County Employees Retirement System
and Kentucky Retirement Systems
Joint Audit Committee
August 25, 2022 at 10:00 a.m. Eastern Time
Live Video Conference/Facebook Live

AGENDA

1.	**Call to Order**	Bill O'Mara
2.	**Opening Video Teleconference Statement**	Legal Representative
3.	**Roll Call**	Sherry Rankin
4.	**Public Comment**	Sherry Rankin
5.	**Approval of May 24, 2022 Joint Audit Committee Minutes***	Bill O'Mara
6.	**Overview of Fiscal Year 2022 External Audit**	Blue and Co.
7.	**Financial Reporting Updates**	
	a. Financial Statements for Fiscal Year Ended June 30, 2022 (unaudited)	Rebecca Adkins
	i. Contribution Report	
	ii. Administrative Expenses	
	b. Review of Timetable for the Fiscal Year 2022 Annual Comprehensive Financial Report	Connie Davis
8.	**Joint Audit Committee Administrative Updates**	
	a. Information Disclosure Incidents	Carrie Bass
	b. Anonymous Tips	Carrie Bass
	c. Internal Audit Budget as of 6/30/2022 and **Proposed Budget for FY 2023***	Kristen Coffey
	d. Status of Current Internal Audit Projects	Kristen Coffey
	i. Audit Software Update	
	ii. Current Audit Update	
	iii. Plan Liquidity Phase 1 Update	
9.	**Strategic Audit Plan**	Betty Pendergrass
10.	**Professional Articles**	Kristen Coffey
	a. AGA – *Achieving Government-wide Enterprise Risk Management*	
	b. AGA – *Creating Value to Government*	
11.	**Adjourn***	Bill O'Mara

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

MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
AND KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES JOINT AUDIT COMMITTEE
MAY 24, 2022, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE

At the May 24, 2022 meeting of the Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, the following Committee members were present: William O'Mara, David Adkins, and Lynn Hampton. Staff members present were David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Vicki Hale, Connie Davis, Madeline Perry, Matthew Daugherty, Kristen Coffey, Carrie Bass, Connie Pettyjohn, Ann Case, Elizabeth Smith, Liza Welch, William Prince, Stephanie Aldridge, Ashley Gabbard, Shaun Case, and Sherry Rankin. Others present included CERS CEO Ed Owens, III, KRS CEO John Chilton, CERS Trustee George Cheatham, Danny White with GRS, and Ryan Graham and Allen Norvell with Blue and Co.

Ms. Hampton, Vice-Chair, called the meeting to order in the absence of the Committee Chair, Ms. Pendergrass.

Mr. Board read the Opening Video Teleconference Statement.

Ms. Rankin called roll.

Being no Public Comment, Ms. Hampton introduced the agenda item *Election of Joint Audit Committee Chair.* Ms. Hampton made a motion and was seconded by Mr. Adkins to nominate Bill O'Mara as the Joint Audit Committee Chair. The motion passed unanimously.

Mr. O'Mara thanked Ms. Hampton and Mr. Adkins and introduced the agenda item *Election of Joint Audit Committee Vice-Chair.* Mr. O'Mara made a motion to nominate Lynn Hampton as the Joint Audit Committee Vice-Chair. The motion was seconded by Mr. Adkins and passed unanimously.

Mr. O'Mara introduced the agenda item *Approval of Minutes – April 7, 2022.* Ms. Hampton made a motion and was seconded by Mr. Adkins for the approval of the minutes from the April 7, 2022 Joint Audit Committee Minutes. The motion passed unanimously.

Mr. O'Mara introduced the agenda item *Draft GASB 68 and GASB 75 Proportionate Share Audits.* Mr. Allen Norvell of Blue & Co. stated that the drafted report is on the employer allocation schedules required under GASB 68 and GASB 75. Mr. Ryan Graham, Audit Director with Blue & Co. provided a presentation of the Draft GASB 68 and GASB 75 Proportionate Share Audits. Mr. O'Mara made a motion and was seconded by Ms. Hampton to approve the Draft GASB 68 and GASB 75 Proportionate Share Audits. The motion passed unanimously. Mr. Norvell thanked the committee for the opportunity to work with KPPA.

Mr. O'Mara introduced Ms. Rebecca Adkins to present the agenda item *Financial Reporting Updates.* Ms. Adkins provided an overview of the quarterly financial statements to the committee including administrative expenses and contribution report.

Mr. O'Mara introduced the agenda item *Joint Audit Committee Administrative Updates.* Ms. Kristen Coffey presented proposed amendments to be made to the Charter for the Joint Audit Committee. Ms. Coffey stated that the Charter for the Joint Audit Committee is reviewed annually. Ms. Coffey made the following suggestions; (1) remove FASB; (2) remove the language which states that meetings are to be held on Thursdays to reflect the updated bylaws; (3) combine items no. 1 and 2 under 'Internal Audit' due to redundancy. Ms. Coffey opened the floor for discussion. The Committee requested that items one and two under 'Internal Audit' include, "…the KPPA Executive Director will meet and confer with the Joint Audit Committee regarding the appointment dismissal, replacement, and compensation of the Internal Audit Director." Due to this requested update, Ms. Lynn Hampton also suggested that the language used in item no. 4 under 'Responsibilities of Other Parties' be amended. The Committee agreed that this potential update would be discussed in the next annual review of the Charter for the Joint Audit Committee. Ms. Coffey noted this request. Mr. Adkins made a motion and was seconded by Ms. Hampton to adopt the discussed amendments to the Charter for the Joint Audit Committee. The motion passed unanimously.

Mr. O'Mara welcomed Ms. Coffey to continue with the discussion of updates to the Charter for the Division of Internal Audit Administration. The proposed updates included the following; (1) the title of KPPA Office of Operations Executive Director to KPPA Deputy Executive Director throughout to reflect the recent title change; (2) generalize the language used in section VII. Internal Audit Staff and Responsibilities to reduce the number of updates needed when staffing changes occur; (3) an increase of continuing education hours required for auditors from 16 to 24 in order to be in line with current industry standards; and (4) generalize the language regarding how projects are tracked with the removal of software names. The committee held a discussion regarding the reporting line of the position of the Division Director of Internal Audit Administration and ultimately requested that the position should report to the KPPA Executive Director instead of the KPPA Deputy Executive Director. Mr. Adkins made a motion and was seconded by Ms. Hampton to adopt the proposed amendments to the Division of Internal Audit Administration. The motion passed unanimously.

Ms. Carrie Bass presented on the informational items *Information Disclosure Incidents* and *Anonymous Tips*. Ms. Coffey reported on the informational items *Internal Audit Budget as of March 31, 2022, Fiscal Audit Year 2023 Auditor Independence Statements, Risk Assessment Update,* and *Status of Current Internal Audit Projects*, and *Issued Reports and/or Memorandums.* The Committee discussed the language used in the findings of Phase 1 of the Plan Liquidity Audit. Mr. Board stated that the term 'account' was too vague and may need to be updated to specify the type of account. Ms. Hampton suggested that an internal working group be formed to further investigate and present a recommendation to the Joint Audit Committee. Mr. O'Mara stated that items no. 1 and 2 of the Summary of Audit Results with Update will remain open for management to present a plan for explanation. Mr. O'Mara requested that Mr. Eager form the internal working group and present the recommendation or a status update at the next meeting of the Joint Audit Committee. Ms. Coffey continued and presented on Phase 2 of the Plan Liquidity Audit. She stated that there were no reportable findings. Recommendations for improvement were made and implemented. Ms. Coffey stated that another audit entitled Process for Updating and Individual's Death Status was also conducted and that there were no reportable findings in the audit. Recommendations for improvement were made and implemented.

Mr. O'Mara introduced the agenda item *Strategic Audit Plan.* Ms. Betty Pendergrass, the presenter of this item, was unable to attend the meeting; therefore, Mr. O'Mara proposed that the item be tabled for discussion at the next meeting of the Joint Audit Committee. Ms. Hampton made a motion and was seconded by Mr. Adkins to table the Strategic Audit Plan until the next meeting. The motion passed unanimously.

Mr. O'Mara introduced the agenda item *Professional Articles.* Ms. Madeline Perry presented useful articles for internal audit such as *Excel Spreadsheets Best Practices* and *How BNY Mellon Streamlined its Process and Reduced Key Testing Controls.*

There being no further business, a motion to adjourn was made by Ms. Hampton and seconded by Mr. Adkins, the meeting adjourned.

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CERTIFICATION

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

Recording Secretary

I, as Chair of the Joint Audit Committee of the Board of Trustees of the County Employees Retirement System and the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on May 24, 2022 were approved by the Joint Audit Committee on August 25, 2022.

Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on May 24, 2022 for form, content, and legality.

Executive Director
Office of Legal Services

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

August 18, 2022

Kentucky Public Pensions Authority
Joint CERS-KRS Audit Committee
1260 Louisville Road
Frankfort, KY 40601

We are engaged to audit the financial statements of Kentucky Public Pensions Authority (KPPA) for the year ended June 30, 2022. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 18, 2022, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of KPPA. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of KPPA's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. RSI includes the following:

1. Management's Discussion and Analysis

2. Schedule of Employer Net Pension Liability – CERS Non-Hazardous, CERS Hazardous, KERS Non-Hazardous, KERS Hazardous, and SPRS

3. Schedule of Changes in Employers' Total Pension Liability - CERS Non-Hazardous, CERS Hazardous, KERS Non-Hazardous, KERS Hazardous, and SPRS

4. Schedules of Employers' Contributions Pension - CERS Non-Hazardous, CERS Hazardous, KERS Non-Hazardous, KERS Hazardous, and SPRS

5. Schedule Employers' Net OPEB Liability – Insurance Plan, CERS Non-Hazardous, CERS Hazardous, KERS Non-Hazardous, KERS Hazardous, and SPRS

6. Schedule of Changes in Employers' Net OPEB Liability - Insurance Plan, CERS Non-Hazardous, CERS Hazardous, KERS Non-Hazardous, KERS Hazardous, and SPRS

7. Schedule of Employers' OPEB Contributions - Insurance Plan, CERS Non-Hazardous, CERS Hazardous, KERS Non-Hazardous, KERS Hazardous, and SPRS

8. Money Weighted Rates of Return - Insurance Plan, CERS Non-Hazardous, CERS Hazardous, KERS Non-Hazardous, KERS Hazardous, and SPRS

Our responsibility with respect to this RSI, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient appropriate evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the schedule of administrative expense, schedule of direct investment expenses, and schedule of professional consultant fees, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, Significant Risks, and Other

An audit includes 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 will include obtaining an understanding of the plan and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations, including prohibited transactions with parties in interest or other violations of ERISA rules and regulations, that are attributable to the plan or to acts by management or employees acting on behalf of the plan. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

Kentucky Public Pensions Authority
Joint CERS-KRS Audit Committee
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As part of our planning of every audit, we are required to identify risks of material misstatement of the financial statements. We are also now required to communicate in writing with you about such risks. We have identified revenue recognition as a significant risk of material misstatement and valuation of investments stated at net asset value. In addition, risk of material misstatement due to fraud is always considered a significant risk on every audit.

We expect to begin our audit in August 2022 and issue our report in November 2022.

Allen Norvell is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

This information is intended solely for the use of the Joint Audit Committee and management of KPPA and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

KPPA

Combining Statement of Fiduciary Net Position - Pension Funds

As of June 30, 2022, with Comparative Totals as of June 30, 2021 ($ in Thousands) (Unaudited)

	CERS		KERS		SPRS	KPPA TOTAL		Percentage	
ASSETS	Nonhazardous	Hazardous	Nonhazardous	Hazardous		FY 2022	FY 2021	of Change	Note
CASH AND SHORT-TERM INVESTMENTS									
Cash Deposits	$170	$17	$128	$35	$17	$367	$712	(48.40)%	1
Short-term Investments	286,874	114,933	492,114	77,439	145,573	1,116,933	935,745	19.36%	2
Total Cash and Short-term Investments	**287,044**	**114,950**	**492,242**	**77,473**	**145,590**	**1,117,301**	**936,457**	**19.31%**	
RECEIVABLES									
Accounts Receivable	75,064	23,810	85,138	3,785	10,567	198,365	147,299	34.67%	3
Accounts Receivable - Investments	43,002	14,694	16,447	4,626	3,263	82,031	214,130	(61.69)%	4
Total Receivables	**118,066**	**38,504**	**101,585**	**8,412**	**13,830**	**280,397**	**361,429**	**(22.42)%**	
INVESTMENTS, AT FAIR VALUE									
Core Fixed Income	894,977	303,150	619,736	103,032	109,439	2,030,333	2,287,124	(11.23)%	5
Public Equities	3,592,281	1,224,633	894,601	329,331	152,378	6,193,224	6,877,977	(9.96)%	
Private Equities	753,384	251,589	196,183	69,313	19,462	1,289,932	1,235,393	4.41%	
Specialty Credit	1,692,750	574,069	573,266	169,678	88,065	3,097,828	2,617,612	18.35%	6
Derivatives	(1,091)	(373)	(1,076)	(141)	(183)	(2,864)	(84)	3,290.53%	7
Real Return	244,801	80,777	60,546	22,365	9,328	417,815	998,142	(58.14)%	8
Opportunistic	-	-	-	-	-	-	404,069	(100.00)%	9
Real Estate	494,607	157,478	164,991	45,860	19,823	882,759	610,214	44.66%	10
Total Investments, at Fair Value	**7,671,709**	**2,591,322**	**2,508,247**	**739,438**	**398,310**	**13,909,026**	**15,030,446**	**(7.46)%**	
Securities Lending Collateral Invested	208,156	70,856	77,505	21,277	13,957	391,750	424,235	(7.66)%	
CAPITAL/INTANGIBLE ASSETS									
Capital Assets	1,701	153	929	91	11	2,885	2,885	0.00%	
Intangible Assets	9,961	827	5,920	494	100	17,301	17,301	0.00%	
Accumulated Depreciation	(1,701)	(153)	(929)	(91)	(11)	(2,885)	(2,885)	0.00%	
Accumulated Amortization	(9,794)	(823)	(5,772)	(488)	(100)	(16,977)	(16,624)	2.12%	
Total Capital Assets	**167**	**4**	**148**	**5**	**-**	**324**	**677**	**(52.17)%**	
Total Assets	**8,285,141**	**2,815,635**	**3,179,727**	**846,606**	**571,687**	**15,698,797**	**16,753,243**	**(6.29)%**	
LIABILITIES									
Accounts Payable	3,849	683	1,757	246	35	6,571	13,983	(53.01)%	11
Investment Accounts Payable	52,888	17,847	23,931	5,860	4,781	105,308	392,335	(73.16)%	12
Securities Lending Collateral	208,156	70,856	77,505	21,277	13,957	391,750	424,235	(7.66)%	
Total Liabilities	**264,893**	**89,385**	**103,193**	**27,383**	**18,774**	**503,629**	**830,553**	**(39.36)%**	
Total Fiduciary Net Position Restricted for Pension Benefits	**$8,020,248**	**$2,726,250**	**$3,076,534**	**$819,222**	**$552,914**	**$15,195,168**	**$15,922,691**	**(4.57)%**	

NOTE - Variance Explanation ***Differences due to rounding***

1) Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.

2) Short Term Investments are primarily comprised of the cash on hand at the custodial bank, the balance is larger than the prior year due to additional General Fund appropriations for SPRS received in May 2022.

3) The increase in Accounts Receivable is due to an increase in the month-end employer contributions accrual (increase in covered payroll and contribution rates) for CERS and CERH, as well as the AALC invoices being created prior to month end,and paid the following month.

4) The variance in Investment Accounts Receivable is due to pending trades.

5) The decrease in Core Fixed Income is due to a rebalance of the portfolio as a result of the revised IPS and a decline in market value of the assets

6) The increase in Specialty Credit is due to the merging of the Specialty Credit asset class and the Opportunistic asset class.

7) Variance is a result of hedging and arbitration of risk within the portfolios.

8) The decrease in Real Return is a result of the redemption of Putnam and continued liquidation of hedge funds.

9) The decrease in Opportunistic is a result of the merging of the Opportunistic asset class with the Specialty Credit asset class.

10) The increase in Real Estate is due to additional funding and increasing market values for current managers.

11) The decrease in Accounts Payable is due to a decline in outstanding credit employer invoices.

12) The variance in Investment Accounts Payable is due to pending trades.

Combining Statement of Changes In Fiduciary Net Position - Pension Funds

For the twelve month period ending June 30, 2022, with Comparative Totals for the twelve month period June 30, 2021 ($ in Thousands) (Unaudited)

	CERS Nonhazardous	CERS Hazardous	KERS Nonhazardous	KERS Hazardous	SPRS	KPPA Total FY 2022	KPPA Total FY 2021	Percentage of Change	Note
ADDITIONS									
Member Contributions	$186,648	$69,565	$89,607	$20,588	$4,773	$371,180	$342,979	8.22%	
Employer Contributions	561,214	210,370	1,053,732	59,052	62,341	1,946,710	1,724,309	12.90%	1
General Fund Appropriation					215,000	215,000	384	55,889.58%	2
Pension Spiking Contributions	35	60	24	3	-	122	222	(45.13)%	3
Health Insurance Contributions (HB1)	(2)	2	(12)	3	-	(10)	(4)	(170.12)%	4
Employer Cessation Contributions	-	-	63,113	-	-	63,113	175,600	(64.06)%	5
Total Contributions	**747,895**	**279,997**	**1,206,464**	**79,646**	**282,114**	**2,596,115**	**2,243,491**	**15.72%**	
INVESTMENT INCOME									
From Investing Activities									
Net Appreciation (Depreciation) in FV of Investments	(637,765)	(224,086)	(218,585)	(66,952)	(28,495)	(1,175,882)	2,898,269	(140.57)%	6
Interest/Dividends	242,796	82,117	75,029	24,179	9,201	433,322	390,618	10.93%	7
Total Investing Activities Income	(394,969)	(141,969)	(143,555)	(42,773)	(19,294)	(742,561)	3,288,887		
Less: Investment Expense	45,455	14,044	10,406	3,921	1,362	75,188	62,508	20.28%	8
Less: Performance Fees	58,431	18,972	12,277	5,250	1,532	96,461	77,482	24.50%	9
Net Income from Investing Activities	(498,854)	(174,985)	(166,238)	(51,944)	(22,188)	(914,209)	3,148,897		
From Securities Lending Activities									
Securities Lending Income	892	308	321	92	40	1,652	935		
Less: Securities Lending Borrower Rebates (Income)/ Expense	(298)	(100)	(72)	(29)	(7)	(506)	(702)		
Less: Securities Lending Agent Fees	178	61	59	18	7	324	245		
Net Income from Securities Lending	1,011	346	334	103	40	1,834	1,392	31.81%	10
Net Investment Income	**(497,843)**	**(174,639)**	**(165,904)**	**(51,841)**	**(22,148)**	**(912,375)**	**3,150,289**	**(128.96)%**	
Total Additions	**250,052**	**105,358**	**1,040,560**	**27,805**	**259,966**	**1,683,740**	**5,393,780**	**(68.78)%**	
DEDUCTIONS									
Benefit Payments	858,261	305,789	1,023,375	77,047	64,120	2,328,592	2,263,388	2.88%	
Refunds	19,789	5,766	12,116	4,976	280	42,927	32,130	33.61%	11
Administrative Expenses	22,422	1,973	13,548	1,487	312	39,743	36,789	8.03%	
Total Deductions	**900,471**	**313,529**	**1,049,040**	**83,511**	**64,712**	**2,411,263**	**2,332,307**	**3.39%**	
Net Increase (Decrease) in Fiduciary Net Position Restricted for Pension Benefits	(650,419)	(208,171)	(8,480)	(55,706)	195,254	(727,522)	3,061,473		
Total Fiduciary Net Position Restricted for Pension Benefits									
Beginning of Period	**8,670,667**	**2,934,421**	**3,085,014**	**874,928**	**357,660**	**15,922,691**	**12,861,218**	**23.80%**	
End of Period	**$8,020,248**	**$2,726,250**	**$3,076,534**	**$819,222**	**$552,914**	**$15,195,168**	**$15,922,691**	**(4.57)%**	

NOTE - Variance Explanation ***Differences due to rounding.***

1) Employer contributions increased due to an increase in covered payroll for CERS, CERH, KERH and SPRS as well as an increase in the employer contribution rates for CERS, CERH and SPRS.

2) General Fund Appropriations increased due to the HB1 appropriation of $215M to SPRS for FY2022.

3) Pension Spiking contributions decreased due to a change in statute. Pension spiking is now the member's responsibility.

4) Health Insurance Contributions continue to fluctuate in the Pension accounts due to corrections being processed.

5) Employer Cessation payment received from Kentucky Housing Corporation FY2022 versus NKU payment received FY2021.

6) The decrease in Net Appreciation in Fair Value of Investments is due to unfavorable market conditions resulting in unrealized losses primarily within the public equity asset class.

7) The increase in Interest/Dividends is a result of the increased allocation to Public Equities and Fixed Income asset classes.

NOTE - Variance Explanation continued on next page.

8) The increase in Investment Expense is a result of increased market values primarily in the Private Equity, Specialty Credit and Real Estate asset classes which have higher fees.

9) The increase in Performance fees is due to an increase in realized gains in Private Equity and Real Estate.

10) Variance is a result of the demand of the Securities Lending Program.

11) The increase in Refunds is due to an increase in refunds taken by members who terminated employment and were not eligible for a retirement benefit (all systems).

KPPA

Combining Statement of Fiduciary Net Position - Insurance Funds

As of June 30, 2022, with Comparative Totals as of June 30, 2021 ($ in Thousands) (Unaudited)

	CERS	CERS	KERS	KERS	SPRS	KPPA Total		Percentage	
ASSETS	Nonhazardous	Hazardous	Nonhazardous	Hazardous		FY 2022	FY 2021	of Change	Note
CASH AND SHORT-TERM INVESTMENTS									
Cash Deposits	$101	$19	$91	$25	$18	$255	$416	(38.74)%	1
Short-term Investments	144,399	46,793	187,678	39,120	13,697	431,686	429,500	0.51%	
Total Cash and Short-term Investments	**144,499**	**46,812**	**187,770**	**39,145**	**13,715**	**431,941**	**429,916**	**0.47%**	
RECEIVABLES									
Accounts Receivable	19,280	6,183	12,986	336	922	39,708	36,356	9.22%	
Investment Accounts Receivable	15,241	7,491	6,922	2,735	1,161	33,550	85,777	(60.89)%	2
Total Receivables	**34,521**	**13,673**	**19,908**	**3,071**	**2,084**	**73,258**	**122,133**	**(40.02)%**	
INVESTMENTS, AT FAIR VALUE									
Core Fixed Income	334,374	168,783	155,502	68,122	26,732	753,514	856,629	(12.04)%	3
Public Equities	1,354,736	672,979	518,642	233,378	91,893	2,871,630	3,085,629	(6.94)%	
Specialty Credit	292,493	164,729	84,753	57,568	25,912	625,456	584,979	6.92%	
Private Equities	637,910	324,019	263,472	126,429	50,056	1,401,887	1,163,959	20.44%	4
Derivatives	(390)	(185)	(202)	(128)	(29)	(934)	53	(1,877.11)%	5
Real Return	74,169	39,857	27,755	16,365	6,096	164,241	422,669	(61.14)%	6
Opportunistic	-	-	-	-	-	-	205,754	(100.00)%	7
Real Estate	171,044	93,762	53,737	39,387	15,064	372,995	258,215	44.45%	8
Total Investments, at Fair Value	**2,864,337**	**1,463,945**	**1,103,660**	**541,122**	**215,724**	**6,188,789**	**6,577,887**	**(5.92)%**	
Securities Lending Collateral Invested	66,459	33,425	28,391	12,806	5,063	146,144	176,602	(17.25)%	9
Total Assets	**3,109,817**	**1,557,856**	**1,339,729**	**596,144**	**236,586**	**6,840,132**	**7,306,539**	**(6.38)%**	
LIABILITIES									
Accounts Payable	154	56	125	-	2	338	461	(26.85)%	10
Investment Accounts Payable	19,633	9,698	9,692	3,444	1,532	43,999	155,862	(71.77)%	11
Securities Lending Collateral	66,459	33,425	28,391	12,806	5,063	146,144	176,602	(17.25)%	12
Total Liabilities	**86,246**	**43,179**	**38,208**	**16,250**	**6,597**	**190,480**	**332,925**	**(42.79)%**	
Total Fiduciary Net Position Restricted for OPEB	**$3,023,570**	**$1,514,677**	**$1,301,521**	**$579,894**	**$229,988**	**$6,649,651**	**$6,973,613**	**(4.65)%**	

NOTE - Variance Explanation ***Differences due to rounding***

1) Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.

2) The variance in Investment Accounts Receivable is due to pending trades.

3) The decrease in Core Fixed Income is due to a rebalance of the portfolio as a result of the revised IPS and a decline in market value of the assets due to the unfavorable market conditions.

4) The increase in Private Equity is a result of the funding of 3 new managers, additional funding of current managers, and increasing market values of current investments.

5) Variance is a result of hedging and arbitration of risk within the portfolios.

6) The decrease in Real Return is a result of the redemption of Putnam and continued liquidation of hedge funds.

7) The decrease in Opportunistic is a result of the merging of the Opportunistic asset class with the Specialty Credit asset class.

8) The increase in Real Estate is due to additional funding and increasing market values for current managers.

9) Variance is a result of the demands of the Securities Lending Program.

10) The decrease in Accounts Payable is due to a decline in outstanding credit employer invoices.

11) The variance In Investment Accounts Payable is due to pending trades.

12) Variance is a result of the demands of the Securities Lending Program.

Combining Statement of Changes In Fiduciary Net Position - Insurance Funds

For the twelve month period ending June 30, 2022, with Comparative Totals for the twelve month period ending June 30, 2021 ($ In Thousands) (Unaudited)

	CERS Non-hazardous	CERS Hazardous	KERS Non-hazardous	KERS Hazardous	SPRS	KPPA Total FY 2022	KPPA Total FY 2021	Percentage of Change	Note
ADDITIONS									
Employer Contributions	$164,108	$69,973	$133,248	$1	$8,782	$376,112	$346,027	8.69%	
Medicare Drug Reimbursement	1	-	-	1	-	3	3	(4.99)%	
Insurance Premiums	534	(271)	182	(54)	(27)	364	563	(35.38)%	1
Humana Gain Share Payment	8,912	1,259	7,321	548	342	18,381	42,896	(57.15)%	2
Retired Re-employed Healthcare	4,816	1,530	5,041	1,279	-	12,666	12,535	1.05%	
Health Insurance Contributions (HB1)	15,927	3,652	6,559	1,224	230	27,592	24,409	13.04%	3
Employer Cessation Contributions	-	-	2,404	-	-	2,404	28,400	(91.53)%	4
Total Contributions	**194,298**	**76,142**	**154,755**	**3,001**	**9,327**	**437,523**	**454,832**	**(3.81)%**	
INVESTMENT INCOME									
From Investing Activities									
Net Appreciation (Depreciation) in FV of Investments	(222,333)	(103,270)	(105,577)	(36,877)	(14,419)	(482,475)	1,286,326	(137.51)%	5
Interest/Dividends	85,850	44,489	34,138	17,519	6,861	188,857	161,770	16.74%	6
Total Investing Activities Income	(136,482)	(58,781)	(71,439)	(19,358)	(7,557)	(293,618)	1,448,096		
Less: Investment Expense	15,664	8,279	5,992	3,264	1,279	34,478	30,077	14.63%	7
Less: Performance Fees	22,044	12,355	8,270	4,849	1,976	49,495	41,085	20.47%	8
Net Income from Investing Activities	(174,190)	(79,415)	(85,701)	(27,471)	(10,813)	(377,590)	1,376,934		
From Securities Lending Activities									
Securities Lending Income	312	154	134	56	23	679	402		
Less: Securities Lending Borrower Rebates (Income)/ Expense	(85)	(46)	(39)	(20)	(7)	(198)	(300)		
Less: Securities Lending Agent Fees	60	30	26	11	5	131	105		
Net Income from Securities Lending	338	170	147	64	26	745	597	24.85%	9
Net Investment Income	**(173,852)**	**(79,245)**	**(85,555)**	**(27,407)**	**(10,787)**	**(376,845)**	**1,377,531**	**(127.36)%**	
Total Additions	**20,445**	**(3,103)**	**69,201**	**(24,406)**	**(1,460)**	**60,677**	**1,832,363**	**(96.69)%**	
DEDUCTIONS									
Healthcare Premiums Subsidies	134,427	89,320	118,451	20,355	14,461	377,015	375,599	0.38%	
Administrative Expenses	933	502	820	125	73	2,453	2,353	4.27%	
Self-Funded Healthcare Costs	3,288	210	1,525	109	21	5,152	5,465	(5.72)%	
Excise Tax Insurance	12	-	6	-	-	19	-		
Total Deductions	**138,661**	**90,031**	**120,803**	**20,589**	**14,556**	**384,639**	**383,416**	**0.32%**	
Net Increase (Decrease) in Fiduciary Net Position Restricted for OPEB	(118,215)	(93,134)	(51,602)	(44,995)	(16,015)	(323,962)	1,448,947		
Total Fiduciary Net Position Restricted for OPEB									
Beginning of Period	**3,141,786**	**1,607,811**	**1,353,123**	**624,889**	**246,004**	**6,973,613**	**5,524,666**	**26.23%**	
End of Period	**$3,023,570**	**$1,514,677**	**$1,301,521**	**$579,894**	**$229,988**	**$6,649,651**	**$6,973,613**	**(4.65)%**	

NOTE - Variance Explanation. ***Differences due to rounding***

1) Health Insurance Premiums decreased due to refunds processed to hazardous retirees for premiums paid for dependents that should have been covered by KPPA.

2) Humana Gain Share payments will fluctuate based on timing and actual claims paid.

3) Health Insurance Contributions will continue to rise as Tier 3 members increase.

4) Employer Cessation payment received from Kentucky Housing Corporation FY2022 versus NKU payment received FY2021.

5) The decrease in Net Appreciation in Fair Value of Investments is due to unfavorable market conditions resulting in unrealized losses primarily within the Public Equity asset class.

NOTE - Variance Explanation continued on next page.

6) The increase in Interest/Dividends is a result of the increased allocation to Public Equities and Fixed Income asset classes.
7) The increase in Investment Expense is a result of increased market values primarily in the Private Equity, Specialty Credit and Real Estate asset classes which have higher fees associated.
8) The increase in Performance fees is due to an increase in realized gains in Private Equity and Real Estate.
9) Variance is a result of the demand of the Securities Lending Program.

Pension Funds Contribution Report

For the twelve month period ending June 30, 2022, with Comparative Totals for the twelve month period ending June 30, 2021 ($ in Millions)

CERS County Employees Retirement System	County Employees Retirement System			
	Nonhazardous		Hazardous	
	FY22	FY21	FY22	FY21
Member Contributions	$186.6	$165.7	$69.6	$62.4
Employer Contributions	561.2	472.2	210.4	172.2
Net Investment Income	139.9	135.7	49.4	45.8
Total Inflows	**887.7**	**773.6**	**329.4**	**280.4**
Benefit Payments/Refunds	878.0	840.6	311.6	294.7
Administrative Expenses	22.4	21.7	2.0	1.9
Total Outflows	**900.4**	**862.3**	**313.6**	**296.6**
NET Contributions	**(12.7)**	**(88.7)**	**15.8**	**(16.2)**
Realized Gain/(Loss)	374.1	316.8	126.0	107.0
Unrealized Gain/(Loss)	(1,011.8)	1,331.7	(350.1)	447.9
Change in Net Position	**(650.4)**	**1,559.8**	**(208.3)**	**538.7**
Beginning of Period	**8,670.7**	**7,110.9**	**2,934.4**	**2,395.7**
End of Period	**$8,020.3**	**$8,670.7**	**$2,726.1**	**$2,934.4**

Differences due to rounding.

Pension Funds Contribution Report
For the twelve month period ending June 30, 2022, with Comparative Totals for the twelve month period ending June 30, 2021 ($ in Millions)

KERS Kentucky Employees Retirement System / SPRS State Police Retirement System	Kentucky Employees Retirement System				State Police Retirement System	
	Nonhazardous		Hazardous			
	FY22	FY21	FY22	FY21	FY22	FY21
Member Contributions	$89.6	$90.2	$20.6	$20.0	$4.8	$4.8
Employer Contributions	141.1	958.6	59.1	62.2	62.3	59.3
Actuarially Accrued Liability Contributions	912.7	0.0	0.0	0.0	0.0	0.0
Employer Cessation Contributions	63.1	175.6	0.0	0.0	0.0	0.0
General Fund Appropriations	0.0	0.0	0.0	0.0	215.0	0.4
Net Investment Income	52.7	50.6	15.1	13.9	6.3	5.9
Total Inflows	**1,259.2**	**1,275.0**	**94.8**	**96.1**	**288.4**	**70.4**
Benefit Payments/Refund	1,035.5	1,018.5	82.0	78.3	64.4	63.5
Administrative Expenses	13.5	11.6	1.5	1.3	0.3	0.2
Total Outflows	**1,049.0**	**1,030.1**	**83.5**	**79.6**	**64.7**	**63.7**
NET Contributions	**210.2**	**244.9**	**11.3**	**16.5**	**223.7**	**6.7**
Realized Gain/(Loss)	91.4	97.0	35.3	31.2	11.3	11.0
Unrealized Gain/(Loss)	(310.0)	380.9	(102.3)	129.8	(39.8)	45.0
Change in Net Position	**(8.4)**	**722.8**	**(55.7)**	**177.5**	**195.2**	**62.7**
Beginning of Period	**3,085.0**	**2,362.2**	**874.9**	**697.4**	**357.7**	**295.0**
End of Period	**$3,076.6**	**$3,085.0**	**$819.2**	**$874.9**	**$552.9**	**$357.7**

Insurance Fund Contribution Report

For the twelve month period ending June 30, 2022, with Comparative Totals for the twelve month period ending June 30, 2021 ($ in Millions)

CERS County Employees Retirement System	County Employees Retirement System			
	Nonhazardous		Hazardous	
	FY22	FY21	FY22	FY21
Employer Contributions	$164.1	$124.7	$70.0	$58.5
Insurance Premiums	0.5	0.5	(0.3)	(0.2)
Humana Gain Share	8.9	20.7	1.3	3.0
Retired Reemployed Healthcare	4.8	5.2	1.5	1.4
Health Insurance Contributions	15.9	13.6	3.7	3.1
Net Investment Income	48.5	41.0	24.0	20.3
Total Inflows	**242.7**	**205.7**	**100.2**	**86.1**
Healthcare Premiums	137.7	139.7	89.5	85.4
Administrative Expenses	0.9	0.9	0.5	0.5
Total Outflows	**138.6**	**140.6**	**90.0**	**85.9**
NET Contributions	**104.1**	**65.1**	**10.2**	**0.2**
Realized Gain/(Loss)	138.0	109.4	74.1	57.0
Unrealized Gain/(Loss)	(360.3)	469.2	(177.4)	245.5
Change in Net Position	**(118.2)**	**643.7**	**(93.1)**	**302.7**
Beginning of Period	**3,141.8**	**2,498.1**	**1,607.8**	**1,305.1**
End of Period	**$3,023.6**	**$3,141.8**	**$1,514.7**	**$1,607.8**

Differences due to rounding.

Insurance Fund Contribution Report

For the twelve month period ending June 30, 2022, with Comparative Totals for the twelve month period ending June 30, 2021 ($ in Millions)

KERS Kentucky Employees Retirement System / SPRS State Police Retirement System	Kentucky Employees Retirement System				State Police Retirement System	
	Nonhazardous		Hazardous			
	FY22	FY21	FY22	FY21	FY22	FY21
Employer Contributions	$31.6	$153.6	$0.0	$0.0	$8.8	$9.3
Actuarially Accrued Liability Contributions	101.7	0.0	0.0	0.0	0.0	0.0
Employer Cessation Contributions	2.4	28.4	0.0	0.0	0.0	0.0
Insurance Premiums	0.2	0.2	0.0	0.0	0.0	0.0
Humana Gain Share	7.3	17.1	0.5	1.2	0.3	0.8
Retired Reemployed Healthcare	5.0	4.7	1.3	1.3	0.0	0.0
Health Insurance Contributions	6.6	6.3	1.2	1.2	0.2	0.2
Net Investment Income	20.0	18.5	9.5	8.4	3.6	3.1
Total Inflows	**174.8**	**228.8**	**12.5**	**12.1**	**12.9**	**13.4**
Healthcare Premiums	120.0	121.5	20.5	19.9	14.4	14.5
Administrative Expenses	0.8	0.8	0.1	0.1	0.1	0.1
Total Outflows	**120.8**	**122.3**	**20.6**	**20.0**	**14.5**	**14.6**
NET Contributions	**54.0**	**106.4**	**(8.1)**	**(7.9)**	**(1.6)**	**(1.2)**
Realized Gain/(Loss)	40.9	45.0	26.9	21.8	11.3	8.7
Unrealized Gain/(Loss)	(146.5)	195.1	(63.8)	96.3	(25.7)	38.3
Change in Net Position	**(51.5)**	**346.6**	**(44.9)**	**110.2**	**(16.0)**	**45.8**
Beginning of Period	**1,353.1**	**1,006.5**	**624.9**	**514.7**	**246.0**	**200.2**
End of Period	**$1,301.5**	**$1,353.1**	**$579.9**	**$624.9**	**$230.0**	**$246.0**

KPPA ADMINISTRATIVE BUDGET FY 2021-2022
BUDGET-TO-ACTUAL ANALYSIS
FOR THE TWELVE MONTH PERIOD ENDING JUNE 30, 2022, WITH COMPARATIVE TOTALS FOR THE TWELVE MONTH PERIOD ENDING JUNE 30, 2021

Account Name	Budgeted	FY 2022 Expense	Remaining	Percent Remaining	FY 2021 Expense	Percent Difference
PERSONNEL						
Staff						
Salaries/Wages	$16,900,000	$15,628,481	$1,271,519	7.52%	$14,349,829	8.91%
Wages (Overtime)	342,000	174,159	167,841	49.08%	76,317	128.20%
Emp Paid Retirement	14,478,107	12,421,914	2,056,194	14.20%	11,566,766	7.39%
Emp Paid Health Ins	2,500,000	2,455,352	44,648	1.23%	2,189,835	12.12%
Emp Paid Sick Leave	115,650	86,032	29,618	25.61%	13,786	524.05%
Adoption Assistance Benefit	-	7,000	(7,000)	0.00%	-	100.00%
Workers Compensation	77,100	75,163	1,937	2.51%	75,163	0.00%
Unemployment	3,600	-	3,600	100.00%	-	0.00%
Other Personnel	1,130,250	1,116,296	13,954	1.23%	1,027,167	8.68%
Employee Training	18,400	9,685	8,715	47.36%	9,685	0.00%
Bonds	-	81	(81)	0.00%	-	100.00%
Staff Subtotal	**35,565,107**	**31,974,163**	**3,590,944**	**10.10%**	**29,308,548**	**9.10%**
LEGAL & AUDITING SERVICES						
Legal Hearing Officers	84,600	117,998	(33,398)	(39.48)%	77,000	53.24%
Legal (Stoll, Keenon)	180,000	88,189	91,811	51.01%	145,595	(39.43)%
Frost Brown (Tax Advisor)	173,000	40,458	132,542	76.61%	226,388	(82.13)%
Reinhart	24,000	29,878	(5,878)	(24.49)%	-	
Ice Miller	336,000	701,266	(365,266)	(108.71)%	304,712	130.14%
Johnson, Bowman, Branco LLC	150,000	95,428	54,573	36.38%	-	100.00%
Dentons Bingham & Greenebaum	150,000	52,661	150,000	100.00%	-	0.00%
Legal Expense	12,000	138	11,862	98.85%	202	(31.68)%
Auditing	118,350	141,883	(23,533)	(19.88)%	72,047	96.93%
CONSULTING SERVICES						
Medical Reviewers	1,200,000	1,593,144	(393,144)	(32.76)%	316,186	403.86%
Escrow for Actuary Fees	12,000	-	12,000	100.00%	-	0.00%
CONTRACTUAL SERVICES						
Miscellaneous Contracts	22,750	20,124	2,626	11.54%	12,077	66.63%
Human Resources Consulting	6,600	5,794	806	12.22%	5,794	0.00%
Actuarial Services	700,000	474,411	225,589	32.23%	468,490	1.26%
Facility Security Charges	112,000	104,067	7,933	7.08%	70,222	48.20%
PERSONNEL SUBTOTAL	**$38,846,407**	**$35,439,601**	**$3,459,467**	**8.91%**	**$30,997,722**	**14.33%**
OPERATIONAL						
Natural Gas	25,200	31,229	(6,029)	(23.92)%	22,951	36.07%
Electric	138,000	105,960	32,040	23.22%	124,816	(15.11)%
Rent-NonState Building	52,000	50,643	1,357	2.61%	55,443	(8.66)%
Building Rental - PPW	1,100,000	962,097	137,903	12.54%	1,005,815	(4.35)%
Equipment Rental	-	-	-	-	7,163	(100.00)%
Copier Rental	122,587	86,605	35,982	29.35%	55,520	55.99%
Rental Carpool	4,800	3,881	919	19.15%	3,881	0.00%
Vehicle/Equip. Mainten.	1,350	249	1,101	81.56%	912	(72.70)%
Postage	610,000	376,335	233,665	38.31%	552,199	(31.85)%
Freight	600	155	445	74.13%	-	100.00%
Printing (State)	6,000	6,508	(508)	(8.46)%	4,992	30.37%
Printing (non-state)	112,500	71,162	41,338	36.74%	102,293	(30.43)%
Insurance	6,000	5,422	578	9.63%	3,802	42.61%
Garbage Collection	6,000	4,853	1,147	19.12%	5,294	(8.33)%
Conference Expense	18,250	24,816	(6,566)	(35.98)%	13,499	83.84%
Conference Exp. Investment	6,000	-	6,000	100.00%	-	0.00%
Conference Exp. Audit	1,500	2,072	(572)	(38.14)%	-	100.00%
MARS Usage	52,800	27,100	25,700	48.67%	47,646	(43.12)%
COVID-19 Expenses	168,000	12,686	155,314	92.45%	153,032	(91.71)%
Office Supplies	42,600	82,826	(40,226)	(94.43)%	38,837	113.27%
Furniture & Office Equipment	9,600	1,825	7,775	80.99%	8,215	(77.78)%
Travel (In-State)	12,000	5,487	6,513	54.28%	1,473	272.51%

Travel (In-State) Investment	300	39	261	87.09%	-	100.00%
Travel (In-State) Audit	300	-	300	100.00%	-	0.00%
Travel (Out of State)	6,000	9,148	4,245	70.75%	397	2,204.28%

KPPA ADMINISTRATIVE BUDGET 2021-22
BUDGET-TO-ACTUAL ANALYSIS

FOR THE TWELVE MONTH PERIOD ENDING JUNE 30, 2022, WITH COMPARATIVE TOTALS FOR THE TWELVE MONTH PERIOD ENDING JUNE 30, 2021

Account Name	Budgeted	FY 2022 Expense	Remaining	Percent Remaining	FY 2021 Expense	Percent Difference
Travel (Out of State) Investment	38,700	7,393	31,307	80.90%	397	1,762.22%
Travel (Out of State) Audit	450	-	450	100.00%	-	0.00%
Dues & Subscriptions	49,000	52,488	(3,488)	(7.12)%	2,037	2,476.81%
Dues & Subscriptions Invest	9,600	12,228	(2,628)	(27.37)%	8,551	43.00%
Dues & Subscriptions Audit	3,000	765	2,235	74.49%	2,037	(62.44)%
Miscellaneous	1,200	33,973	(32,773)	(2,731.08)%	788	4,211.29%
Miscellaneous Investment	200	-	200	100.00%	-	0.00%
Miscellaneous Audit	200	-	200	100.00%	-	0.00%
COT Charges	24,000	28,640	(4,640)	(19.33)%	21,640	32.35%
Telephone - Wireless	5,400	5,420	(20)	(0.37)%	4,734	14.49%
Telephone - Other	120,000	117,806	2,194	1.83%	100,686	17.00%
Computer Equip./Software	2,640,000	2,916,488	(276,488)	(10.47)%	-	100.00%
OPERATIONAL SUBTOTAL	**$5,394,137**	**$5,038,904**	**$355,233**	**6.59%**	**$4,752,984**	**6.02%**
SUB-TOTAL	**$44,240,544**	**$40,478,505**	**$3,762,039**	**8.50%**	**$35,750,706**	**13.22%**
Major Legislative Implementation	**3,764,956**	**-**	**3,764,956**	**100.00%**		
TOTAL	**$48,005,500**	**$40,478,505**	**$7,579,656**	**15.79%**	**$35,750,706**	**13.22%**

Differences due to rounding

Plan	Budgeted	FY 2022 Expense	% of Total KPPA FY 2022 Expense	FY 22 Hybrid Percentage
CERS Nonhazardous	**$28,683,286**	**$24,185,907**	**59.75%**	**57.58%**
CERS Hazardous	**2,539,491**	**2,141,313**	**5.29%**	**5.10%**
KERS Nonhazardous	**14,824,098**	**12,499,762**	**30.88%**	**32.965%**
KERS Hazardous	**1,636,988**	**1,380,317**	**3.41%**	**3.635%**
SPRS	**321,637**	**271,206**	**0.67%**	**0.720%**
TOTAL	**$48,005,500**	**$40,478,505**		

Plan - Specific Expenses	CERS	CERS Hazardous	KERS Nonhazardous	KERS Hazardous	SPRS
FY 2022 Expense	$24,185,907	$2,141,313	$12,499,762	$1,380,317	$271,206
Plan Specific Adjustment	(431,552)	(38,214)	397,656	43,801	28,310
Hybrid Percent Adjustment	(879,443)	(78,768)	846,555	91,355	20,301
Total Expenses	**$22,874,911**	**$2,024,331**	**$13,743,973**	**$1,515,473**	**$319,817**

(DRAFT)

2022 ACFR - SAFR Timeline DRAFT

Planned/ End Date	Task	Category	Owner
8/8/2022	KPPA transmits preliminary data files with new file layout to Actuary (Complete through June; not fully reviewed by KPPA)	Actuary	IT
8/5-8/8/2022	FYE Processing: Proration of service and member account interest posting, Member annual statements and actuary file creation	IT	IT
8/12/2022	Solid set of financial statements available	Auditor	KPPA
8/25/2022	**** Status Meeting	Auditor	
8/31/2022	Receipt of financial statements from KPPA GASB 67 & 74 & Data	Actuary	KPPA
8/31/2022	Solid trial balance	Auditor	KPPA
9/1/2022	**** Status Meeting	Auditor	
9/8/2022	**** Status Meeting	Auditor	
9/9/2022	Draft GASB 67 & 74 reports	Actuary	GRS
9/15/2022	Complete Valuation Program	Actuary	GRS
9/15/2022	Review GASB 67 & 74 reports	Actuary	GRS
9/15/2022	Run gain/loss programs and analyze Valuation	Actuary	GRS
9/15/2022	Draft GASB 67 & 74 reports to KPPA	Actuary	GRS
9/15/2022	**** Status Meeting	Auditor	
9/22/2022	**** Status Meeting	Auditor	
9/28/2022	GASB 67 & 74 report comments from KPPA	Actuary	KRS
9/29/2022	**** Status Meeting	Auditor	
9/30/2022	KPPA provides Actuary Reports to Auditor (Info (from the Actuary) for the Required Supplementary Info section of the Draft Financial Report)	ACFR	Actuary/KPPA
10/3/2022	Final GASB 67 & 74 reports to KPPA	Actuary	GRS
10/6/2022	20 - Year Projections review Valuation	Actuary	GRS
10/6/2022	**** Status Meeting	Auditor	
10/7/2022	ACFR Financial Section Review	ACFR	RA, SW, CD, AC, KC
10/12/2022	Draft valuation report	Actuary	GRS
10/12/2022	Draft information for ACFR Valuation	Actuary	GRS
10/13/2022	**** Status Meeting	Auditor	
10/14/2022	Draft Actuary Valuation Report available	Auditor	GRS & KPPA
10/14/2022	Solid set of financial statements (including notes and RSI)	Auditor	KPPA
10/19/2022	***Status Meeting - Reports Review for Board meeting on 11/8 and 11/9	Auditor	

(DRAFT)

2022 ACFR - SAFR Timeline DRAFT

Planned/ End Date	Task	Category	Owner
10/28/2022	Financial Section - 3rd Draft (unaudited) submitted for Audit Committee & Communications	ACFR	Accounting
10/26/2022	Actuary returns to KPPA the info needed for actuary section of ACFR inlcuding GASB numbers	KPPA	Actuary/KPPA
10/28/2022	Draft report to KPPA, including 20-year projection and sensitivity information Valuation	Actuary	GRS
11/15/2022	Report comments from KPPA Valuation	Actuary	KPPA
11/1/2022	Draft audit report sent to KPPA management	Auditor	External Auditor Blue & Co.
11/2/2022	Draft actuary report presented to **CERS Actuarial Committee**	Actuary	GRS
11/8/2022	Draft audit report presented to the **KRS Board**	Auditor	External Auditor Blue & Co.
11/9/2022	Draft audit report presented to the **CERS Board**	Auditor	External Auditor Blue & Co.
11/14/2022	***Status Meeting - Reports Review for Committee and Board meeting on 11/28, 12/1, 12/5, 12/7		
11/15/2022	Final actuary report to KPPA	Auditor	GRS & KRS
11/17/2022	Auditor provides audit report to KPPA (Auditor prepares and provides Draft Financial Report that contains the financial statement, draft opinion, notes, findings (with deficiency level defined for each), KPPA responses to findings, MDA (provided by KPPA), required supplementary information (info from the actuary), SAS 114, management letter, etc.)	Auditor	Accounting
11/21/2022	**CHECKPOINT FOR CHANGES**		RA, SW, CD, AC, KC
11/21/2022	**ACFR loaded on Board Books**	ACFR	Accounting
11/28/2022	**Draft audit report presented to the Joint Audit Committee**	Auditor	External Auditor Blue & Co.
11/30/2022	**Draft Valuation and Audit Reports presented to CERS Finance Committee**	**Actuary**	**GRS/KRS**
12/1/2022	**KRS Board appproves final audit report** (External Auditor Blue & Co. Final Audit Report Released)	Auditor	External Auditor Blue & Co.
12/5/2022	**CERS Board approves final audit report** (External Auditor Blue & Co. Final Audit Report Released.	Auditor	External Auditor Blue & Co.
12/7/2022	**KPPA Board of Directors approves final audit report** (External Auditor Blue & Co. Final Audit Repport Released)	Auditor	External Auditor Blue & Co.
12/7/2022	KPPA Board of Directors approves final audit report (External Auditor Blue & Co. Final Audit Repport Released)	Auditor	External Auditor Blue & Co.

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2022 ACFR - SAFR Timeline DRAFT

Planned/ End Date	Task	Category	Owner
12/7/2022	End of Field work (All signed management representation letters must be in hand.)	Auditor	External Auditor Blue & Co. & KPPA
12/7/2022	Results of subsequent events between the component unit or fund opinion date and ACFR date reported to **ACFR AIC**.	Auditor	External Auditor Blue & Co. & KPPA
12/13/2022	Deadline to have subsequent events from auditors reports until December 13, 2022 to the APA	Auditor	External Auditor Blue & Co.
1/25/2023	***Status Meeting - Reports Review for Committee meeting on 2/8		
2/6/2023	***Status Meeting - Reports Review for Committee meeting on 2/20, 2/28, 3/1		
2/8/2023	**CERS Actuarial Committee Meeting (Tentative)** Reviewing and approving Actuarial Reports GASB68 and GASB75	Auditor	
2/20/2023	**CERS Finance Committee Meeting (Tentative)** Reviewing the CERS GASB68 and GASB75 Proportionate Share Audit Reports and make recommendation to CERS board to approve them	Auditor	
2/28/2023	**Joint Audit Committee Meeting (Tentative)** Reviewing and approving the GASB68 and GASB75 Proportionate Share Audit Reports and making a recommendation to the KPPA to approve them	Auditor	
3/1/2023	**KRS Board Meeting (Tentative)** KRS Board to approve GASB68 and GASB75 Proportionate Share Audit Reports	Auditor	
3/1/2023	***Status Meeting - Reports Review for Board meeting on 3/15, 3/23		
3/15/2023	**CERS Board Meeting (Tentative)** CERS Board to approve GASB68 and GASB75 Proportionate Share Audit Reports	Auditor	
3/23/2023	**KPPA Board Meeting (Tentative)** KPPA Board to approve GASB68 and GASB75 Proportionate Share Audit Reports	Auditor	

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(DRAFT)

2022 ACFR - SAFR Timeline DRAFT

Planned/ End Date	Task	Category	Owner
			RA - Rebecca Adkins
			CD - Connie Davis
			KC - Kristen Coffey
			SW - Steve Willer
			AC - Ann Case

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KENTUCKY PUBLIC PENSIONS AUTHORITY
David L. Eager, Executive Director
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Kentucky Public Pensions Authority

MEMORANDUM

TO: Kristen Coffey, Director of Internal Audit Administration

FROM: Carrie Bass, Staff Attorney Supervisor, Office of Legal Services
Beth Camic, Staff Assistant, Office of Legal Services

DATE: August 15, 2022

SUBJECT: Potential Information Disclosures/Breaches
2nd Quarter Calendar Year 2022 / 4th Quarter Fiscal Year 2022

This memo outlines potential disclosure incidents made by the Kentucky Public Pensions Authority ("KPPA"), or any of its external vendors, during the 2nd Quarter of Calendar Year 2022 (April through June) (also known as 4th Quarter in Fiscal Year 2022), and compares them to each quarter in Calendar Year 2021.

SUMMARY OF POTENTIAL DISCLOSURES
2ND QUARTER OF CALENDAR YEAR 2022

Total disclosures investigated: 13

1 Implicated HIPAA/HITECH
0 Implicated state law
1 Implicated internal Data Disclosure Notification Policy
11 Found to not be an internal disclosure

Potential Information Disclosures/Breaches								
	Calendar Year 2021				Calendar Year 2022			
Number of Potential Disclosures by Type	**1st Q**	**2nd Q**	**3rd Q**	**4th Q**	**1st Q**	**2nd Q**	**3rd Q**	**4th Q**
Email	1	1	1	5	2	11	-	-
Postal Mail	4	2	3	0	6	2	-	-
Fax	0	0	0	0	0	-	-	-
Other	0	2	3	3	3	-	-	-
TOTAL	**5**	**5**	**7**	**8**	**11**	**13**	**-**	**-**
Members Affected -- KRS & CERS	5	3	73	8	6	2	-	-
Members Affected -- External	0	2	65	0	27	11	-	-

Number of Incidents by Source								
KPPA, KRS, & CERS	3	3	4	4	7	2	-	-
External Entity (e.g. Bus. Assocs)	2	2	3	2	4	11	-	-
TOTAL	**5**	**5**	**7**	**6**	**11**	13	-	-

POTENTIAL DISCLOSURES/BREACHES BY THE KPPA IN THE 2ND QUARTER OF CALENDAR YEAR 2022 / 4th QUARTER IN FISCAL YEAR 2022

Federal law (HIPAA/HITECH): There was one (1) determined breach of protected health information by the KPPA during the 2nd Quarter of Calendar Year 2022.

- **Background:** A member ("recipient") received from KPPA a medical review report for another member ("affected member"). The review contained the affected member's KPPA ID, DOB, and medical information. Recipient completed an affidavit to confirm no other individual had access to the documentation while in their possession and the affected member was sent notice. Recipient returned the report to KPPA.
    - **Root Cause:** This potential breach was occurred as a result of a KPPA employee manually uploading the affected member's medical documentation to the recipient's account.
    - **Follow Up:** The KPPA employee's management reported giving written and verbal feedback to the employee.

State law (KRS 61.931, et seq.): There were no potential "security breaches" of "personal information" as defined by state law by the KPPA during the 1st Quarter of Calendar Year 2022.

Internal Data Disclosure Notification Policy: There was one (1) determined disclosure under the KPPA's Internal Data Disclosure Notification Policy.

- **Background:** A member reported receiving a blank Form 6000 with pre-populated name and ID for another member in addition to receiving their own documentation from KPPA. Recipient completed an affidavit to confirm no other individual had access to the documentation while in their possession and the affected member was sent notice. The recipient returned documentation to KPPA.
    - **Root Cause:** Disclosure likely occurred during the automatic printing stage when the envelope stuffing machine kicked out the document and correspondence was manually stuffed in the envelope. This disclosure appears to be an isolated incident and there are no concerns for future disclosures at this process stage.
    - **Follow Up:** The Office Services Branch Manager stated they would remind staff to exercise caution when stuffing envelopes.

EXTERNAL DISCLOSURES/BREACHES IN THE 2nd QUARTER OF CALENDAR YEAR 2022

- **Background:** Vendor, Managed Medical Review Organization ("MMRO), sent 11 auto-generated emails related to KPPA member's to two employees of another state retirement system (system unknown). The emails gave notice a recommendation packet was available for review on MMRO's portal. Each email had a subject line & body which disclosed a unique MMRO claim number and the KPPA member's first, middle initial, and last name. The email did not include any projected health info, records, references to diagnoses, etc. Note, each client must login to MMRO's portal to view protected health information. There is no mechanism to view protected health information from the email or unique MMRO claim ID alone. Upon discovery, MMRO immediately stopped all auto-generated emails and reached out to the 2 email recipient's employed at the other state retirement system. The recipient's confirmed destruction of the emails received in error.
  - **Root Cause:** Per MMRO, the error was caused by an IT update to the other retirement system's email within MMRO. This issue has been corrected by MMRO.
  - **Follow-Up**: To mitigate future risks, the vendor is in the process of removing the full claimant names from the notification emails. Moving forward the claim email will only reference the unique MMRO claim ID and no other information.

RECOMMENDATION

This memorandum is provided for informational purposes only.

KENTUCKY PUBLIC PENSIONS AUTHORITY
David L. Eager, Executive Director
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MEMORANDUM

TO: Kristen Coffey, Director of Internal Audit Administration

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

DATE: August 15, 2022

SUBJECT: Anonymous Reports Received

The chart at the end of this Memorandum provides updated information on anonymous tips received by the Kentucky Retirement Systems prior to April 1, 2021 and the Kentucky Public Pensions Authority on and after April 1, 2021.

To summarize the information contained in the chart below, since the Joint Audit Committee of the Board of Trustees of the Kentucky Retirement Systems and the Board of Trustees of the County Employees Retirement System met on May 24, 2022, one (1) case has been closed, one (1) case has been opened, and two (2) cases have been opened and closed.

Additionally, the open cases can be summarized as follows:

- One (1) related to possible fraudulent disability payments;
- One (1) related to multiple retired members allegedly continuing to provide the same services to their former employers via contract arrangements;
- One (1) related to an alleged prearranged agreement for an employee to retire and return to work for the same employer; and
- One (1) related to the alleged misreporting of an employee in a hazardous position.

Date Reported	Issue	Current Action	Status
Various	Possible fraudulent disability payments.	This tip involved two members. For one member, an administrative hearing process was initiated. The final result of that hearing process was that no fraudulent activity by this member was verifiable. A second member reported via the same tip is still being investigated.	Partially complete; partially pending

2/10/2020	KERS employees allegedly being forced to switch to either KTRS or an Optional Retirement plan.	The Office of Legal Services was unable to substantiate this tip.	Closed
3/2/2022	Multiple retired members allegedly continuing to provide the same services to their former employers via contract arrangements	The Office of Legal Services is reviewing compiled information to determine if any action can or should be taken regarding the retired members.	Open
5/5/2022	Alleged prearranged agreement for an employee to retire and return to work for the same employer	The Office of Legal Services is investigating.	Open
5/17/2022	Alleged misreporting of employee in hazardous position	The Office of Legal Services in investigating.	Open
6/18/2022	Possible disability fraud	The Office of Legal Services was unable to substantiate this tip.	Opened, then closed
7/27/2022	Possible general fraud	The Office of Legal Services was unable to substantiate this tip.	Opened, then closed

Kentucky Public Pensions Authority

Internal Audit Administration

Kentucky Public Pensions Authority

To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA KNC
Division Director, Internal Audit Administration

Date: August 25, 2022

Subject: Fiscal Year 2022 Internal Audit Budget as of June 30, 2022

Account Number	Account Name	FYE 2022 Budget	FY 2022 Actual Expenditures	Remaining Budget	Percent Remaining
111	Salaries*	$ 209,000.00	$ 188,512.19	$ 20,487.81	9.80%
121	Employer Paid FICA	15,988.50	13,978.72	2,009.78	12.57%
122	Employer Paid Retirement	175,497.30	155,602.13	19,895.17	11.34%
123	Employer Paid Health Insurance*	41,000.00	32,958.24	8,041.76	19.61%
124	Employer Paid Life Insurance*	48.00	43.00	5.00	10.42%
125	Employer Paid HRA	-	-	-	-
133T	Employee Training	2,500.00	-	2,500.00	100.00%
259T	Conference Expenses	1,500.00	2,072.00	(572.00)	-38.13%
361T	Travel - In State	500.00	-	500.00	100.00%
362T	Travel - Out State	450.00	-	450.00	100.00%
381T	Dues & Subscriptions	5,000.00	738.33	4,261.67	85.23%
399T	Miscellaneous	200.00	-	200.00	100.00%
	Total	**$ 451,683.80**	**$ 393,904.61**	**$ 57,779.19**	**12.79%**

* June 30, 2021 payroll was deferred to July 1, 2021. As a result, the 1st quarter contained an extra payroll. For fiscal year 2022, a total of 25 payrolls were paid. The 4th quarter payroll included an intern not originally included in the budget.

<u>Conference Expenses</u>

2nd Quarter - $27 AGA Conference for Kristen, Madeline, and Matthew
4th Quarter - $120 - Data Analytics Course - Madeline
4th Quarter - $225 - AGA Conference for Kristen, Madeline, and Matthew

<u>Dues and Subscriptions</u>

1st Quarter - $50 - AGA membership for Matthew
3rd Quarter - $500 - Association of Public Pension Fund Auditors membership for KPPA
4th Quarter - $188.33 - AGA membership for Kristen, Madeline, and Matthew

Proposed Fiscal Year 2023 Budget

Account Number	Account Name	FYE 2022 Actual	FYE 2023 Budget	Variance of Budget Compared to Actual Prior Year
111	Salaries[1]	$ 188,512.19	$ 243,145.00	$ 54,632.81
121	Employer Paid FICA[1]	13,978.72	18,600.59	4,621.87
122	Employer Paid Retirement[2]	155,602.13	196,611.56	41,009.43
123	Employer Paid Health Insurance[2]	32,958.24	40,000.00	7,041.76
124	Employer Paid Life Insurance[2]	43.00	46.00	3.00
125	Employer Paid HRA	-	-	-
133T	Employee Training	-	1,000.00	1,000.00
259T	Conference Expenses	2,072.00	2,000.00	(72.00)
361T	Travel - In State	-	500.00	500.00
362T	Travel - Out State	-	500.00	500.00
381T	Dues & Subscriptions	738.33	1,500.00	761.67
399T	Miscellaneous	-	200.00	200.00
	Total	**$ 393,904.61**	**$ 504,103.15**	**$ 110,198.54**

Notes:

1. Budget includes amounts for the three current employees as well as estimated salary for a fourth employee and the 2022 summer intern.
2. Budget includes amounts for the three current employees as well as estimates for a fourth position.

Kentucky Public Pensions Authority

Internal Audit Administration

Kentucky Public Pensions Authority

To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA KNC
Division Director, Internal Audit Administration

Date: August 25, 2022

Subject: Current Audit Update

Audit Software

The Division of Internal Audit Administration recently purchased TeamMate, which is an electronic audit software tool. This software will bring many benefits to the Division of Internal Audit including, but not limited to the following:

1. Audit work will be able to be completed more efficiently.
2. Agency risks will be more easily identifiable as well as any associated established controls.
3. Audit metrics will be more easily reportable, including unresolved findings.

Current Audit Status

The report that accompanies this memo is a new report available from TeamMate. This report shows all of our scheduled audits and other projects for fiscal year 2023. As items are added, this report will be updated. The report shows the current status, estimated and actual start dates, and estimated and actual hours.

Of the five active audits listed, one is the audit we used to test our new software. This is an audit that has already been completed. Priority has been given to the Review of Chase Accounts audit and all staff are currently working on this audit. There is a lot of information for us to analyze and test. It took us some time to get the access we needed to generate the necessary reports. We have that now and staff are working to trace and reconcile the funds that flow through the Chase accounts. The other three audits are being worked on as time allows. We are currently schedule to complete eleven other projects, six of which we have already started. We anticipate this number to increase as the year progresses. In addition to the items listed, Internal Audit staff help prepare documents for 17 other Board meetings.

This is presented for informational purposes only. No action is needed by the Joint Audit Committee.

Status of Fiscal Year 2023 Internal Audit Assignments

Project Name	Phase	Actual Start	Actual End	Estimated Hours	Actual Hours
Audits					
Employer Penalty Waiver (used as implementation test)	Completion	7/8/2021		150.00	67.00
Plan Liquidity Phase 3 - Available Cash Balance/Cash Projection	Fieldwork	11/1/2021		600.00	672.75
Accuracy of Information Sent to DEI	Fieldwork	4/5/2022		300.00	150.50
Receiving and Balancing Contributions	Planning	4/19/2022		300.00	99.75
Review of Chase Accounts	Planning	6/2/2022		1000.00	635.50
Other Projects					
KPPA Inventory Project	Planning	2/28/2022		75.00	7.75
2023 State Police Retirement System Trustee Election	Fieldwork	4/1/2022		45.00	17.25
Audit Committee Meetings	Planning	7/1/2022		45.00	3.25
KPPA Risk Assessment	Planning	7/1/2022		300.00	48.25
Hiring Auditor 1	Planning	8/2/2022		86.00	0.75
Review FY 2023 Annual Financial Report and Summary Financial Report	Planning	8/8/2022		112.00	5.50
Update Charters				30.00	0.00
Trustee Election Policy Updates				8.00	0.00
2023 IT Governance Review				2.00	0.00
Trustee Election RFP				125.00	1.25
Microsoft 365 Implementation				85.00	0.00

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Kentucky Public Pensions Authority

To: Trustees of the Joint Audit Committee

From: Rebecca H Adkins, KPPA Deputy Executive Director

Date: August 25, 2022

Subject: Remediation for remaining issues on the Plan Liquidity Phase 1 Audit

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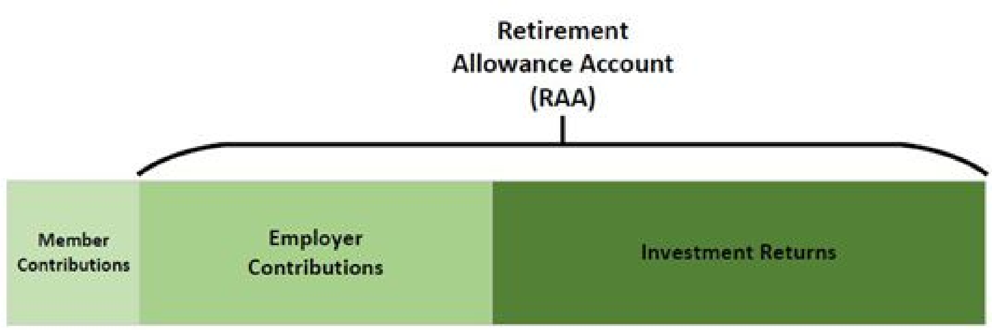
There are two finding recommendations remaining on the Plan Liquidity Phase 1 Audit. The first (Item #1, Recommendation #1) is that KPPA leadership should “document a clear definition of how the Retirement Allowance Account (RAA) has been established”. The second (Item #2, Recommendation #2) is that funds deposited into JP Morgan Chase (JPM) should be transferred immediately upon receipt.

Retirement Allowance Account (RAA)

Per KRS 16.565, 61.580 and 78.650, the RAA is an account that is the sum of the following:

- All pension employer contributions
- Amounts transferred from members’ accounts
- Income from pension investments

The RAA excludes insurance contributions and the investment earnings on insurance contributions. It also excludes the current value of all active and inactive member accounts, which is the sum of member contributions, employer pay credit, and interest earned on these.



Per the legal memo on this topic presented to the Audit Committee on May 24, this account can be a series of general ledger accounts.

Remediation to this Finding:

The RAA has been established within the general ledger (GL) as of the end of the 2022 fiscal year. The explanation of how these accounts were established follows.

All of the general ledger accounts in the five Pension Plans (KERS, KERH, CERS, CERH and SPRS) and the five Insurance Plans (KINS, HINS, CINS, ZINS and SINS) are tied to the financial statements.

All of the accounts on the Pension and Insurance Statements of Fiduciary Net Position (NP) are accounts that have running balances (i.e. they do not close out each fiscal year). In the Private Sector, this is referred to as the Balance Sheet, and reports the value of all assets as of a given date.

All of the accounts on the Pension and Insurance Statements of Changes in Fiduciary Net Position (NP) are accounts that have balances that start at zero at the beginning of the fiscal year and accumulate over the 12 months (i.e. they are closed out each year to the respective fund balance account). In the Private Sector, this is referred to as the Income Statement and it reports the activity for a specified period of time.

This report takes the total activity reported for the period and adds/subtracts the total reported to the cumulative activity from prior years, also known as the Fund Balance (Retained Earnings in the private sector) to provide an end of year balance. This end of year balance should equal the balance reported on the Balance Sheet. At the end of each year, the accounts reported on the Statement of Changes in NP are closed to the Fund Balance, creating an updated Beginning of Year total or new fund balance.

Before establishing the RAA, there was one fund balance account per plan to which each plan’s accounts are closed. This fund balance contained the cumulative balance of all contributions (active member and employer), investment income and member contributions transferred from the member accounts upon retirement.

In order to establish the RAA, we must alter how the accounts on the Statement of Changes in Fiduciary NP are closed. Previously all accounts were closed to one fund balance account per plan. With the use of the RAA, all active member contributions and interest are closed to new “member fund balance” accounts. There is one member fund balance account per plan. The remaining accounts are closed to fund balance accounts representing the RAA. Again, there is one RAA per plan.

The establishment of RAA will not affect the Statement of Fiduciary NP.

The Audit Committee requested a workflow of the process. The workflow follows this memo.

Balances Remaining in the JP Morgan Chase (JPM) Accounts

JPM is the Commonwealth's bank. Funds are received from members and agencies at JPM into the KPPA clearing account. Once the funds are qualified, they are transferred to the trust custodial bank, BNY Mellon. The recommendation that funds deposited into JPM be transferred immediately upon receipt is a complicated issue, however, there are several portions of this issue that have been agreed upon:

- The ideal account balance at JPM is zero. All monies received at JPM should transfer as quickly as possible to the trust custodial bank. JPM has no minimum required balance. Funds are currently being transferred as quickly as they can be qualified, which is generally 24 hours or less, but can be several days or even in rare cases a couple of weeks.

  Definition: Qualification of Funds
Received funds are "unqualified" meaning we cannot yet identify to which of the 10 funds the monies are to be credited.
- While there is a risk of a returned check for insufficient funds (NSF) or perhaps a check that required two signatures and did not have them, the risk is minimal. Typically, these are smaller agencies that may have funding/timing issues.
- Currently JPM uses interest paid on the account to offset account fees. This process should change to separate fees from interest.

There are several outstanding issues related to cash flow between JPM and BNY accounts that are still under consideration:

- There continues to be much discussion about what is the best method for the trusts to accept and distribute payments to and from the funds. The current process utilized for the movement of money between JPM and BNY is being studied. At the heart of the issue is whether KPPA should be using JPM at all.

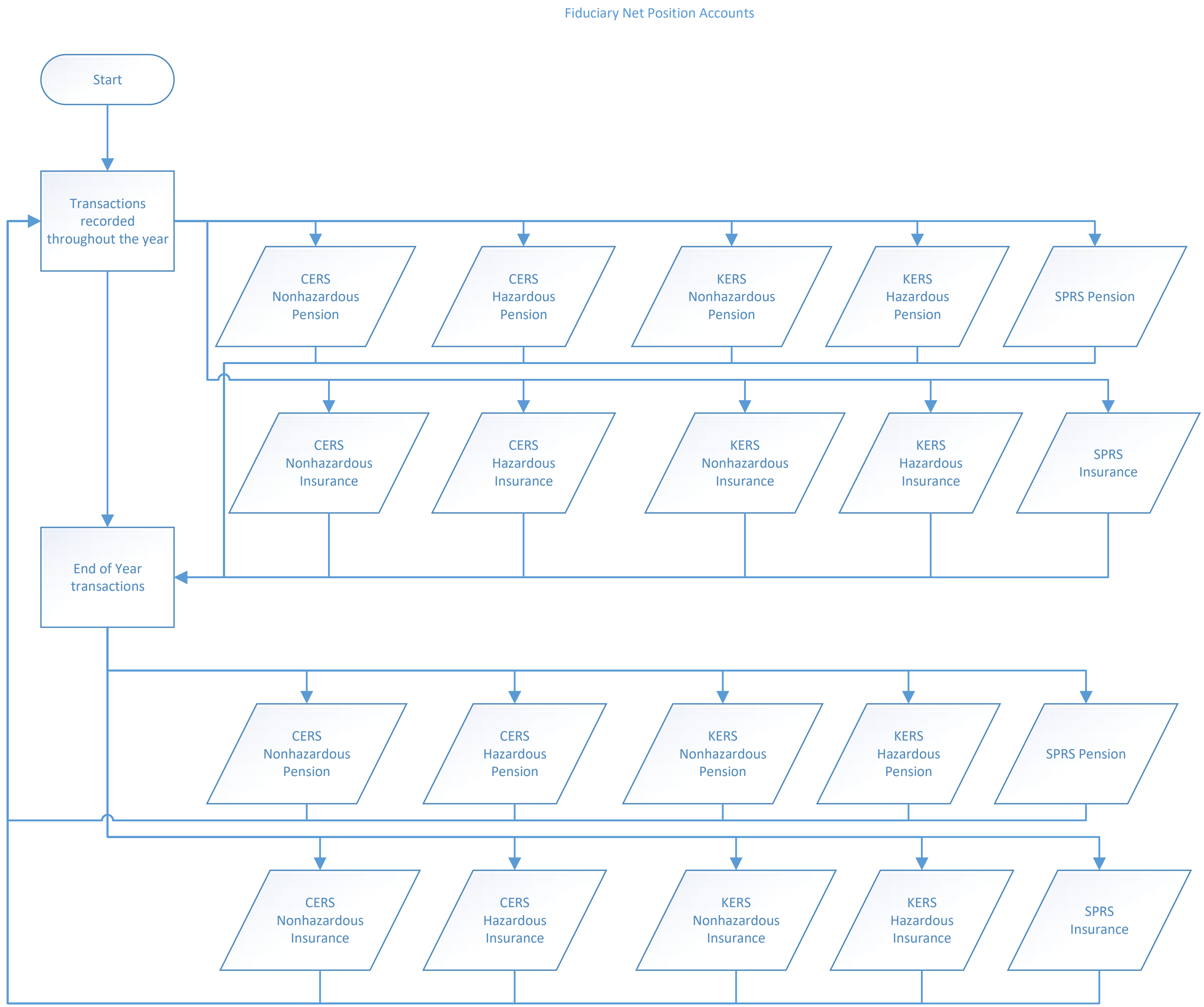
- Moving unqualified funds from JPM to BNY immediately upon receipt requires the establishment of a clearing account at BNY and new accounting for the interest earned on unqualified funds. The same is true for separating interest from frees at JPM. There is ongoing discussion on where this accounting should take place – JPM or BNY.

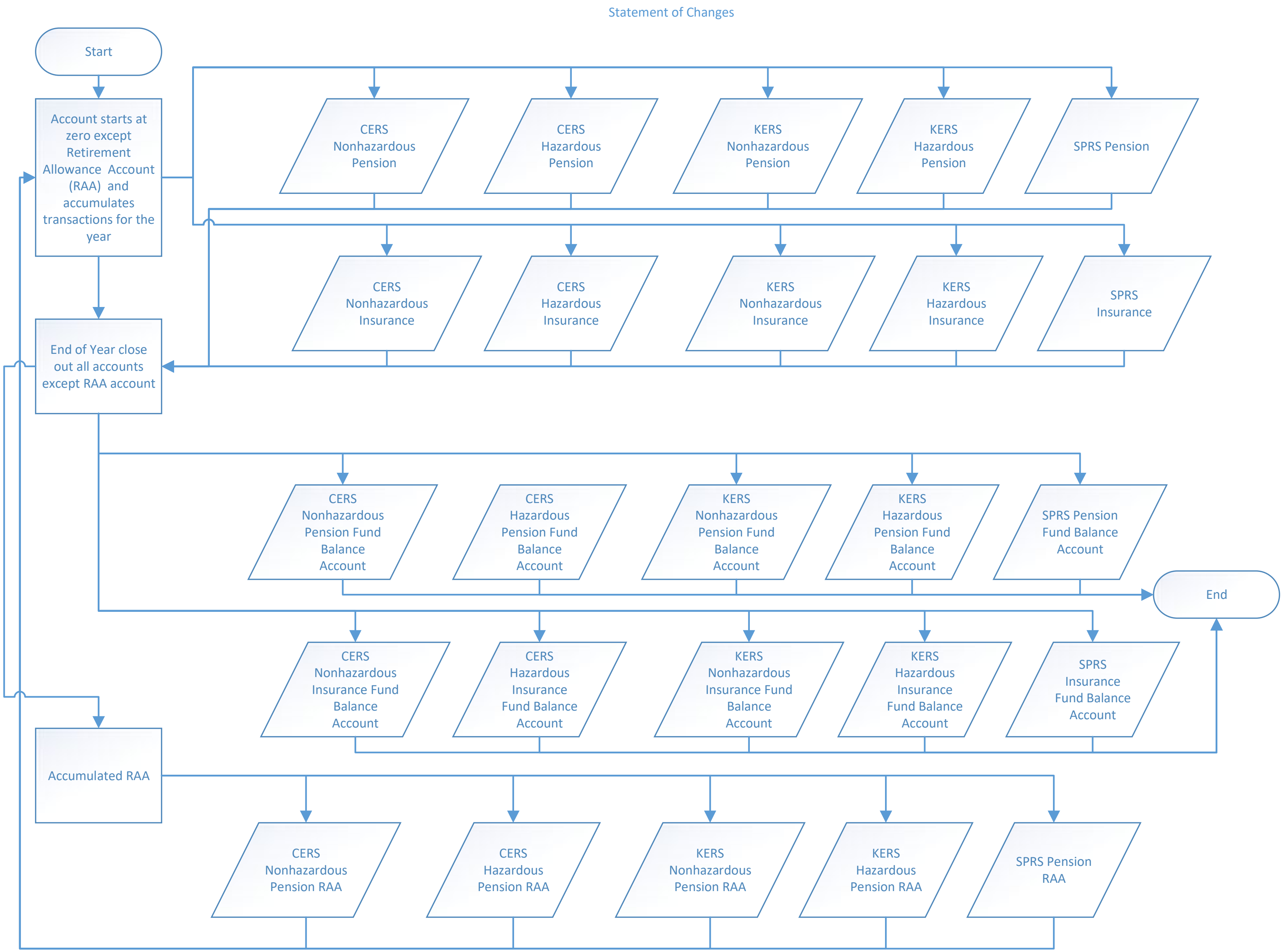
- Currently JPM is contracted by the Finance Cabinet under KRS 61.660, 16.645 (11) and 78.545(20). These statutes also allow KPPA to contract with BNY Mellon as the custodial bank for the trusts. BNY is a fiduciary of the trusts while JPM is not. Staff is working with JPM to remediate this issue.

- The flow of money from one bank to another is an essential cash management issue that should be reviewed periodically and adjusted for improvements as needed. KPPA is in the process of hiring a Chief Financial Officer. The new CFO will be an integral part of this evaluation.

Based on the significance of these outstanding issues and the extended timeframe necessary to adequately evaluate the issues and bring to completion, I anticipate this issue will remain open for a protracted period. Staff leadership will continue to report business process updates regarding cash flow as needed.

This memo is for informational purposes.


Fiduciary Net Position Accounts
Start
Transactions recorded throughout the year
CERS Nonhazardous Pension
CERS Hazardous Pension
KERS Nonhazardous Pension
KERS Hazardous Pension
SPRS Pension
CERS Nonhazardous Insurance
CERS Hazardous Insurance
KERS Nonhazardous Insurance
KERS Hazardous Insurance
SPRS Insurance
End of Year transactions
CERS Nonhazardous Pension
CERS Hazardous Pension
KERS Nonhazardous Pension
KERS Hazardous Pension
SPRS Pension
CERS Nonhazardous Insurance
CERS Hazardous Insurance
KERS Nonhazardous Insurance
KERS Hazardous Insurance
SPRS Insurance


Statement of Changes
Start
Account starts at zero except Retirement Allowance Account (RAA) and accumulates transactions for the year
CERS Nonhazardous Pension
CERS Hazardous Pension
KERS Nonhazardous Pension
KERS Hazardous Pension
SPRS Pension
CERS Nonhazardous Insurance
CERS Hazardous Insurance
KERS Nonhazardous Insurance
KERS Hazardous Insurance
SPRS Insurance
End of Year close out all accounts except RAA account
CERS Nonhazardous Pension Fund Balance Account
CERS Hazardous Pension Fund Balance Account
KERS Nonhazardous Pension Fund Balance Account
KERS Hazardous Pension Fund Balance Account
SPRS Pension Fund Balance Account
End
CERS Nonhazardous Insurance Fund Balance Account
CERS Hazardous Insurance Fund Balance Account
KERS Nonhazardous Insurance Fund Balance Account
KERS Hazardous Insurance Fund Balance Account
SPRS Insurance Fund Balance Account
Accumulated RAA
CERS Nonhazardous Pension RAA
CERS Hazardous Pension RAA
KERS Nonhazardous Pension RAA
KERS Hazardous Pension RAA
SPRS Pension RAA

Goal 3 *Audit* **Support the internal audit process to enhance ongoing operational process improvement.**

Objective A. Evaluate system risks and identify potential internal audit projects to assess controls designed to manage risks.
1) **Measure:** COSO (Committee of Sponsoring Organizations) Internal Control Framework principles are mapped to key administrative process. **Target:** By September 30, 2022 2) **Measure:** Internal Audit project plan identifies type of risk that will be assessed during fieldwork. **Target:** FY 2023 Internal Audit Plan
Objective B. Review Internal Audit project plans and recommend topics for consideration.
1) **Measure:** Agency risk assessments identifies key processes that merit inclusion on Internal Audit plan. **Target:** Ongoing 2) **Measure:** External audit offers recommendations for administrative improvements to address internal control risks. **Target:** January 2023
Objective C. Develop Trustee education sessions to highlight governing board's responsibility for internal controls and risk management.
1) **Measure:** Trustee training on COSO Framework **Target:** October 2022

Goal 3. How Will the CERS Board Evaluate Success
1) Increased analysis of internal control risks for key administrative processes are outlined in Internal Audit reports. 2) Internal Audit reports provide insights for continued improvements in governance. 3) Trustee Education plan is expanded to include discussion of governing board's responsibilities for internal controls.

GOAL/OBJECTIVE	**2022**	**2023**	**2024**	**2025**	**2026**
Goal 3. *Audit* **Support the internal audit process to enhance ongoing operational process improvement.**					
1) Evaluate system risks and identify potential internal audit projects to assess controls designed to manage risks.					
2) Review Internal Audit project plans and recommend topics for consideration.					
3) Develop Trustee education sessions to highlight governing board's responsibility for internal controls and risk management.					

As we continue with our risk assessment project, the risks and controls are now being documented in the new audit software. This software helps show risks not only at the division level, but at an overall agency-wide level. In addition to documenting the risks, the software also allows us to record the established controls. Any risks that do not have a control will be easily identified. Internal Audit will be able to generate reports pertaining to risks and controls an present these to the Audit Committee.

Achieving GOVERNMENTWIDE Enterprise Risk Management

By Hal Steinberg

In July 2016, the Office of Management and Budget (OMB) issued a revised Circular A-123[1] requiring each agency to establish an Enterprise Risk Management (ERM) capability. It also required them to coordinate ERM with the strategic planning and review process instituted by the Government Performance and Results Act Modernization Act (GPRAMA) and the internal control processes required by the Federal Managers' Financial Integrity Act (FMFIA). Four years later, it appears little has changed in agencies' identification and mitigation of enterprise risks. With history as a guide, leaders have a model to secure ERM throughout the government.

The History

The Budget and Accounting Procedures Act of 1950 required agencies to establish and maintain accounting and internal control systems. Unfortunately, the legislation did not define "internal control," state its objectives, indicate how to accomplish it, nor specify how compliance is determined. The results: NOTHING CHANGED.

In 1982, Congress again passed legislation (i.e., FMFIA) to compel internal control in agencies. This time, agencies implemented the statute as intended. The reasons were that FMFIA:

- Defined objectives for internal control.
- Identified standards to use in evaluating the systems, namely the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Green Book.)
- Established guidelines for agencies' internal control evaluations to determine compliance with the objectives.
- Required an annual report stating whether, based on the evaluation, the agency's internal control met the objective.

These elements set the foundation for successful, widespread implementation of internal control. The initial Circular A-123, issued in 1983, elaborated upon these four key elements to guide the implementation of FMFIA. Comparing the elements to those in the 2016 iteration of Circular A-123 could serve as a roadmap for broader ERM implementation.

The Model

A Define objectives.

FMFIA defined the following objectives for internal control:

- Obligations and costs are in compliance with applicable law.
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.[2]

It should not be difficult to define objectives for ERM as well. For example:

- Enterprise risks have been identified and assessed.
- Responses to risks have been established consistent with the agency's risk appetite.
- Established risk responses have been adopted and maintained.
- Opportunities to improve operational efficiency and effectiveness have been identified.

Also, identify standards used to evaluate systems. Both GAO and the Council of Sponsoring Organizations acknowledge similarities between the five components of internal control and what is necessary for ERM — control environment, risk assessment, control activities, information and communication, and monitoring. With some modification, the Green Book standards could be taken into consideration as the required components of an ERM system. For example:

For the control environment:

- effective governance.
- clearly defined strategic and performance goals.
- appreciation of risks and understanding of what are acceptable risks.
- comprehension of the breadth of an entity's risks and attention paid to each.

For risk assessment :

- identification of risks.

- analysis and evaluation of the likelihood and impacts of these risks.
- establishment of risk appetites (e.g., willingness to accept risks based on goals, past performance, and public opinion.)
- establishment of risk tolerances (e.g., what the entity does not want to happen and is thus willing to accept, avoid, share or mitigate.)
- creation of a risk portfolio that includes the most critical risk profiles.

For control activities:

- consideration of the cost-benefits of control activities.
- selection of actions to address risks and meet objectives.
- establishment of policies on control activities.
- documentation of control activities and responsibilities.

For information and communication:

- clear messages that state goals, risks to their achievement, risk tolerances, and planned control activities.
- timely communication of realized risks.

For monitoring:

- periodic review of strategic goals and potential for changed risks.
- monitoring risk response activities to assure they are on schedule.
- timely corrective actions.

B Guidelines for system evaluation to determine compliance with objectives.

FMFIA required guidelines for agencies to evaluate their internal controls and determine compliance with the objectives of internal control. OMB issued a separate publication, *Internal Control Guidelines*,[3] to provide agencies with a step-by-step process for conducting the evaluations. The 2016 revision of Circular A-123 and subsequent ERM *Playbook*[4] offer excellent guidance on establishing ERM but none for evaluating its existence in the agency. Defining an evaluation process is doable, but it would entail determining certain things for each of the five components, such as:

For the control environment:

- agency senior management recognizes the value of ERM.
- leaders introduce ERM concepts throughout the entity.
- leadership assigns responsibility for identifying and addressing risk.
- a structure is in place to help identify, evaluate and respond to risks and oversee remediation of deficiencies in risk response.
- the entity identifies strategic goals and objectives and designs programs to meet them.

- employees appreciate the effect of risk on reaching goals.
- leaders reward rather than punish risk identification.

For risk assessment:

- risks to each strategic goal, objective and program are assessed and identified for threats as appropriate, including operational, financial, compliance/legal, fraud, human resource, technological, reporting and reputational risks.
- the significance, likelihood and impacts of each identified risk are determined.
- for each risk, the agency establishes both risk appetite and tolerance.
- leaders recognize available or potential countermeasures.

For control activities:

- the agency knows and considers the cost-benefits of appropriate risk responses.
- the agency sets policies requiring implementation of appropriate responses.
- appropriate responses are established and the responsibilities for their implementation are documented.

For information and communication:

- documentation of the risk assessment process and results and the manner of risk response is maintained.
- risks to achieving goals and objectives, risk tolerances, and agency risk responses are communicated throughout the organization, especially to senior management.
- realization of risks, lessons learned, and future corrective actions are communicated in a timely manner.

For monitoring:

- strategic and performance goals and potential for changed risks are periodically reviewed.
- response policies and activities are continuously reviewed for relevance and effectiveness in addressing the related risks.
- risk response activities are monitored to assure they operate as intended.
- timely corrective actions are taken.

C Submit an annual report.

FMFIA and the initial Circular A-123 both required an annual report to provide assurance that each agency established internal controls that met the statute's objectives. OMB guidelines also included a sample letter signed by the agency head which, to this day, agencies use in one form or another. In it, each agency attests that it has established and maintains internal control (or, if necessary, has failed to meet the internal control objectives). OMB has since added paragraphs to the letter with assurances on internal control over financial reporting and compliance with defined financial system requirements.

Following the OMB example, an internal control assurance letter could include a paragraph from the agency head attesting to its ERM system. However, the addition would conflate ERM with internal control, which it is not. A better approach would be to use the annual strategic review process to obtain agency assurance of ERM. In other words, along with material submitted to OMB before the review, an agency would state its ERM objectives and provide assurance, based on the evaluation, that it is meeting those objectives. It would also describe exceptions to identifying the complete suite of risks and the establishment of responses.

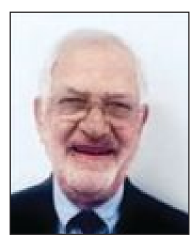
ERM Assurance is Needed

Too many inappropriate situations occur among federal agencies, such as falsified records of veterans' access to health care to mask excessively long wait times, overly expensive, wasteful conferences, and alleged biases in the tax exemption review process. Worse yet is the failure of federal agencies to achieve their missions and strategic goals. The results could be late responses to disaster victims, the spread of foodborne illnesses, lack of readiness to deploy military forces and more. The list is virtually endless.

The federal government identified ERM as a tool to find and manage risks that result in inappropriate situations or, more importantly, failure to meet strategic goals. It attempted to integrate ERM into agencies' strategic planning. However, one missing piece is assurance that agencies are adopting ERM as intended. Perhaps replicating the steps taken 40 years ago to assure internal control implementation can provide that certainty about ERM. J

Endnotes

1. OMB Circular A-123, *Management's Responsibility for ERM and Internal Control*, released in 2016, updated the original circular, published in 1981.
2. FMFIA, Public Law 97-255.
3. OMB. *Internal Control Guidelines*, Dec. 1982.
4. CFO Council and the Performance Improvement Council. *Playbook: Enterprise Risk Management for the U.S. Federal Government*," July 29, 2016.



Hal Steinberg, CGFM, CPA, was the first Deputy Controller/Acting Controller of the Office of Federal Financial Management, where he designed, organized and oversaw implementation of the CFO Act. He served OMB as associate director for management; KPMG as partner-in-charge of state and local government practice and then its federal practice; and as a member of FASAB. A member of AGA's Northern Virginia Chapter, he currently provides technical direction for AGA's CEAR program.

An Unmodified Opinion

Creating Value in Government

By James Gallagher

The CERS and KRS Boards as well as KPPA have discussed the development of a Strategic Plan. These are items that could be kept in mind when those plans are developed that would help ensure we are adding value to the agency.

As taxpayers, we are the shareholders, investors and owners of the federal government, but how do we, as stakeholders, assess its value? We have tried to track budget, cost and investment to measure value, and we have tried to define performance measures and key performance indicators to assess added value. Nonetheless, government cannot track price against operational metrics to determine value and impact.

The success of recent implementations of federal mandates, in financial reporting and accountability and in new control guidance, is directly connected to their fusion into the fabric of an agency. While easier said than done, when leadership sets the example for the workforce by carrying out duties with energy and dedication, the rewards are exponential. Value is realized when leadership's vision is aligned throughout the organization and everyone senses true commitment to the mission.

Defining Value Addition

Adding value to government means producing something better than before. It requires sustained contribution with confidence in a positive outcome, but it begins with a value proposition that defines possible outcomes, a measured approach to change within a realistic and reasonable period. In the government, the ever-changing nature of leadership and prioritization complicates a value proposition and, therefore, increases the need for agreement on outcomes, approach and timeline. Complete leadership buy-in must connect all three elements to add value.

Defining the outcomes and outputs is daunting, especially when they are not truly measurable. For example, if the outcome desired is greater well-being, how can we truthfully measure its achievement? If using financial, medical or social measures, could we find five people who agree on the parameters? Leadership, then, must set quantitative or qualitative outcomes that can be readily defined and defended, and these outcomes must not waver with leadership shifts, retirements or innovations. The U.S. Department of the Treasury, for instance, defined the specific accounting edit checks required of each agency.

Three Elements in Adding Value

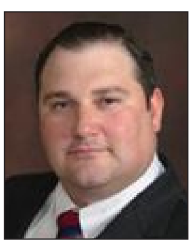
Ultimately, success comes from the tone from the top, not from the ground up. A well-structured value proposition brings with it a profound capability to recognize contributions to value, which is easier to see from the top down through the organizational structure. Leadership must identify a universally acceptable strategy to implement plans and timeframes, then communicate it down with clarity and transparency. The process requires three important elements: defined terms, open communication and timing.

Standard Definitions and Terminology – In line with the concept of a well-defined value proposition are comprehensive, consistent definitions of key attributes that leave no room for misinterpretation. If any aspect is off balance, correction can require significant work to realign. Establishing definitions is an essential step that reduces the burden and incongruity of translating terms; a standard nomenclature and application simplifies the approach.

Open and Transparent Communication – As organizations share a unified value proposition and taxonomy, opportunity emerges for clear and open dialogue. It also becomes an opportunity to reinforce support of the organizational mission, goals and strategies, build consensus and demonstrate consistency in messaging. Organizations look to their leadership as trusted advisors to guide follow-through on their commitments and stay on track. Communication is critical to collective success.

Regular Cadence of Briefings – Proper tempo and modulation of communication indicates to the workforce the amount of value the organization places on an endeavor. As employees build and maintain programs, they must believe that their leadership values their role and that their work benefits the organization and mission. Too common is an initiative or campaign commenced with vigor that fails to sustain focus as other priorities take shape. While the tone from the top and its transparency remain vital, success lay in leadership's continued commitment. Some organizations find quarterly briefings sufficient, but others engage in monthly discussions involving the highest levels of the organization to promote collaboration, recognition and accountability.

Through a well-defined value proposition with continuous contributions from leadership, management and staff — all speaking the same language and aiming for the same outcomes in a realistic timeframe, government can better meet the needs of its stakeholders, the American people.



James Gallagher, CPA, is an accounting and advisory principal with Castro & Company, LLC. In his nearly 20 years in federal financial management, he has supported financial reporting, data analytics, audit remediation, business process improvement, internal controls and enterprise risk management. With Castro, he solves complex challenges for his clients and drives accountability and stewardship of taxpayer dollars. James holds a bachelor's degree in financial management from The Catholic University of America and another in accounting from the University of Maryland, Global Campus.