to Tier 3 opt-in process date.
4. Service credit was not lost after opt-in.
5. Ineligible service purchases were cancelled or refunded accurately.
6. "Free Military" service was cancelled or updated to "Military Omitted."
7. Employer Pay Credit is calculated and added to member account balance after Tier 3 Opt-In completion.
8. Previously accumulated interest prior to Tier 3 Opt-In was removed after Tier 3 Opt-In completion.
9. Interest applied to members' accounts occurs after Tier 3 Opt-In process is completed.
10. Members' system and contribution group remained the same before and after Tier 3 Opt-In.
11. Ensured members who completed the opt in process were not allowed to revert to Tier 2.

Recommendation for Future Audit

Based on work conducted during this audit, a review of Service Purchases, specifically to ensure they are completed timely, is recommended for review during a future audit.

Audit Standards

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

Use of Report

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

Opportunities for Improvement

1. KPPA staff potentially providing unsolicited financial advice to members	
Recurring Issue:	No
Condition:	During the audit, it was explained that the following process is utilized when staff receive a call from members eligible to opt-in to tier 3: 1. KPPA staff explain the eligibility for opting into tier 3. 2. KPPA staff direct the caller to Member Self Service to run the calculations to see the difference in the tier 2 and tier 3 payouts. However, during the audit it was noted that rather than directing members to Member Self Service to run calculations, instead the members were provided with information on the benefits and financial gain of first opting into Tier 3, even if the member did not inquire about the difference between taking a refund or retiring as a tier 2 versus tier 3 member. 1. 171 members opted into Tier 3 in fiscal year 2026. Of those, 38 (22.22%) called to ask about a refund and were advised their refund would be more if they first opted into Tier 3. 1. 28 of the 38 took the refund after opting into Tier 3. 2. Two members who were eligible for retirement instead chose to opt into Tier 3 and then take a refund. 3. Eight members are still active or inactive. 2. During the audit, Internal Audit was told that staff is obligated to share information with eligible members about the opportunity to opt-in to Tier 3. However, members of Tier 2 were not advised of the Tier 3 opt-in option when calling about normal, early, or disability retirement. This information was shared only when members asked about the refund option. It should be noted that the refund option is the only case where opting in increases the benefit. 3. There are other benefits that members are entitled to that they are not advised or educated about when calling KPPA. For example, the option to buy "air time" (if eligible) before retiring, which could increase the benefit received by the members. It was explained to the auditors that this information is not shared with members because KPPA staff believe it would be irresponsible to educate members on a purchase that may not be beneficial. In both cases - Tier 3 Opt-In and Air Time purchases – it appears staff could potentially be making a financial determination for the members. Quotes from comments left after phone calls with members. This type of language was seen consistently in journal comments. 1. "**I advised** of Tier 3 opt in for a **larger refund** amount." 2. "If he opts into Tier 3 it will certainly delay his refund, but he would get a **substantial increase in payout**." 3. "Explained **Tier 3 refund more lucrative than Tier 2**." 4. "**Advised** the member the **amount available after Tier 3 opt-in** would likely be **higher than the amount available to the member in Tier 2**." 5. "If the member elected to opt in to Tier 3, **I told** the member to not do so until **after a termination of employment**." 6. "Member asked about Tier 3 opt-in. **Advised** where member is eligible for unreduced Tier 2 benefit that it **might not be in his best interest**."
Criteria:	Black's Law indicates a pension fiduciary is to place the beneficiaries' interest above their own, acting with the utmost care, loyalty, and prudence in managing the trust's assets.
Cause:	Call Center employees have been instructed to share this information with members, even if the member does not inquire about this benefit.
Effect:	The following account balance differences were noted for all members who have opted into tier 3 as of December 31, 2025: 1. CERS Retired had an increased account balance of $208,906 with an average increase of $5,646 (47%) per member. 2. CERS Refunded had an increased account balance of $8,7753,491 with an average increase of $11,579 (60%) per member. 3. KERS Retired had an increased account balance of $55,127 with an average increase of $9,188 (47%) per member. 4. KERS Refunded had an increased account balance of $3,797,844 with an average increase of $11,868 (59%) per member. 5. SPRS Refunded had an increased account balance of $149,075 with an average increase of $18,634 (66%) per member.
Recommendations:	1. The KPPA Executive Management team should review the calls where unsolicited information regarding the Tier 3 opt-in was shared with members and determine if the information provided was outside of the training guidelines. If so, staff should be reminded of or retrained on the proper counseling methods. 2. Based on the calls reviewed in recommendation #1, along with journal entry comments shared during the audit, the KPPA Executive Management team should work with the Office of Legal Services to determine if the wording used by staff when discussing opting into Tier 3 may be interpreted as either one or both of the following: a. Providing financial advice. b. Working in the best interest of only the individual member and not the members (and trust) as a whole.
Management Response:	Management has consulted with the Office of Legal Services. 18 out of 38 calls on the list provided by Internal Audit were reviewed. It should be noted that not all the calls on the list were available to review due to the retention period. It was determined that staff counselled members or callers appropriately as it pertains to Tier 3 Opt-in. Staff provided the pros and cons, such as loss of purchased service credit (if applicable) and loss of interest by opting into Tier 3. Staff did not provide financial advice. They simply educated the callers on their eligibility to opt-in to Tier 3. Staff have been trained to not provide financial advice, so they are aware it is against KPPA's policy to do so or to steer a member toward a specific option. However, staff have also been trained to not withhold relevant information as it pertains to their eligibility for Tier 3 Opt-in and other benefits. Staff are expected to provide all pertinent information pertaining to the nature of the call, whether it is solicited or not. There is a concern that members were told they would receive "larger"/ "substantially larger" refunds if they chose to opt in. These statements are factually accurate for a vested Tier 2 member who opts in to Tier 3.
Implementation Date:	Closed – Management Accepts Risk

Auditor Response:	Since Internal Audit does not have access to the phone records, we cannot confirm the details of these calls and cannot confirm that "staff counseled members or callers appropriately." We can only make our recommendations based on the information available to us, which are the comments left in the members' file. Based on those comments, it appears that staff are going beyond the level of education that is required. There is a distinct difference between educating a member on options and encouraging a member to take an option that provides a "**s**ubstantial increase in payout."

2. Tier 3 Opt-In details not shared with Trustees	
Recurring Issue:	No
Condition:	Details related to the Tier 3 Opt-In process are not currently shared with the Boards.
Criteria:	Both the CERS and KRS CEO indicated they would like "as much information as possible" on this process to be shared with their respective Boards on a periodic basis.
Cause:	There is no requirement for this information to be shared with Trustees.
Effect:	Trustees may not be aware of how the Tier 3 Opt-In process impacts their system.
Recommendations:	KPPA Executive Management should work with the CERS and KRS CEOs to determine the Tier 3 related information to be presented to the respective Board of Trustees as well as how often the information should be presented (for example, quarterly or annually). The following details should be considered for presentation to the Boards: 1. The number of members who have opted into Tier 3. 2. The status of the Tier 3 Opt-In members (active, inactive, retired, refunded). 3. Member account balance before and after opting into Tier 3.
Management Response:	Management agrees to work with the CERS and KRS CEOs to determine the need for Tier 3 Opt-in reporting.
Implementation Date:	12/31/2026

Appendix B – Control Matrix

Sampling Methodology

Auditor generated report from LOB "Tier 3 Opt In Report" from fiscal year 2018 to fiscal year 2025. A total of 1,328 Tier 3 Opt-In members were noted in the report. Auditor requested a data query for additional testing information. This data request was compared to the original Tier 3 Opt In report. There were 200 members who had previously participated in other retirement systems (CERS, KERS, SPRS) that appeared as duplicate entries on the original report. The duplicates were removed leaving the total testing population of 1,128. Auditor randomly selected 60 members for testing. Member total amounts were retrieved from the data query results and recalculated for comparison. The data query results for Allowable Service Purchases testing contained only eight members with service purchases.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Procedures for the Tier 3 Opt In process are located in SharePoint.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are documented, up-to-date, and available to staff.
2.	Private Letter Ruling not received from Internal Revenue Service regarding Tier 3 opt-in election	Legal Services ensured Private Letter Ruling was received prior to implementation of Tier 3 opt-in	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management designs control activities to achieve objectives and respond to risks.	The Internal Revenue Service requires a Private Letter Ruling to confirm tax treatment on new plan designs, specific employee benefit changes, or unique transactions where general regulations are unclear. A Private Letter Ruling was obtained in relation to the Tier 3 Opt In process.	Reviewed Private Letter Ruling to ensure date the request submission date and the KPPA receipt date occurred prior to the implementation of the Tier 3 Opt In election process.	Private Letter Ruling confirmed to have been created, reviewed, and approved prior to the implementation of the Tier 3 Opt In election process.
3.	Ineligible members are allowed to elect Tier 3 opt-in	System does not provide tier-3 opt-in election to ineligible members	**Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management communicates necessary information externally.	Only Tier 2 members with either "Active" or "Inactive" membership statuses can view the Tier 3 opt-in information language on the Account Summary tile on the Member Self-Service home screen. The Tier 3 Opt-In window will only appear for active and inactive Tier 2 members. Tier 2 retirees, retired/reemployed, alternate payees, or dependents do not have access to the Tier 3 Opt-In window.	Reviewed Tier 3 Opt In members "Employment Start Date" in comparison to Tier 2 member date guidelines (9/1/08 - 12/31/13) to ensure member start date fell within date range.	Seven of 1,128 members were initially listed as "Ineligible" but upon further review it was determined the members initial "Employment Start Date" was incorrect on the data query report. After review, it was determined the member's actual initial start date fell within the parameters for being eligible for Tier 3 Opt-in.
4.	Tier 3 opt-In election processed without written request (Form 2013)	Quality Assurance confirms correct form is submitted for Tier 3 Opt In	**Control Environment:** Oversight body and management oversees entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks., Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	Form 2013 is only available for eligible Tier 2 members via their Member Self Service account. Member completes Form 2013 (Hybrid Cash Balance Plan Opt-In Election). After Form 2013 is completed, a workflow is initiated for Quality Assurance. Quality Assurance reviews Form 2013 to ensure it matches the member requesting the Tier 3 Opt In, reviews the account to determine if it needs a full pre-retirement audit, and reviews for any non-allowable service purchases under Tier 3. If a member also participates in another retirement system (Teachers' Retirement System, Judicial Retirement System, or Legislative Retirement System), the member will not be able to move forward with the Tier 3 Opt In process and will need to contact KPPA to complete Form 2022 (Reciprocity Document) prior to electing the Tier 3 Opt In. For the separation of accounts, an indicator is added to the Membership table database which defaults to "N" but is updated to "Y" if the "Membership Separated Check Box" on "Membership Status" tab in "Member Maintenance" is checked. This update can only be made by the Member Services director or manager or Quality Assurance director or manager, who will change the checked box and indicator to "Y." Once the indicator is checked and saved, the check box for Account Separated will also populate as checked and will show as a display only on the Member Profile. Once Form 2022 is submitted and processed for the separation of accounts, the member will then have access to the Tier 3 Opt In election in their Member Self-Service.	Reviewed Tier 3 Opt In member report obtained from LOB and compared "T3 Opt In Submitted" date to "T3 Opt In Completed" date to ensure Form 2013 was submitted prior to completion of the Tier 3 Opt In process.	All 1,128 members who opted into Tier 3 submitted the required Form 2013.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Service credit is lost when member elects Tier 3 opt-in	Recalculation completed after adjustments for service purchases are made	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks. Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results. Management remediates identified internal control deficiencies in a timely manner.	After service purchases are removed from a member's account (if needed), the total purchased months are deducted from the members total service credit balance. This is completed by Quality Assurance submitting a "Service Purchase Cancellation" form which is reviewed and completed by Members Services. Member Services staff process and perform a quality check on the "Service Purchase Cancellation" if applicable. After this review, a request for completion is sent to the Quality Assurance director or manager. Quality Assurance staff review LOB to ensure all ineligible service purchases have been removed and confirm purchased service amounts have been removed and reflected in the members updated Tier 3 Opt In total service credits. If a member does not have any previous service purchases, there will be no adjustment made to members service credit amount. The "Membership Status" information is updated, and the "Tier 3 Opt In" indicator is updated and saved with the new status.	Reviewed service credit amount members had before and after their Tier 3 Opt In election to ensure no discrepancies were found.	All 1,128 members' service credit were transferred correctly or adjusted based on previous service purchases before the Tier 3 Opt In election was completed. Three members had a difference in their service credit total and were reviewed further for accuracy. It was determined these individuals had Free Military service that was properly changed to Military Omitted prior to the Tier 3 Opt-in.
6.	Unallowable service purchases are retained when a member elects Tier 3 opt-in	Quality Assurance staff ensure service purchases are properly canceled	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines risk tolerances and identifies, analyzes, and responds to risks. Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results., Management remediates identified internal control deficiencies in a timely manner.	Purchased service listed on a member account that is not a "Recontribution of a Refund, Omitted Service, Omitted Service with Interest, Military Omitted, USERRA, or Decompression" is removed from member's total months of service credit and the cost of that service is refunded back to the source of the purchase. After Form 2013 (Hybrid Cash Balance Plan Opt-In Election) is completed and the "QA Tier 3 Opt In Election" workflow begins. Either the Quality Assurance director or manager reviews the work items from this distribution queue. If service purchases are linked to the member the "Service Purchase Cancellation" is submitted to Member Services. Member Services staff process and perform a quality check on the "Service Purchase Cancellation." After this review, a request for completion is sent to the Quality Assurance director or manager. Quality Assurance staff review LOB to ensure all ineligible service purchases have been removed and update the "Membership Status" information. The "Tier 3 Opt In" indicator is updated and saved with the new status.	Reviewed Allowable Service Purchases found in the data query results to ensure either service purchases were cancelled and refunded or cancelled and updated to the Tier 3 Opt-In allowable service purchases.	Eight of the 1,128 members had previous service purchases that were either cancelled and refunded, or cancelled and updated to a Tier 3 Allowable Service Purchase which include: • Omitted • Omitted w/ Interest • Recontribution of Refund • Uniformed Services Employment and Reemployment Rights Act • Military Omitted • Decompression

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
7.	Active-duty military service incorrectly retained after Tier 3 opt-in	Quality Assurance staff ensure "Free Military" is removed/recalculated as "Military Omitted"	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks. Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results. Management remediates identified internal control deficiencies in a timely manner.	If a member has "Free Military" service credited to their account for active-duty military time served while employed, the service credit is removed from member's account and their service credit is recalculated as "Military Omitted" service. This process is completed after the member submits Form 2013 (Hybrid Cash Balance Plan Opt-In Election). This service is removed ty the Quality Assurance director or manager while reviewing the member's account for eligible/ineligible service purchases. Quality Assurance staff create a "Service Purchase Cancellation" request which is sent to Member Services for review. After the member account review and "Service Purchase Cancellation" request have been completed, the Quality Assurance director or manager that initially reviewed the workflow item checks "Tier 3 Opt In" indicator in the LOB "Maintain Membership" tab and saves after completed.	Reviewed members with eligible service purchases received from data query requests to ensure the "Free Military" service purchase status had been cancelled and updated to "Military Omitted."	Two of the 1,128 members previously had "Free Military" listed as a service purchase in which both were cancelled and updated correctly to "Military Omitted."
8.	Employer pay credit is not properly added to the member's accumulated balance after Tier 3 opt-in election	Benefits recalculated and shown as "Employer Pay Credit" in comparison chart.	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks. Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results., Management remediates identified internal control deficiencies in a timely manner.	Prior to Tier 3 Opt In election, if member has an external membership with Kentucky Teachers' Retirement System, Kentucky Legislative Retirement System, or Kentucky Judicial Retirement System, the member must contact KPPA and separate their accounts (via Form 2022). By completing this form, the member relinquishes the reciprocity benefits with the other retirement system(s). The member completes the "Benefit Estimate" and "Salary Information" sections before reviewing the "Accumulated Account Balance Results," which provides the approximate amount of member's accumulated account balance after opting into Tier 3. This balance includes contributions that have been deposited into the members' account thus far, plus additional employer pay credit for each month contributions were added to member account.	Recalculated EECON & ERPAY by selecting most recent salary statement and applying correct percentage based off member Hazardous or Non-Hazardous status. Amounts were compared to original data to ensure amounts matched.	Of the 60 members sampled, all EECON & ERPAY calculations were correctly applied based on the members contribution group.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
9.	Previously accumulated interest is improperly credited to member account after Tier 3 opt-in	Quality Assurance staff submit requests and Accounting staff review/complete the adjustment.	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks. Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management remediates identified internal control deficiencies in a timely manner.	After the Quality Assurance director or manager completes their initial review and the "Tier 3 Opt In Indicator" has been checked and saved. A "Tier 3 Opt In Contribution Group Change Request" (SBP300) form will be launched for the "ERCE Contribution Group Change" workflow. These work items will be processed by ERCE Adjusters on the "Maintain Contribution Group" screen found in LOB. ERCE Adjuster updates the "Begin Date", reviews reported contributions status and changes are made in the "Contribution Group Change" which is then sent for a quality control review. After these steps are completed, the new calculated amounts are extracted based on "Tier 3 Opt In" structure. Updated calculations are saved and sent to the "QC Distribution" queue for review. Once all contributions have been updated and quality control reviewed, the work item will be completed. Completion of this item will launch an "MSUP Tier 3 Opt In Miscellaneous Correspondence" workflow. If a member has remaining interest after the updated calculation, then a "Manual Interest Adjustment" is sent for review to the Quality Assurance director or manager. Upon review, the "Manual Interest Adjustment" request is sent to Accounting. Accounting reviews the request and uses the "Approve Manual Interest Adjustments" tab found in LOB, enters the member ID or Social Security Number to view the "Contribution Details" and clicks the magnifying icon by the "Member ID." The "Adjustment Details" are then compared to the initial "Manual Interest Adjustment" request. If the amount(s) match, the "Adjustment Detail" comments are copied and added to the "Approve/Reject Comments" and staff approves the adjustment. A correspondence email is sent to all on the "Manual Interest Adjustment" request indicating the adjustment as completed. If the "Manual Interest Adjustment" amount does not match the "Adjustment Detail" amount, then the adjustment request is rejected and sent back to Quality Assurance for additional review and a new "Manual Interest Adjustment" request is submitted.	Reviewed members accumulated interest amounts before and after Tier 3 Opt In process was completed to ensure no interest carried over after account conversion. If interest was carried over the Manual Interest Adjustment emails were reviewed to ensure correction was made.	6 of 1,128 members had previous accumulated interest carry over after the Tier 3 account conversion. All 6 member accounts had "Manual Interest Adjustments" completed correctly to remove pre-opt in interest.
10.	Improper effective date of Tier 3 is opt-in election	ERCE process date used as the effective date	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks. Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results., Management remediates identified internal control deficiencies in a timely manner.	ERCE Adjusters pull the "ERCE Tier 3 Opt In Contribution Group Change" work item. Opening the work item automatically opens the "ER Maintain Contribution Group" module in Line of Business. ERCE staff update the Tier 2 plans to an invalid status. ERCE staff update the "Employment End Date" to the date the Tier 3 Opt In was processed by ERCE. This becomes the effective date of the Tier 3 opt-in. After the "Contribution Group Change" information has been updated, it's then sent to the "ERCE QC Distribution" queue for review. Once the QC review is completed, including ensuring updated information and effective dates are accurate, a new workflow item is created and assigned to "MSUP Tier 3 Opt In Correspondence. Since the Tier 3 Opt-In selection is tied to a specific retirement system, LOB prevents changes from being made to member's system (CERS, KERS, SPRS) or category (Hazardous, Non-Hazardous) during the Tier 3 opt-in process.	Compared Tier 3 opt-in date to ERCE review date and ensured review was completed prior to member being moved to tier 3.	Of the 60 sampled members, all 60 Tier 3 opt-ins were processed with the correct effective date.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
11.	Interest is applied to member account prior to Tier 3 opt-in effective date	Membership Support staff review applied interest to ensure it is applied accurately	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks. Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results., Management remediates identified internal control deficiencies in a timely manner.	Interest is not to be added to an account until after the effective date of the Tier 3 opt-in. Interest is only applied once per year during the fiscal year end process. Interest is not credited to Tier 3 Opt-In members until after June 30 of the year following their election to Tier 3. Membership Support staff review each tier 3 opt in member after interest is applied and notify Quality Assurance and Accounting if there are any issues related to interest that need corrected.	Reviewed Manual Interest Adjustment emails sent from Accounting to ensure corrections were completed in effected member accounts.	No testing was required for this objective due to it being previously reviewed in 2024-3: Review of Interest Added to Member Account
12.	Members who select Tier 3 opt-in election are improperly allowed to move back to Tier 2	System prevents reversal of Tier 3 Opt In after election.	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks. Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities., Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results., Management remediates identified internal control deficiencies in a timely manner.	Once the member submits an election for Tier 3 Opt In via Member Self-Service, Form 2013 (Hybrid Cash Balance Plan Election), the "QA Tier 3 Opt In Election" workflow is launched in LOB. Once the review is completed by the Quality Assurance director or manager, the "Maintain Membership" tab in LOB is used to check the box for the "Tier 3 Opt In Indicator." Once Quality Assurance has updated the "Tier 3 Opt In Indicator" field, it cannot be unchecked in the system. Therefore, a member is unable to revert to Tier 2.	Compared data query spreadsheet to member profile to ensure members who opted in to Tier 3 are still linked to Tier 3.	All 1,128 members who opted into Tier 3 are still linked to Tier 3.

KPPA
Kentucky Public Pensions Authority

2026-15

Review of the Manual Remittance Process

Final Audit Report

Lead Auditor: Zach Curtis

Issue Date: August 18, 2026

Acronyms

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director of Benefits, and KPPA CFO
8. Retiree Healthcare – KPPA Division of Retiree Healthcare
9. Accounting – KPPA Division of Accounting
10. DETS – KPPA Division of Enterprise and Technology Services
11. Retiree Payroll – LPPA Division of Retiree Payroll
12. LOB – Line of Business
13. DOD – Date of death

Report Contents

Overall Opinion

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

Strategic Risk Addressed (Objective)

Review the manual remittance process and ensure compliance with statutes/regulations/ policies. Confirm controls are established to ensure manual remittance is processed accurately and timely.

Audit Scope

The Review of the Manual Remittance Process audit was conducted from June 2, 2026 to August 3, 2026. The scope of the audit was manual remittance that occurred during fiscal year 2025.

Summary of Findings, Observations, and Opportunities for Improvement

A finding is defined as a breakdown, or partial breakdown of a process or major non-compliance with statutes and/or regulations. Development of a corrective action plan is recommended in the next three months with full implementation recommended within one year. **No findings were noted during our review**.

An observation is defined as a minor deviation from an otherwise well-implemented process or a minor oversight by staff. Corrective action is recommended, but timing is more flexible based on staffing needs and availability. **No observations were noted during our review**.

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. **No opportunities for improvement were noted during our review**.

Commendations

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

1. Medicare Eligible/Medicare Advantage Plans Master Agreement was implemented properly.
2. Deceased members were added to the remittance file.
3. Date of death discrepancies were reviewed by the Division of Disability and Survivor Benefits.
4. Manual remittance line-item data was accurately recorded and reviewed.
5. Final remittance totals were sent to the Division of Accounting.
6. The related user story was created, reviewed, and closed.

Recommendations for Future Audits

Based on work conducted during this audit, the manual remittance process for the Department of Employee Insurance has been recommended for review during a future audit.

Audit Standards

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

Use of Report

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

Appendix A – Control Matrix

Auditor retrieved Manual Remittance reports found on the Retiree Healthcare server for fiscal year 2025. A total of 194 line-items were reviewed, which included 82 members. Auditor also reviewed all 39 deceased members listed on the Humana Remittance file. Auditor tested all remittance data provided on each remittance file.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Risk Assessment:** Not Applicable **Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	Procedures for the Manual Remittance process are located on SharePoint.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are up to date.
2.	Deceased members are not added to remittance spreadsheet	Survivor Benefits authenticates Medicare Date of Death data for remittance file	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	Overview The Manual Remittance process consists of adjustments that may be needed to reconcile money discrepancies on accounts that no longer receive monthly benefits. This adjustment may occur when a person is being awarded LIS (Low Income Subsidy) and LEP (Late Enrollment Subsidy) after the members death has been reported. All benefits stop the month of the members death, therefore, the update to the member's premium cannot be processed in LOB due to system restrictions implemented after a member's DOD has been entered which enables transactions. Remittance Completion Twice a year, Retiree Healthcare requests a remittance file to be created by the Retiree Healthcare Medicare Specialist Team. The Medicare Team creates a remittance spreadsheet that includes members who need premium adjustments and deceased members. This information is found on the Monthly Humana Discrepancies report located on the "Death" tab. Once the spreadsheet has been compiled of the necessary adjustments, it is sent to the Retiree Healthcare Director for review. Retiree Healthcare coordinates with the DETS Developer to confirm availability on the day of payroll approval. After confirming with the assigned DETS Developer, the Retiree Healthcare Assistant Director submits a data ticket which provides the location of the "Humana Manual Remittance by System (Month/Year)". Once IT has created a test remittance file based on the Monthly Humana Discrepancies report, Retiree Healthcare staff will begin their review.	Reviewed deceased members for both testing months and compared to the DETS created remittance line-item file to ensure all deceased members were on the final version.	August 2024 - Of the 22 deceased members reviewed, all members were included in the final remittance file. May 2025 - Of the 17 deceased members reviewed, all members were included in the final remittance file.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Member receives benefits after date of death	Discrepancies are reviewed by Survivor Benefits	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. Management communicates necessary information externally. **Monitoring:** Not Applicable	Death Verification Humana advises Retiree Healthcare of members who are deceased and if the death has not been reported to KPPA, the Retiree Healthcare Medicare Specialist reaches out to Survivor Benefits to confirm the member's death via Lexis Nexis. If the member is verified as deceased after outreach or Lexis Nexis results, Survivor Benefits will update the member's account.	Reviewed LOB date of death for members to ensure Humana and KPPA date of death matched. If dates did not match, ensured outreach was conducted by Survivor Benefits to confirm date of death.	August 2024 - Of the 22 members reviewed, all members DOD had been updated accurately. Five of the 22 members records were not updated at Retiree Healthcare initial review but implemented procedures were followed to verify members DOD. May 2025 - Of the 17 members reviewed, all members DOD had been updated accurately.
4.	Remittance amounts may be incorrect	Remittance spreadsheet is reviewed twice	**Control Environment:** Oversight body and management demonstrate a commitment to integrity and ethical values. Oversight body and management oversee entity's internal control system. **Risk Assessment:** Management clearly defines objectives to identify risks., Management clearly defines risk tolerances and identifies, analyzes, and responds to risks., Management considers the potential for fraud when identifying, analyzing and responding to risks., Management identifies, analyzes, and responds to significant changes that could impact the internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and control activities. Management implements control activities through policies. **Information and Communication Activities:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	Verifying Test File A member of the Medicare Specialist Team will email the completed remittance spreadsheet to the Retiree Healthcare Management team. The spreadsheet is sorted by "Fee Type", "System", and "Record Amount" (completed for each retirement system). On the "Accounting Breakdown" tab, the total amounts from the "Final by Trust" tab are added into the table and automatically populate a blue highlighted row labeled "Total" in comparison to "System" calculated totals. An email is sent to the Retiree Healthcare DETS Lead Developer and Retiree Healthcare DETS Business Analyst when the User Story is ready for the test file to be created. Once the testing file has been created the comparison review starts by opening original file in Notepad++. Each individual line items recorded data is then compared to the spreadsheet sent from Medicare Specialist Team. If there are any discrepancies in the comparison step, Retiree Healthcare notates the discrepancy on the User Story ticket and assigns it back to the DETS Developer to be corrected before resubmitting the ticket back to Retiree Healthcare for completion. If no discrepancies are detected, then a comment is added stating "Verified test file is correct. Will return to developer when the monthly payroll is approved and Accounting balances." Manual Updates The DETS Developer assigned to the remittance file will advise when/if any updates have been completed and ready for review. The ticket User Story will be updated with the number of additional records added, the file count change, the remittance total change, and name of the new file. The "Verifying Test File" comparison would be completed again based on the new remittance file counts/totals.	Compared Humana data file to DETS created spreadsheet to ensure each line-item of member information, adjustment dollar amount, and fee type matched.	1. August 2024: Of the 96 individual line-items reviewed, all data matched. 2. May 2025: Of the 98 individual line-items reviewed, all data matched.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Accounting does not receive accurate final report	Report is checked by multiple people	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	Payroll Notification and Balancing The morning of payroll approval, an email is sent by Retiree Healthcare including Divisions of Retiree Payroll, Accounting, and DETS to inform KPPA staff that manual updates are necessary and will need to be completed before the Humana Remittance file can be uploaded. After payroll has been balanced by both Retiree Healthcare and Retiree Payroll, an email is sent to the same group so that Accounting can complete their balancing process. Accounting responds to the email and advises they have balanced, and DETS can move forward with completing the manual updates to the Humana remittance file. Once the manual updates are completed and verified by Retiree Healthcare staff, Retiree Healthcare responds to the email chain and provides the new file count change and file total amount change. Accounting uses the new totals to balance payroll. Once completed, Retiree Healthcare comments on the actions on the User Story and closes the data request ticket. After the Manual Remittance is completed and Accounting balances, an email is sent by Accounting to DETS advising the Humana files can be uploaded. If payroll does not balance, the assigned DETS Developer is contacted for assistance. This issue must be resolved before the manual updates can be applied.	Recalculated remittance totals for each System. Compared this to the monthly payroll emails sent to Accounting and ensured the amounts matched.	August 2024: 3 of 5 Systems remittance totals were calculated correctly, while the remaining two Systems had no remittance data to review. May 2025: 4 of 5 Systems remittance totals were calculated correctly, and 1 System had no remittance data to review.
6.	User Story not reviewed/approved correctly.	File reviewed before/after corrections	**Control Environment:** Oversight body and management oversee entity's internal control system. **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	User Story Completion After the User Story has been created, the remittance files are reviewed by the Retiree Healthcare Assistant Director and for report accuracy and corrections are notated and sent back to the assigned DETS Developer if needed. If corrections are needed after Retiree Healthcare reviews the data, Retiree Healthcare adds a comment to the User Story and reassigns the ticket back to the DETS Developer assigned to the remittance process to complete needed changes. After corrections are completed by DETS, the User Story is assigned back to Retiree Healthcare to ensure accuracy of corrections and complete the remittance process.	Reviewed User Story information to ensure Retiree Healthcare staff reviewed the remittance file, DETS created and edited if needed, and final approval is documented in User Story.	Of the two remittance months tested, both were created, reviewed, and approved accordingly.

KPPA

Kentucky Public Pensions Authority

2026-10

Agency Critical Processes

Audit Report

Lead Auditor: William Prince

Issue Date: June 24, 2026

Acronyms

The following acronyms will be used throughout the report:

1. KPPA – Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KRS – Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO – Chief Executive Officer
6. CFO – Chief Financial Officer
7. KPPA Executive Management Team – KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director of Benefits, and KPPA CFO
8. Investments – KPPA Office of Investments
9. COOP – Continuity of Operations Plan
10. KAR – Kentucky Administrative Regulation

Report Contents

Overall Opinion

Process generally complies with relevant statutes, regulations, policies, and procedures. Internal controls are established but steps could be taken to strengthened the controls or make the process more effective and/or efficient.

Strategic Risk Addressed (Objective)

Review executive and division procedures for establishing a succession plan (e.g. clearly established back-ups) to ensure critical agency functions can continue.

Audit Scope

The Agency Critical Processes audit was conducted from February 6, 2026 to June 1, 2026. The scope of the audit was agency critical processes identified during the audit the COOP in place for fiscal year 2026.

Summary of Findings, Observations, and Opportunities for Improvement

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

1. Procedures related to agency critical processes are not documented
2. Tabletop exercises have not been conducted.

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. The following Opportunities for Improvement were noted during our review.

3. Critical processes at KPPA are not tracked.

Additional details related to the findings, including the corresponding recommendations, can be found in Appendix A.

Commendations

This audit had a broad reach and required input from all the divisions at KPPA. Most staff involved were helpful and responsive and allowed this project to run smoothly.

Audit Standards

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

Use of Report

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

Appendix A – Audit Results

Observations

1. Procedures related to agency critical processes are not documented	
Recurring Issue:	Yes
Condition:	Procedures for one agency critical process were not documented.
Criteria:	200 KAR Chapter 38:070 Section 2 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...(3) An internal control plan shall include the following...(f) 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 assure the continuation of agency operations in the event of staffing changes...."
Cause:	Due to other priorities, Investments staff have not documented the process related to the proxy voting process.
Effect:	If KPPA staff responsible for these critical processes were not available, it is possible there would be no way for other KPPA staff to step in and perform the processes.
Recommendation:	Investments staff should ensure the procedures related to the proxy voting process are clearly documented and available to other KPPA staff. The following information should be considered for incorporation into the procedures: 1. Any review performed to ensure proxy voting was accurate. 2. Steps taken to put collected data into the standardized report format.
Management Response:	Management agrees the process is not documented. The process is for Investments personnel to confirm that proxy voting reports are received for all accounts and the data is put into the standardized report format, which ensures that all required data fields are in the reports. It is then passed to Communications for posting per their website policy. Management agrees to consider the recommendation for documenting the process.
Implementation Date:	June 30, 2027

2. Tabletop exercises have not been conducted	
Recurring Issue:	No
Condition:	Tabletop exercises have not been conducted since the inception of the COOP in 2019.
Criteria:	Kentucky Revised Statutes 39A.220 states, "(4) Each agency, board, or commission of state government shall train its employees with regard to the contents of the agency emergency operations procedures and shall give any additional training necessary to implement the procedures during times of emergency or disaster...." While research is still being conducted to determine the applicability of this statute to CERS, SPRS, and KPPA, it can still be used as best practice guidance.
Cause:	Due to other agency priorities, a team to conduct tabletop exercises was not formed until 2025.
Effect:	Without the tabletop exercises, the effectiveness of the COOP cannot be verified.
Recommendations:	Staff have scheduled to begin conducting exercises in calendar year 2026. We recommend that conducting these exercises be given a priority.
Management Response:	KPPA management agrees that a tabletop exercise specific solely to the COOP has not been conducted. However, a Security Incident Governance Team Tabletop Exercise was held in September 2025, which crosses the Security Incident Response Plan, Disaster Recovery Plan and COOP. Management will work with the appropriate KPPA staff to coordinate and plan a COOP specific exercise. The anticipated date of completion is fiscal year 2027.
Implementation Date:	June 30, 2027

Opportunities for Improvement

3. Critical processes at KPPA are not tracked	
Recurring Issue:	No
Condition:	There is not a centralized way to track the critical processes performed at KPPA.
Criteria:	200 KAR Chapter 38:070 Section 2 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...(3) An internal control plan shall include the following...(f) 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 assure the continuation of agency operations in the event of staffing changes...."
Cause:	KPPA Executive Management has determined it is more efficient for each KPPA division to monitor their own critical processes. The COOP outlines the processes that must be restored quickly.
Effect:	Staff may not be aware of all the critical processes that need to be performed following an emergency.
Recommendations:	KPPA Executive Management should determine if it would be beneficial to track agency critical processes in a centralized location.
Management Response:	Executive Management agrees that KPPA has not centralized the tracking of critical processes performed at KPPA; **however, we are comfortable accepting this risk** and will not centralize a comprehensive list of all critical processes. However, the following compensating process is in place regarding critical process: The Kentucky Public Pensions Authority Continuity of Operations Plan and Disaster Recovery Plan Policy indicate that the COOP includes the development of process and procedures to ensure that an organization's critical business operations continue during and after an event, and the Disaster Recovery Plan includes a plan for all critical KPPA information systems. During this audit process it was confirmed that each KPPA division, including the executive team, consider different processes as "critical", and these differ, at times, from items in the COOP. The COOP centralizes the list to be restored quickly, and that would be the focus of all KPPA resources during a business continuity incident. Outside a business continuity incident, the decentralized management of each division would work with KPPA executives, and others, to address their own list of critical processes in their area that need additional resources, and that would be prioritized against other KPPA needs.
Implementation Date:	No further action to be taken – management accepts risk.

Appendix B – Control Matrix

No sampling was used for this project.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Critical processes are not identified	Control not established for identification of critical processes	**Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	KPPA does not currently have a list of all critical agency processes; however, the essential functions are documented in the COOP.	Auditor interviewed KPPA Executive Management and Division Directors and compiled a list of critical agency processes.	Executive Management identified 15 categories of critical processes. After speaking with Division Management it was determined that 79 processes fall into those 15 categories. It was noted that there is not a centralized location to track the critical processes performed at KPPA (**see Appendix A item #3**).
2.	Critical agency procedures have not been documented	Divisions perform annual review of process documentation	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	Each office and division within KPPA is responsible for ensuring their procedures are documented. The Executive Management team encourages staff to document all processes and the Internal Audit team reviews process documentation during each audit.	Auditor reviewed internal files to determine if all critical agency procedures were documented either on KPPA's Process Documentation page or internally within the division.	1. 62 of 79 critical processes were documented. 2. 16 of 79 critical processes were deemed to be not feasible to document. 3. One process was not documented. (**see Appendix A item #1**)
3.	Back-ups have not been established for critical agency procedures (e.g. succession plan not established)	Divisions cross train employees to be able to serve as back-ups	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Each office and division within KPPA is responsible for ensuring a back-up has been established for their procedures. The Executive Management team encourages cross-training of all staff.	Auditor verified through interviews with KPPA staff that each critical process had a process owner and an established back-up.	All 79 critical processes reviewed had a back-up established.
4.	COOP is not established and/or approved	COOP is approved by Executive Director	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	In 2018, the Kentucky Emergency Management Agency issued a directive that each state agency develop a COOP. The Project Manager (currently the Business Intelligence Architect), who oversees the KPPA COOP, attended training sessions with Kentucky Emergency Management Agency and received examples and templates that were utilized when creating the KPPA COOP. KPPA began the process of creating their COOP in 2018 and it was finalized and approved by the KPPA Executive Director in 2019. The plan was created with input from staff representing all the business areas that comprise KPPA. The plan is reviewed by the COOP team every two years, and each division's section is signed off by the corresponding COOP team member. If updates are needed for the given division, changes are made during this review process. Annually, the COOP and Disaster Recovery Plan Policy, which outlines the requirements of both the COOP and Disaster Recovery Plan as well as system and offsite storage requirements, is approved by the KPPA Executive Director.	1. Reviewed division sign off forms and ensured division staff and approved the COOP. 2. Reviewed the COOP to determine if it had been approved by the Executive Director.	1. Each division's section of the COOP has been approved by division staff. 2. While the COOP document as a whole has not been approved by the Executive Director, the COOP Policy, which describes the COOP and its requirements, was reviewed by the KPPA Executive Director.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	COOP is not kept up-to-date	Project Manager ensures COOP Team completes review every two years, with additional review every five years	**Control Environment:** Oversight body and management demonstrate a commitment to integrity and ethical values., Oversight body and management oversees entity's internal control system., Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Every two years the Project Manager reaches out to division directors to verify that no changes are needed to the members of the COOP team. Once the COOP team is confirmed, those individuals review the essential functions contained in the COOP to determine if updates are needed. The COOP team also ensures the procedures to perform the essential functions are documented. Every five years the COOP team conducts a more thorough review of the entire COOP and makes necessary adjustments across the entire plan.	Reviewed division sign off forms to confirm that the KPPA COOP was reviewed.	COOP has been reviewed and updated as needed.
6.	Agency has not identified the COOP essential functions as critical processes	Control not established for identification of critical processes *Missing control for this item is addressed by **item #3 noted in Appendix A.***	**Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	The COOP must ensure that KPPA can maintain its Primary Mission Essential Functions under all conditions. This includes, but is not limited to emergencies, localized acts of nature, accidents, disasters, and technological attacks. Every two years, the COOP team reviews the plan and ensures all KPPA essential functions are contained in the COOP. The team also ensures the procedures to perform the essential functions are up to date and detailed enough so that someone without intimate knowledge of the process could perform the process if necessary.	Auditor reviewed processes contained in the COOP and compared them to the list of critical processes compiled during this project to ensure COOP was accurate and complete.	For the 48 essential functions in the COOP: • 33 were identified as critical processes. • 15 processes were not identified as critical processes. *After discussions with Executive Management, it was determined that these 15 processes are considered essential functions, they do not meet the level of a critical process.*
7.	COOP is not periodically tested	Training, Testing, and Exercise team develops and administers tabletop exercises	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Not Applicable **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	KPPA staff responsible for the COOP have put together a Training Testing and Exercise (TT&E) team to develop tabletop exercises. This team was created and first met in 2025 and is planning to hold one or two testing exercises a year starting in 2026.	Staff responsible for maintaining the COOP verified that periodic tests of the COOP have not yet been performed, including tabletop exercises.	Tabletop exercises have not been performed since inception of the COOP. (**See Appendix A item #2**)

KPPA

Kentucky Public Pensions Authority

2026-12

Annual Dependent Verification Process

Final Audit Report

Lead Auditor: Madeline Evans

Issue Date: July 21, 2026

Acronyms

The following acronyms will be used throughout the report:

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

Report Contents

Overall Opinion

Process generally complies with relevant statutes, regulations, policies, and procedures. Internal controls are established but steps could be taken to strengthen the controls or make the process more effective and/or efficient.

Strategic Risk Addressed (Objective)

Review the process for verifying dependents and ensure compliance with statutes/ regulations/ policies. Confirm controls are established to ensure support is provided for each dependent. Confirm annual verification is on file for hazardous members.

Audit Scope

The Annual Dependent Verification Process audit was conducted from May 4, 2026 to July 2, 2026. The scope of the audit was calendar year 2025.

Summary of Findings, Observations, and Opportunities for Improvement

A finding is defined as a breakdown, or partial breakdown of a process or major non-compliance with statutes and/or regulations. Development of a corrective action plan is recommended in the next three months with full implementation recommended within one year. **No findings were noted during our review**.

An observation is defined as a minor deviation from an otherwise well-implemented process or a minor oversight by staff. Corrective action is recommended, but timing is more flexible based on staffing needs and availability. The following Observations were noted during our review**:**

1. Dependents not marked verified in LOB correctly

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. The following Opportunities for Improvement were noted during our review:

2. KERS is missing a "dependent child" definition

Details related to the findings, observations, and opportunities for improvement, including the corresponding recommendations can be found in Appendix A.

Commendations

Retiree Healthcare staff were quick to respond to questions and thoroughly explained the process. We commend Retiree Healthcare staff for taking immediate action on the noted observation and performing an audit of the accounts to ensure no premium adjustments were needed.

Recommendations for Future Audits

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

1. Payments to dependents and refunds for unverified dependents.
2. Full-time student verification process.
3. Members requesting reimbursement or premiums paid for a spouse and/or dependent child under a qualifying reimbursement.

Audit Standards

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

Use of Report

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

Observations

1. Dependents not marked verified in LOB correctly	
Recurring Issue:	No
Condition:	Of the 62 members reviewed, two were not properly identified as verified or not verified in LOB based on supporting documentation. 1. One dependent was inaccurately identified as verified. The dependent does not qualify as the member's natural child according to the submitted birth certificate. Additionally, there are no adoption orders on file. 2. One dependent was inaccurately identified as not verified. The dependent is the natural child of the member according to the submitted birth certificate. Furthermore, the member verified that the dependent is unmarried and a full-time student on the 6256.
Criteria:	Kentucky Revised Statutes 16.505 (17) and 78.510 (49) state, “Dependent child means a child in the womb and a natural or legally adopted child of the member who has either attained age eighteen nor married or who is an unmarried full-time student who has not attained age twenty-two.”
Cause:	Processing counselor overlooked marking the dependent correctly in LOB because the dependent has been verified for many past years.
Effect:	If a member were to only have one dependent and that dependent was inaccurately marked as verified or not verified, the insurance premiums for the member would be calculated incorrectly.
Recommendations:	Retiree Health Care management should correct the verification of these two dependents in LOB to match the documentation on file and recover any payments paid in error or deposit any payments withheld in error.
Management Response:	We agree with the recommendations. Retiree Health Care management will ensure the accounts are corrected along with additional coaching and education to staff. Upon audit of the accounts, no premium adjustments are necessary as there was no impact on members.
Implementation Date:	July 10, 2026
Auditor Response:	Auditor confirmed that accounts noted in the condition have been corrected. Additionally, auditor confirmed that on July 10, 2026 the policy was provided to staff for review.

Opportunities for Improvement

2. KERS is missing a "dependent child" definition	
Recurring Issue:	No
Condition:	Members of CERS and SPRS have a clear definition for "dependent child" relating to insurance purposes. However, for KERS, the only definition for "dependent child" as it relates to insurance, is found in Kentucky Revised Statutes 61.702(4) which governs dependents of KERS Hazardous members who are approved for In-Line-Of-Duty benefits and KERS Non-Hazardous members who are approved for Duty Related Benefits.
Criteria:	KERS Hazardous In-Line-of-Duty: Kentucky Revised Statutes 61.592(4) states, "The normal retirement age, retirement allowance, hybrid cash balance plans except as provided by [Kentucky Revised Statutes] 16.583(2)(b)2 and 16.584, other benefits [including in-line-of-duty benefits pursuant to KRS 16.582 and 16.601], eligibility requirements, rights, and responsibilities of a member in a hazardous position, as prescribed by subsections (1), (2), and (3) of this section, and the responsibilities, rights, and requirements of his or her employer shall be as prescribed for a member and employer participating in the State Police Retirement System as provided for by [Kentucky Revised Statutes] 16.505 to 16.652.” KERS Non-Hazardous Duty Related Benefits: Kentucky Revised Statutes 61.621 (9) states, "For purposes of this section, 'dependent child' has the same meaning as [Kentucky Revised Statutes] 16.505.
Cause:	The General assembly did not specifically include a KERS definition for "dependent child" when the statute was first established. KPPA executive management has not made note of this missing definition during review of statutes.
Effect:	Without a clear definition of "dependent child" there could be confusion about who qualifies for insurance benefits.
Recommendations:	The KPPA Executive Management Team should work with the Office of Legal Services to determine if it would be beneficial to seek an update to the statues to add a definition of "dependent child" to Kentucky Revised Statutes 61.510, similar to the definition found in Kentucky Revised Statues 16.505 and 78.710.
Management Response:	We agree that it should be determined if a definition of a dependent child is needed for KERS members. KPPA Executive Management and the Office of Legal Services are currently performing research on this topic.
Implementation Date:	December 31, 2026

Appendix B – Control Matrix

Sampling

There were 7,372 members with dependents named in the 2025 calendar year for health insurance contributions. All were considered testable, and 62 members were judgmentally sampled to ensure members with the highest count of dependents were selected for testing.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Trustees do not receive accurate, complete, or timely information	Information is presented quarterly to Board of Trustees	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	A yearly report has been created to show how many retirees submitted Form 6265 during open enrollment. This is presented at the Joint Retiree Health Plan Committee.	Confirmed that the Joint Retiree Health Plan Committee was shown the total number of members who submitted the Form 6256	The Joint Retiree Health Plan Committee was shown the count of members who submitted Form 6256 for calendar year 2025 and 2026.
2.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives	The Retiree Health Care Assistant Division Director is responsible for ensuring procedures are up to date. Updates are made to the procedures as needed, during open enrollment, or when a counselor notices that procedures need to be clarified.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are up to date.
3.	Dependents named on Form 6256 do not match LOB	Dependents are marked "Verified" or "Not Verified" In LOB	**Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Hazardous retirees and those approved for "In line of duty" or "duty related" benefits must submit the Form 6256 for dependents at the following times: 1. During the annual open enrollment period prior to January 1 each year. 2. Upon a dependent child obtaining 18 years of age. 3. Upon initial enrollment of dependent(s) for health insurance. 4. When requesting reimbursement or premiums paid for a spouse and/or dependent child under a qualifying reimbursement. This will be reviewed in a future audit. Retirees may submit the form online or on paper. If the 6256 is submitted online and no change is made, then dependents are marked as "verified" in LOB automatically once the member submits the form. If there is a change or if the 6256 is submitted by mail or fax, Retiree Health Care counselors update LOB manually. If the counselor completing this task is new to the process, their work is checked. Otherwise, these updates are not checked by a second Retiree Health Care counselor due to the volume of forms and documentation submitted. Errors in this process can be caught in the following methods: 1. Counselor marks dependent as "not verified" but did verify: A correspondence batch is run on the 15th each month which generates letters to members who need to submit required documentation to verify dependents. All letters generated in the December and January batches are checked to ensure that letters are not sent to members who submitted dependent verification documentation, but LOB was not updated correctly. 2. Dependent marked "verified" but documentation missing. This error can be caught during account audits, phone calls, self-reporting from the dependent, and system testing. The amount owed is deducted from the member's monthly benefits until repaid in full. Counselors who process this form incorrectly will be re-trained and their work will be checked by a second counselor until management is confident the error will not occur again.	Confirmed Form 6256 and supporting documentation on file matched with the verification status of each dependent named in LOB.	Of the 62 sampled members, two were not properly identified as verified or not verified in LOB. **(See Item #1 in Appendix A)**

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
4.	Missing documentation or inadequate documentation	Counselors confirm valid documentation is in file	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Risk Assessment:** Management clearly defines objectives to identify risks. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	Spouses are verified by submitting a marriage certificate when initially named. They only need to then be listed on Form 6256 each year until the member passes. If the member passes before the spouse, the spouse is verified one final time during the death process and will not need to submit a 6256 thereafter. All dependent children named require a birth certificate or adoption court orders to show that the child belongs to the member. Children between 18 and 22 years of age also need to submit Form 6256 for the member to certify that they are unmarried and a full-time student.	Confirmed all required documentation to verify each dependent was in the member's library manager.	Of the 62 sampled members, 61 had proper documentation 1. Four had adoption orders missing from file but the relationship with the member was verified by a birth certificate. 2. One member had illegible birth certificates on file, but beneficiaries were confirmed through an audit conducted by the Department of Employee Insurance. 3. One birth certificate was missing but the dependent was verified by adoption orders. 4. The remaining member has a dependent named who is not a "natural" or "adopted" child. There is no birth certificate or adoption orders on file naming the member as the parent. **(See Item #1 in Appendix A)**
5.	Full-time student status is not verified	Member certifies full-time status on form 6256	**Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Members certify that dependent children between 18 and 22 years of age are unmarried, full-time students on Form 6256. The form clearly states that by signing the form, the member is claiming that what is reported on the form is accurate and that if the information is found to be false, then the member is required to pay back health insurance contributions. Dependents for In Line of Duty or Duty Related benefits must submit verification to confirm full-time status in a separate process completed by Retiree Payroll that will be reviewed in a future audit. However, it is noted in this audit that, should the dependent not meet the requirements of that verification process, Retiree Payroll notifies Retiree Health Care, and the dependent will be marked as "not verified" in LOB and the member's next monthly benefit will be decreased to cover the health insurance premiums for that child.	Reviewed Form 6256 submitted for calendar year 2025 to ensure that each section was filled out correctly.	Form 6256 was filled out correctly for all 62 sampled members. Six had the relationship section of the form missing but a birth certificate was in file to show that the dependent was related to the member.
6.	The Form 6256 may not be completed timely	KPPA advertises information is due November 30th	**Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	To ensure that all submitted information is processed by the January 1st deadline, KPPA advertises that documentation is due November 30th in notices for open enrollment, on the KPPA website, thon e KPPA Facebook page, and in mass emails and paper mailings sent to all retirees. Additionally, a monthly batch of correspondence is run which generates a letter and attaches a Form 6256 that is mailed to members who have a dependent about to turn 18. If the form is not submitted by the dependent's 18th birthday, LOB will automatically mark the child as "not verified" and the member's next monthly benefit will be decreased to cover the premium. The effective date of benefits can be back dated up to 90 days at any time of the year upon receipt of a valid Form 6256	Reviewed the sampled member's library manager to confirm that the Form 6256 for calendar year 2025 was submitted by December 31, 2024 for benefits effective January 1, 2025.	Of the 62 sampled members, 58 forms were submitted by the required deadline. The other four submitted the 6256 within 90 days of the January 1, 2025 effective date. In those instances, the benefits were backdated.

KPPA

Kentucky Public Pensions Authority

2026-13

Review Training Process for Various Types of Leave

Final Audit Report

Lead Auditor: Madeline Evans

Issue Date: June 10, 2026

Acronyms

The following acronyms will be used throughout the report:

1. KPPA – Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KRS – Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO – Chief Executive Officer
6. CFO – Chief Financial Officer
7. KPPA Executive Management Team – KPPA Executive Director, KPPA Deputy Executive Director, and KPPA CFO
8. HR – KPPA Division of Human Resources
9. KHRIS – Kentucky Human Resource Information System
10. FMLA – Family Medical Leave Act
11. HIPAA – Health Insurance Portability and Accountability Act

Report Contents

Overall Opinion

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

Strategic Risk Addressed (Objective)

Review the employer training process and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure new employees are trained, ongoing training is provided, and follow-up is conducted for continual reporting errors.

Audit Scope

The Review Training Process for Various Types of Leave audit was conducted from April 20, 2026 to June 1, 2026. The scope of the audit was leave taken by KPPA employees between July 1, 2025 and March 31, 2026. The following leave types were excluded from this review and will be deferred to a future timesheet audit – annual, compensatory, sick, and holidays.

Summary of Findings, Observations, and Opportunities for Improvement

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

Commendations

To maintain the privacy of employees, Human Resources Assistant Division Director collected all documentation for sampled employees and redacted identifying information to provide Internal Audit with supporting evidence to conduct testing procedures. This request was completed ahead of time even though the Assistant Director was on-boarding new employees and interns during the same time period. Internal Audit appreciates the time and effort put into the documentation provided and the time spent explaining the process and answering questions.

Recommendations for Future Audits

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

1. Defer sick leave, compensatory leave, annual leave, and holidays to timesheet audit.

Audit Standards

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

Use of Report

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

Appendix A – Control Matrix

Obtained a list of all 55 leave types from the Division of Human Resources. Identified which types would not be considered testable for this audit – nine are not available to KPPA employees, six are deferred to a timesheet audit, three types are keyed into KHRIS by HR, and one type was related to a disciplinary action. Auditor asked HR for a list of employees who used the remaining 36 leave types. Of the 36 types, 25 were not used by any KPPA employee in scope. The remaining 11 types were used by 98 employees. Three internal audit employees were removed from the testing population to remain independent. A sample of 52 leave periods was judgmentally selected.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Procedures about eligibility, use, and documenting leave are created and maintained by the Personnel Cabinet. Detailed instructions about documentation, qualification, and time recording are locked down to HR personnel only but the publicly available Employee Handbook gives a brief description of when leave types are used and what documentation is required.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff. Reviewed the state employee handbook for leave types available.	Division procedures could not be evaluated because instructions are maintained by the Personnel Cabinet and locked to HR personnel.
2.	KPPA management is not aware of leave types available to employees	Managers are instructed to ask HR for guidance	**Control Environment:** Oversight body and management oversee entity's internal control system. **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management remediates identified internal control deficiencies in a timely manner.	New managers are required to complete the Executive Branch Manager training which contains guidance on how to approve timesheets and specifics of some leave types like FMLA, but not all leave is covered in detail at this time. Instead, managers are given instructions by HR or the next line supervisor on uncommonly used leave as they are used by employees they manage. Additionally, yearly Executive Branch training is required for all staff, and part of this training is to read through the Employee Handbook and certify that it was read. The Employee Handbook is publicly available to all employees and refers the reader to related laws and regulations.	Reviewed supporting documentation submitted when leave was used. If leave was used correctly and no communication between the manager and HR was needed, it was assumed that the manager understood the requirements of the leave being used. When there were questions, auditor reviewed the communications between the managers and HR and ensured managers followed HR's guidance when approving leave.	Of the 52 sampled leave periods, 49 were used correctly without the manager having to ask questions. For the remaining three, managers reached out to HR staff to ensure leave was used correctly prior to approving the leave.
3.	Leave is not used correctly	HR staff ensures leave is approved for specific dates on supporting documentation	**Control Environment:** Oversight body and management evaluate performance and hold individuals accountable. **Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management remediates identified internal control deficiencies in a timely manner.	Managers are responsible for ensuring documentation is on file before approving leave. As a secondary check, HR reviews timesheets each pay period to ensure the documentation needed is on file. If documentation is missing the Human Resource Administrator emails both the supervisor and employee using the leave and requests the missing information. For leave types that only require supervisor approval, employees are required to use the comment function in KHRIS to document why the leave was taken without revealing HIPAA protected information.	1. Compared source documents against the leave type used and confirmed the leave was only used on approved dates. 2. Compared time charged to CLOS (state closure) and EVNT (state event) to agency closure and governor sponsored event email notifications from the Personnel Cabinet to ensure the right date was used and the max amount of time for the event or closure was not exceeded.	1. Leave used in fiscal year 2025 for the 52 sampled employees was used correctly and sufficiently documented. 2. All 15 employees who utilized the CLOS and/or EVNT codes charged no more than the max amount that could be charged for Governor sponsored events or more than the normal workday for agency closures. The dates for event also matched the dates from the Personnel Cabinet email.

KPPA

Kentucky Public Pensions Authority

2026-14

System Build Process

Final Audit Report

Lead Auditor: Madeline Evans

Issue Date: July 9, 2026

Acronyms

The following acronyms will be used throughout the report:

1. KPPA – Kentucky Public Pensions Authority
2. CERS – County Employees Retirement System
3. KRS – Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO – Chief Executive Officer
6. CFO – Chief Financial Officer
7. KPPA Executive Management Team – KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director of Benefits, and KPPA CFO
8. DETS – KPPA Division of Enterprise and Technology Services
9. HR – KPPA Division of Human Resources
10. WHD – Web Help Desk
11. START - Strategic Technology Advancements for the Retirement of Tomorrow
12. TFS – Microsoft Team Foundation Server
13. BA – Business Analyst
14. BU – Business User
15. AC – Acceptance Criteria
16. EMR – Extended release maintenance
17. SLDC – Software Development Life Cycle

Report Contents

Overall Opinion

Process generally complies with relevant statutes, regulations, policies, and procedures. Internal controls are established but steps could be taken to strengthen the controls or make the process more effective and/or efficient.

Strategic Risk Addressed (Objective)

Review the system build process and ensure compliance with statutes/regulations/policies. Confirm controls are established to sufficiently test the changed and identify errors.

Audit Scope

The System Build Process audit was conducted from March 2, 2026 to June 11, 2026. The scope of the audit was system builds completed during fiscal year 2025.

Summary of Findings, Observations, and Opportunities for Improvement

A finding is defined as a breakdown, or partial breakdown of a process or major non-compliance with statutes and/or regulations. Development of a corrective action plan is recommended in the next three months with full implementation recommended within one year. **No findings were noted during our review**.

An observation is defined as a minor deviation from an otherwise well-implemented process or a minor oversight by staff. Corrective action is recommended, but timing is more flexible based on staffing needs and availability. The following Observations were noted during our review. **No observations were noted during our review**.

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. The following Opportunities for Improvement were noted during our review.

1. Change management procedures are incomplete

Additional details related to the findings, including the corresponding recommendations, can be found in Appendix A.

Commendations

The Data Services Branch Manager and the Application Architect both took the time to answer questions and explain special case scenarios that deviated from the five standard build processes.

Recommendations for Future Audits

Based on work conducted during this audit, no items have been recommended for review during future audits.

Audit Standards

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

Use of Report

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

Appendix A – Audit Results

Opportunities for Improvement

1. Change management procedures are incomplete	
Recurring Issue:	No
Condition:	There are no material findings about this process. All changes were created and reviewed by separate people, work completed matched acceptance criteria written, users were notified of the change, and procedures were updated when needed. 1. Procedures related to this process are on the DETS SharePoint Site but not easily located by those unfamiliar with the site. Additionally, while some divisions have a copy of the training material from 2017 linked to their division SharePoint Site, others do not. The following testing results were noted during our review of 73 sampled stories: a. 72 stories were moved directly to "validated" status without first being marked as "accepted." i. 54 were moved to "validated" by the product owner or business analyst. ii. 18 were moved to "validated" by a senior employee within the division. b. 19 had acceptance criteria set by someone who was not the designated product owner or business analyst. c. 17 stories were missing comments of approval from at least one assigned tester. d. Three builds were more than seven days past the scheduled due date. e. One story had an owner assigned incorrectly and two stories did not have a developer named in the responsibilities section of the user story. 2. The following items were noted throughout testing: a. Product Owners have no ownership of the process in the written procedures even though they are responsible for ensuring the change is implemented correctly. b. Role designations in TFS can change at any time by anyone with access to the TFS environment and there is not a process to ensure that all impacted divisions are able to test the change. c. Role designations in TFS do not prevent a story from moving through the process out of order and anyone with access to TFS may move the story to any step of the process.
Criteria:	KPPA Data Management Policy Section 4.7 states "A formal change management process shall be developed, documented and utilized for all changes to the KPPA computing environment".
Cause:	1. The developers, product owners, business analysts, and business users have been doing this process since 2017 so there has not been a need to update or clarify procedures. 2. Roles are not defined and/or included in staff job duties.
Effect:	If a new individual were to be tasked with completing the process, procedures may be completed in a manner other than the manner intended by management.
Recommendations:	1. The DETS Division Director should work with the Executive Management Team to update the system build procedures so that all procedures are combined into one Change Management Policy. The Change Management Policy should include the following items: a. The purpose of each build type and how stories submitted satisfy the requirements of each build type. b. Role assignment definitions and responsibilities. c. A step to ensure all assigned testers have commented with approval prior to moving an item to production. 2. The DETS Division Director should work with the KPPA Executive Management Team to determine if it would be beneficial to update current change management procedures to include the regression testing procedures performed by each division, including reasons why some test cases do not have to be tested for all builds. 3. The HR Division Director should work with the KPPA Executive Management Team to determine if it would be beneficial to add "Testing user stories" to the annual performance reviews of staff involved in this process. ***Note, this only applies to five staff members as all other staff responsible for testing user stories do have this task included as a goal in their performance reviews.***
Management Responses:	1. Management states the following: a. We agree to continue to track the build type and add more detailed descriptions into the Web Help Desk Change Control ticket and work with staff to ensure the user acceptance criteria has verbose comments in the User Stories logged for all builds. This will also be documented as part of the SDLC updated documentation. b. Agree. It would be beneficial to document SDLC roles and responsibilities. SDLC roles are not tied to specific position descriptions but could be included in the individual employee's goals. It is not necessary to maintain a list of authorized users for each division because business areas need flexibility to assign testers familiar with changes based on the requirements of the user stories. If a user has been granted access to TFS, they are an authorized user. c. We agree there needs to be a comment, but the only party required to comment their approval is the last tester. All testers should comment their testing results. 2. Regression Testing procedures are owned by the business areas, and they determine what testing is necessary for each build, with input from the Lead Business Analyst. DETS agrees it could be beneficial to document reasons why some system builds require regression testing and others do not. 3. Management agrees with this recommendation. HR has discussed this with each of the five employees' supervisors, and they have agreed to add it to the annual performance plan. This will be added to the employees' 2027 performance plan.
Implementation Date:	Recommendations 1 and 2: December 31, 2027 Recommendation 3: January 29, 2027

Appendix B – Control Matrix

There were 1,488 stories completed in fiscal year 2025. Of these, 795 were launched for a DETS workflow and two were launched by Internal Audit. These 797 items were removed from the testable population. The remaining stories were split into three distinct categories: 611 were considered "normal" or part of the big five builds throughout the year, 59 were considered small builds, and 21 were considered Extended Release Maintenance builds. A judgmental sample of 60 (normal), eight (small), and five (ERM) stories were taken from each group respectively.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Procedures to log WHD tickets that become user stories are maintained by DETS and trainings a given to product owners about acceptance criteria. Procedures to conduct and plan builds are also maintained by DETS and updated when needed. The Quality Assurance Retirement Programs Manager maintains documentation about the regression testing process. All procedures are saved to SharePoint.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures related to this process are on the DETS SharePoint Site but not easily located by those unfamiliar with the site. Additionally, while some divisions have a copy of the training material from 2017 linked to their division SharePoint Site, others do not. The following testing results were noted during our review of 73 sampled stories: 1. 72 stories were moved directly to "validated" status without first being marked as "accepted." a. 54 were moved to "validated" by the product owner or business analyst. b. 18 were moved to "validated" by a senior employee within the division. 2. 19 had acceptance criteria set by someone who was not the designated product owner or business analyst. 3. 17 stories were missing comments of approval from at least one assigned tester. 4. Three builds were more than seven days past the scheduled due date. 5. Two stories did not have a developer named in the responsibilities section of the user story. **(See Item #1 in Appendix A)**
2.	Developers and application tester duties are not segregated	Roles for developers and testers are assigned to each user story	**Control Activity:** Management designs the entity's information system and control activities.	The code for START is stored in Visual Studio and only developers have access to this environment. Product owners, BUs, and BAs are aware of which requests are included in a given system build and the status of each request. Additionally, the Lead Business Analyst also ensures that each request goes through the proper steps so that no request is pushed to production without adequate testing. At minimum, there should be at least one developer and one tester assigned. Generally, the first tester is the area's BA, the second tester is a staff member from Quality Assurance, and the last tester is the BU. If the story impacts several areas, someone from each impacted division must comment approval to show that each division agrees with the change. The last assigned tester is responsible for moving the story to "ready for PROD" to notify the developer that the code can be pushed to production. Role designation is shown on the user story for each person involved in a given user story. The TFS environment allows roles to change at any time by anyone with access to the environment. TFS also does not prevent a story from being moved out of order in process steps. It also does not prevent the story from being completed even if approval has not been indicated by all users assigned to the story. Product owners are responsible for ensuring each impacted division is assigned to the story, all approvals are documented, and the story has gone through all the proper steps.	Confirmed that each role (product owner, developer, and testers) was assigned correctly according to the team assignment chart.	Of the 73 sampled user stories, one story did not have the correct owner, and two stories did not have a developer named in the responsibilities section of the user story. **(See Item #1 in Appendix A)**

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	Changes to START are not authorized appropriately	Product owners review submitted WHD tickets	**Control Environment:** Oversight body and management oversee entity's internal control system. **Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	Anyone in KPPA can log a WHD ticket to request a change to any element of START but designated product owners of each division review the requests to ensure they are valid. The division's product owner marks Invalid requests in TFS as removed and valid requests are moved to the "accepted" status. The same product owners set acceptance criteria and test the work of developers to ensure the results match the criteria. Approval from the product owner is maintained in the comments of the user story in the TFS environment.	Reviewed the history section and found when and by whom the story was moved to statuses "accepted" and "validated".	Of the 73 sampled user stories, only one was moved to "accepted," while 72 were moved directly to "validated" without first being marked as accepted. Of these, 18 were moved to "validated" by a senior employee within the division, and 54 were moved by the product owner or business analyst. **(See Item #1 in Appendix A)**
4.	Acceptance Criteria are not defined correctly	Legislative change acceptance criteria is determined by executive management Regular change request acceptance criteria are set by product owners or with BA assistance	**Control Environment:** Oversight body and management oversee entity's internal control system. **Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	Legislative changes are discussed in a special meeting with Executive Management, management of impacted divisions, and Office of Legal Services, if needed, to determine how the change will be implemented. The design team made up of representatives from the impacted divisions then meet about how to log the user story and how acceptance criteria will be defined to comply with the new law or change to current law. Acceptance criteria for changes requested by various divisions are set by the product owners or Business Analyst to match how the current process should be done. These should describe the desired results without a known solution. This only applies to the big five builds throughout the year because the issue and solution are known before a story is launched for maintenance release builds and extended release maintenance builds.	1. Reviewed builds that resulted from a legislative change and ensured the acceptance criteria matched requirements described in statute. 2. Compared the user who set the acceptance criteria against the designated product owner and business analyst on the team assignment chart.	1. Of the 73 stories sampled, only six were identified by title to be legislative changes. Four of those stories had acceptance criteria that matched the related change to law. One change was identified as a "legislative change" but was only to adjust a workflow to accommodate how LOB would process a new form, but the change itself was not dictated by law. One change did not have acceptance criteria set but it was completed in a maintenance release build which does not require acceptance criteria. 2. Of the 73 sampled stories, 19 had acceptance criteria set by someone who was not the designated product owner or business analyst. **(See Item #1 in Appendix A)**
5.	Updates may disrupt business needs and tasks	Builds are released before payroll runs	**Control Activity:** Management designs the entity's information system and control activities.	Build committees meetings are held during the week of the code cut of date for the prior build to set the timeline for the new build's code cutoff date, testing, regression testing and release date. 1. Two weeks is given for testing 2. Six business days are given for regression testing 3. Release date should be before the 25th to not interfere with employer's monthly packets.	1. Compared the scheduled due date against the release date. 2. Compared the code cutoff date to the regression testing due date and ensures there were at least 16 business days between these dates.	1. Of the 24 builds in scope, 5 were released on time. The 16 EMR and small builds do not have a scheduled due date as these builds are released as quickly as possible. The remaining 3 were released more than 7 days past the scheduled due date. None were released on the 25th to interfere with batch processes. 2. Of the 24 builds in scope, only eight were "normal builds" which have a designated testing phase. These eight builds were scheduled with at least 16 days for the testing phase. The remaining 16 "small" and "EMR" builds did not have a dedicated testing phase.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
6.	WHD tickets are not prioritized fairly	Product owners advocate for their change	**Control Environment:** Oversight body and management oversee entity's internal control system. **Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	The first meeting of the build process is between Application Services management, Data Services manager, Business Analysts, and Developers to calculate the total developer hours available for the build being planned and to assign story points for each request. The developer hours calculation starts off first with 7.5 hours times the number of business days in the build scope per developer. Holidays, planned time off, and non-build related projects are removed from the hours available. The remaining total establishes the "red line" or estimated capacity that can address the current build. This remaining total is split among the divisions according to which division a developer is assigned to according to the current assignment chart. Story points are then assigned to each request (one story point is 7.5 hours or one business day) and this estimate is based on the perceived difficulty of the requested change. Changes that need to be made because of Legislation or Strategic Planning Executive request are given 80% of story points and regular requests from divisions are given 20%. Legislative changes may have their own build, or they can be merged into one of the five main builds throughout the year in February, April, June, September and November. If they are included in the five main builds, they are automatically above the red line. During the second meeting of the build process, after discussing legislative changes if needed, product owners present their requested change so that other divisions can understand the importance of the change, and they can comment on how the change would impact other processes. Product owners consider the total story points available for the current build which established the "red line." If all the requested changes can be completed based on the assigned points per request, then are all above the "red line." If the story points for all requests are more than what is available, the product owners negotiate on which changes should be prioritized over others. The request not included in the given build are considered "below the red line." The finalized list is decided on and published to the START team chat. Stories that are never moved from "for review" to "accepted" will automatically be set to "removed" by TFS two years are the creation date. If the change was needed, a new story would need to be logged by the product owner.	Surveyed product owners to ensure that the prioritization of user stories is fair and does not favor one division over others.	All surveyed product owners reported that the prioritization process was fair.
7.	Changes do not work as approved	Product owners designate testers to approve results Regression testing is performed to catch accidental breaks with fixes	**Control Activity:** Management designs the entity's information system and control activities. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	During the two weeks of testing, business analysts, product owners, business users, and Quality Assurance staff test the changes developers pushed to the test environments to ensure that the results match the acceptance criteria. Additionally, The Division of Quality Assurance coordinates with product owners and other high-level staff in each division to perform regression testing, normally in the Test 1 environment, to ensure that changes made did not accidently break some other element of START. Once all testing is completed and results are approved by each assigned tester, the changes are pushed to the live production environment.	1. Noted who was assigned as a tester and confirmed that each assigned tester left a comment approving the work completed. 2. Confirmed that each division regression testing results. 3. Compared test results to acceptance criteria to ensure acceptance criteria was met before marking item as "Ready for Production."	1. Of the 73 sampled user stories, 17 stories were missing comments of approval from at least one assigned tester. 2. The regression testing worksheets for each of the eight builds in scope were signed off by each division. 3. Of the 73 sampled stories, 72 had testing results that matched acceptance criteria. One story did not have acceptance criteria set, and this is counted as an issue in a separate test so it will not be counted as an issue for this test. **(See Item #1 in Appendix A)**

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
8.	Changes to START are not documented	All comments about a ticket are retained in the TFS environment	**Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	The description of the change needed, examples of the issue, an explanation of what should happen, acceptance criteria, comments from developers and product owners, and approval from product owners are all documented in the user story of the request in the TFS environment.	Reviewed TFS and ensured all supporting documentation was on file.	All supporting documentation was found TFS for the 73 sampled stories.
9.	START users may not be aware of changes made	Product owners are responsible for communicating the system changes	**Control Activity:** Management designs the entity's information system and control activities. **Information and Communication:** Management uses quality information to achieve the organization's objectives.	The PROD Build Master posts a list of all requests resolved and pushed to production in the START Team All Announcements channel which includes all product owners. Product owners are then expected to notify their divisions of changes enacted and update process documentation accordingly.	1. Confirmed procedures that needed to be updated were updated. 2. Confirmed that staff impacted by sampled stories were notified of the change or correction.	1. Of the 73 sampled stories, only seven required procedures on SharePoint to be updated. The remaining 66 were corrected to START to match the current process. 2. Users impacted by all 73 sample stories were notified of the change.
10.	The original version of START cannot be restored after changes are made	Extended Release Maintenance Builds are pushed to restore original functions	**Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Monitoring:** Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.	If a critical element of START is broken because of a change made that was not caught during testing or regression testing, an EMR Build is created and scheduled to be completed as soon as possible. Developers can quickly trace user stories from the most recent build to determine which change caused the problem. No regression testing is completed for these builds unless it is determined that regression testing is needed. There is no "flipping" back to the original version but a re-writing of code to correct a problem. These corrections are made through the build process. Sometimes it is not easy or possible to know which user story caused a problem. When possible, links to related stories or comments to direct readers can be used by developers to help retrace their steps but it is not required.	Reviewed EMR stories and ensured the user story that caused the break was properly referenced.	Of the five EMR build stories, four were linked to the story that resulted in the system break. One story was originally in the January 2026 Build but was moved to the April 2026 build. Since this portion was "Ready for Production," it was released in an EMR.

KPPA

Kentucky Public Pensions Authority

2026-18

Document Imaging Process

Final Audit Report

Lead Auditor: Madeline Evans

Issue Date: August 18, 2026

Acronyms

The following acronyms will be used throughout the report:

1. KPPA - Kentucky Public Pensions Authority
2. CERS - County Employees Retirement System
3. KRS - Kentucky Retirement Systems
4. Board(s) – Board of Trustees
5. CEO - Chief Executive Officer
6. CFO - Chief Financial Officer
7. KPPA Executive Management Team - KPPA Executive Director, KPPA Deputy Executive Director, KPPA Executive Director of Benefits, KPPA Executive Director Office of Legal Services, and KPPA CFO
8. Document Imaging – Division of Procurement and Office Services, Document Imaging Branch
9. LOB – Line of Business
10. START - Strategic Technology Advancements for the Retirement of Tomorrow

Report Contents

Overall Opinion

Process generally complies with relevant statutes, regulations, policies, and procedures. Internal controls are established but steps could be taken to strengthen the controls or make the process more effective and/or efficient.

Strategic Risk Addressed (Objective)

Review the document imaging process (including KOFAX) and ensure compliance with statutes/regulations/policies. Confirm controls are established to ensure all mail received is imaged and provided timely to the proper division.

Audit Scope

The Document Imaging Process audit was conducted from June 9, 2026 to August 3, 2026. The scope of the audit was documents received and imaged during fiscal year 2026.

Summary of Findings, Observations, and Opportunities for Improvement

A finding is defined as a breakdown, or partial breakdown of a process or major non-compliance with statutes and/or regulations. Development of a corrective action plan is recommended in the next three months with full implementation recommended within one year. **No findings were noted during our review.**

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

1. Documents missing form number or received date

An opportunity for improvement is an item noted during the audit that was outside of the expected test result but is not indicative of a compliance or control failure. These items represent a possible area of improvement that we wanted to bring to the attention of KPPA management and Trustees. **No opportunities for improvement were noted during our review.**

Additional details related to the findings, including the corresponding recommendations, can be found in Appendix A.

Commendations

The document processing specialist group is a vital group within KPPA. If documents are not scanned timely, legibly, and completely, there would be a delay in the workflows launched for many processes assigned to various divisions throughout the agency. Additionally, processes may not be able to be completed due to the lack of documentation. This would cause delays in services and/or benefits being delivered to eligible members. Until KPPA fully adopts a digital documentation system, the Document Imaging team will continue to serve as an integral piece of KPPA.

Additionally, between September 2023 and May 2026, 12,484,107 microfiche images were scanned and indexed to member and employer library manager accounts. These are old documents submitted to KPPA before START was launched in 2011. These documents were essential to confirm details of old retirement accounts.

Throughout the audit, Document Imaging staff were responsive to questions. They granted the auditor access to physical documents. Mail processors in the Office of Legal Services were also quick to answer questions thoroughly.

Recommendations for Future Audits

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

1. Cash receipt audit - checks are received by mailroom. Ensure these are properly tracked and forwarded to correct division.
2. Review process to add/update forms - ensure Document Imaging is included in these discussions, so staff know the proper way to process new/updated forms
3. Review of forms that launch or push workflows in Work Manager out of the "pend" status.

Audit Standards

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

Use of Report

This report is intended solely for use by the KPPA Audit Committee; the KPPA, CERS, and KRS Boards; the CERS CEO; the KRS CEO; the KPPA Executive Management Team; the Office of Legal Services; and the Division of 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 are subject to Open Records Requests.

Appendix A – Audit Results

Observations

1. Documents Missing Form Number or Received Date	
Recurring Issue:	No
Condition:	Of the 248 documents reviewed, the following items were noted: 1. Three legal documents were missing a form number or stamp date. 2. One document received in the mail should have had a stamp from the Document Imaging team.
Criteria:	Document Imaging procedures state, “All mail must be written on with blue or black ink pen. And every piece of mail received must be stamped. Write the form number and member ID on each piece of mail or File Doc.”
Cause:	Human error led to the addition of the details being overlooked.
Effect:	Since a document's scan date is not always the same as the received date, a member's eligibility for various benefits may be impacted if the actual receipt date is not listed on the document. Additionally, if the form number is missing, the proper workflows may not be launched, which could delay services being provided to members.
Recommendation #1	The KPPA Executive Management team should work with divisions that receive and/or process mail to ensure staff are reminded that all documents received must have a stamp date and a form number.
Recommendation #2	The Office of Legal Services should consider having paralegals ensure the form number has been written on the document when they are preparing the coversheet to send items to Document Imaging.
Management Response:	Management agrees with the recommendation. Ultimately 4 out of 248 reviewed docs were missing dates or form numbers (1.6% of the sample). It was attributable to reasonable and expected human error. More importantly due to the cumulative impact and redundancy of the total process all forms were processed with no negative impact to any members.
Implementation Date:	June 30, 2027

Appendix B – Control Matrix

Two populations were considered during testing:

1. As of June 16, 2026 there were 44 boxes of documents that were scanned and indexed to member and employer Library Manager. One box per type (File Doc, Legal, Retiree Health Care and Disability) was judgmentally selected. Batches of documents were haphazardly selected from the chosen boxes until at least 60 documents were included in testing without breaking a batch apart. A total of 248 documents were reviewed.
2. There were 21 cyber faxes processed on June 29, 2026 as of 8:00 a.m. and all were reviewed.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
1.	Policies/procedures/internal controls are not established, documented, effective or efficient	Procedures are reviewed and updated as needed	**Control Environment:** Oversight body and management establish an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objectives. **Risk Assessment:** Not Applicable **Control Activity:** Management implements control activities through policies. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	Procedures are posted to SharePoint and are updated as needed. The Administrative Branch Manager also updates the master form list when changes occur, and the newest version is saved to the M: Drive for all employees to access and employees are notified.	Reviewed division procedures and ensured they were established, documented, up-to-date, effective, efficient, and available to staff.	Procedures are up to date.
2.	Documents may not be processed timely	Imaging documents is the first daily task completed by staff	**Control Environment:** Not Applicable **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management communicates necessary information externally. **Monitoring:** Not Applicable	Mailroom staff pick up mail from the post office first thing in the morning and sort packages by the first page or form into several stacks. Divisions of Accounting, Disability and Survivor Benefits and the Office of Legal Services process their own mail. Division of Accounting and Office of Legal Services mail is walked across the parking lot to Building C by mailroom staff. The processor for Division of Disability and Survivor Benefits mail may walk to the mail table and retrieve mail from the corresponding slot but often the mail is walked to her as well by mailroom staff. All other divisions' mail is processed by the Document Imaging team, who prepares mail for scanning as quickly as possible but 10 am is roughly the time it should be done. Most of the time the process is completed before 10 a.m. but it depends on how much mail is received. The only urgent time it must be completed by 10 a.m. or earlier is during supplemental payroll so payments can be issued on time.	Compared the meta data timestamp against the batch prepared date and time.	Of the 248 documents reviewed, 238 were scanned and indexed on the same day the batch was prepared. The remaining 11 were in batches prepared after the last mailroom staff walked around the building to pick up completed batches for the imaging team. These were scanned and indexed in the morning of the following day.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
3.	All documents may not be imaged	Coversheet page type is compared to physical document type	**Control Environment:** Not Applicable **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	All mail processors follow the same batch preparation instructions. The batch preparer steps: 1. The coversheet page type is selected by marking "Single", "Duplex" or "Multi." Duplex pages are single page documents that are double sided. 2. If the documents in the batch are multiple pages, a document separator sheet is placed between each document to ensure proper start and finish of each item included. 3. Should the Document Imaging team come across documents that belong to Disability or Legal, they will create a separate batch. It will be scanned as normal but will be reviewed by Disability and Legal staff during the indexing step. Rarely, the Document Imaging team will receive live checks intended for the Division of Disability and Survivor Benefits. A journal comment is put in the member's profile showing that a check was received and that it was given to the designated Division of Disability and Survivor Benefits counselor in office on that day. Scanning Step: 1. The imaging team uses the coversheet page type to select the corresponding page type in scanner settings to ensure all pages are documented. 2. Scanner settings are also adjusted to ensure that information on the document is legible. Some documents must be scanned in color rather than just black and white. Each scanner lasts roughly 8 to 12 years and costs approximately $7,000 to replace. Scanners are replaced once an error occurs in the software that cannot be patched or fixed.	Compared physical document page type against the coversheet page type selected. Then compared the physical page type against the information in Library Manager.	All 248 documents reviewed had all pages scanned and prepared for indexing.
4.	Workflows may not be launched when needed	Coversheet bar code automatically launches a workflow once the document is indexed to file	**Control Environment:** Not Applicable **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	If the documents in the batch need to launch a workflow, the batch preparer fills out the "Launch Workflow" coversheet for the corresponding group. If the documents just need to be uploaded to Library Manager, the "File Doc" coversheet is used. For documents that need a workflow, the division assigned to the batch indexes the file to the member/employer Library Manager, which then launches the associated workflow in Work Manager. The details of the indexed document are checked by a second person in the division who owns the document.	Confirmed that a workflow was launched on the day the document was indexed to Library Manager or that the document moved an existing work item out of "pend for review."	All 248 documents launched a workflow when required.

Item	Risk	Control	COSO Element and Principle	Staff Process to Mitigate Risk	Testing Procedures	Testing Results
5.	Metadata in Library Manager does not match document data	File Doc items are checked by a second individual	**Control Environment:** Not Applicable **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	For documents that do not need a workflow, a Document Processing Specialist keys the document number, member or employer ID, and received date noted on the document into work manager. Each document is sent to a quality check queue to ensure details are entered correctly.	Compared details of the document against metadata in library manager	Of the 248 documents reviewed, four were missing a stamp date or form number. • One should have had a stamp from the Document Imaging team because it was received in the morning mail. • Three should have had a form number or stamp date prepared by the Office of Legal Services staff member processing mail. **See Observation #1 in Appendix A**
6.	Cyber faxes may not be properly indexed in Library Manager	Document Imaging Specialist assigns the fax to the division who owns the document type	**Control Environment:** Not Applicable **Risk Assessment:** Not Applicable **Control Activity:** Management designs control activities to achieve objectives and respond to risks. **Information and Communication:** Management uses quality information to achieve the organization's objectives. **Monitoring:** Not Applicable	Members may fax documents to (502) 696-8822 which creates a document for review in Kofax. The Administrative Branch Manager monitors the queue of faxes throughout the day to ensure they are being processed timely. Should a fax be accidentally deleted, she can recover it as long as 60 days have not passed from the original received date. A Document Processing Specialist prepares the file for indexing by ensuring all pages are right side up, in chronological order (if numbered), and the fax cover sheet is moved to the end of the file. The group responsible for the document is assigned and the file is sent to the indexing queue in Work Manager. If mail or a cyber fax is included in the wrong group's indexing queue, the processor changes the group designation, and it will be added to the correct indexing queue.	Confirmed cyber faxes were indexed to Library Manager.	All 21 faxes received between 8:00 and 8:45 a.m. on June 29, 2026, were indexed properly and workflows were launched correctly.