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Edelen releases first Kentucky Teachers' Retirement System audit conducted by Auditor's office

FRANKFORT, Ky. (February 9, 2015) – Auditor Adam Edelen has released the first-ever audit conducted by the Auditor's office into the Kentucky Teachers' Retirement System, expressing an unmodified or clean opinion on the system's financial statements for fiscal year 2014.

The Auditor's office, under KRS 161.370, is required to perform the financial audit of KTRS at least once every five years. The teachers' retirement system contracts with a private CPA firm to perform the audits in the years they aren't conducted by the Auditor's office.

KTRS is an $18.7 billion public pension system with 57,000 vested members and another 50,000 retirees.

"Auditors found some issues that I hope KTRS is working to address, particularly in the areas of contract monitoring and cyber security," Auditor Edelen said. "For a system of that magnitude, we found it to be well-managed and committed to investing resources effectively for the benefit of its members and taxpayers."

The audit contains six findings:

- KTRS did not properly calculate and post compensatory leave time;
- KTRS did not adequately segregate duties for the payroll process;
- The procurement process is not adequately documented and contracts are not adequately monitored;
- The employer wages and contributions in the KTRS computer system were not reconciled to the employer's payroll reporting system;
- KTRS did not adequately protect sensitive and confidential data;
- KTRS did not provide sufficient segregation of duty controls over the legacy system.

A total of nine auditors logged 2,800 hours over the course of 2014, testing procedures related to payroll, reconciliations, contracting and information technology.

Noteworthy about the audit is that fiscal year 2014 was the first year of implementation of the Governmental Accounting Standards Board (GASB) Statement No. 67, an accounting change that effected the calculation of the pension liability. Previously, liabilities were considered to be the difference between required employer contributions and the amounts they actually funded. Now, the liability reported in the financial statements is based on the value of all benefit payments due to members netted against the plan's net assets.

The change has resulted in the unfunded liability increasing from $13.9 billion in 2013 to $21.6 billion in 2014, or a change in the funded ratio from 51.9 percent to 45.6 percent.

The full report can be found on the [Auditor's website.]

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