



Auditor of Public Accounts
Mike Harmon

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**Auditor Harmon: KRS, TRS Not in Compliance with
Public Pension Transparency Laws**

*Auditor's office releases results of special examination relating to requirements of
Senate Bill 2*

FRANKFORT, Ky. (August 27, 2019) – Kentucky Retirement Systems (KRS) and Teachers' Retirement System (TRS) have failed to comply with a law passed two years ago requiring increased transparency in Kentucky's public retirement systems. That's the conclusion reached in a special examination released today by Kentucky Auditor Mike Harmon's office.

The examination evaluated KRS, TRS, and the Judicial Form Retirement System (JFRS) which covers the judicial and legislative branches, and the report identifies 10 issues relating to transparency, administration, and compliance with Senate Bill 2, which passed unanimously during the 2017 Regular Session of the General Assembly.

"With the tremendous amount of attention that has been given in recent years to our public retirement systems, stakeholders and taxpayers have a right to know how funds are being invested, and who is investing them," said Auditor Harmon during the release of the examination in Frankfort. "That is why Senate Bill 2 passed in a bipartisan manner. Yet, KRS and TRS have failed to fully keep with the spirit of SB 2, which requires the retirement systems to operate in a more transparent manner."

Among the 10 findings contained in the examination, are issues relating to the posting and redaction of information within investment contracts with KRS and TRS:

- Both KRS and TRS have fallen drastically short of what Senate Bill 2 required on the public posting of investment contracts.

- Additionally, KRS provided inconsistent data that made it impossible to calculate the exact percentage of unposted contracts.
- Based on data provided on August 13, 2019, KRS has failed to post 86% of 281 investment contracts.

“Because of the inconsistent data, it is very difficult to have confidence in the information that KRS has pertaining to the number of contracts, and their classifications. It is critical for KRS to resolve these discrepancies and fulfill their legal obligation to post contractual information in a manner that is transparent to the public,” Auditor Harmon said.

- At TRS, roughly 81 percent, or 136 contracts, of the total investment contracts TRS had as of July 24, 2019, were not posted for public review on the TRS website.
- KRS allows external investment managers to control access to public information, which includes letting investment managers redact information including conflicts of interest, expenses and fees, incentive allocation, and management fees. KRS management admitted they do not redact anything from the contracts, but instead allows individual managers to redact anything they consider a “trade secret.”
- KRS started a so-called “gating process” for all investment contracts with the system from April 2017 going forward to meet SB 2 requirements. However, investment managers redacted fee terms, and KRS has made no effort to ensure that information is disclosed to the public.
- TRS has a process in place to handle redaction requests in writing from managers/vendors, but TRS is also redacting other information without requests.
- Both KRS and TRS failed to post side letters that contain information relating to the agreement between KRS, TRS and their vendors. Many of the items KRS and TRS deemed as potentially proprietary are required to be disclosed under SB 2.
- KRS has \$16.1 million in delinquent balances from state agencies, the only one of Kentucky’s three retirement systems to have delinquencies. The Kentucky State Police (KSP) has the highest unpaid balance to KRS at \$6.1 million. The top unpaid invoice type to KRS is for standard sick leave, which totals more than \$9 million.

“Simply put, it is vital for the retirement systems to meet all requirements of Senate Bill 2, not just some. Our employees, retirees and taxpayers deserve nothing less,” Auditor Harmon said. “I urge the leadership and boards for all three of Kentucky’s public pension systems to take transparency seriously and follow the recommendations made in our exam report.”

The full examination is available for review on the [auditor’s website](#).

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