

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
ANNUITY AND PENSION BOARD**

Minutes of the Administration and Operations Committee Meeting
held May 20, 2008

The meeting was called to order at 1:31 p.m.

Committee Members Present: John Barmore, Chair
 William C. Carey
 W. Martin Morics
 Sebastian Raclaw

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Tom Rick, Chief Investment Officer
 Alva Coleman, Information Systems Manager
 Michael Haley, Financial Officer
 Michael Becker, Pension Accounting Specialist
 Suzanne Fortier, Board Stenographer

Others Present: Beth Cleary, City Attorney's Office; Jon Granger, Consultant, Jay Patel, S&S Consulting; Wayne Morgan and Darlene Middleman, Virchow Krause; and Heidi Wier, Jefferson Wells.

Election of Vice Chair. Mr. Barmore asked for nominations for Vice Chair. It was moved by Mr. Raclaw and seconded by Mr. Barmore, to nominate Mr. Carey for Vice Chair. Mr. Morics moved that nominations be closed and that a unanimous vote be cast for Mr. Carey as Vice Chair of the Administration and Operations Committee. The motion carried.

Jefferson Wells Quarterly Internal Audit Report. As a matter of information, Committee members received an Internal Audit Update, dated May 20, 2008, and a copy of the Benefit Calculation Internal Audit Report, dated April 22, 2008. Ms. Wier talked about the audit summary on the benefit calculations indicating they performed a walkthrough and completed a process narrative and risk control matrix. She said they also tested several service benefit calculations and global pension settlement bonus payouts. The results were that the controls were generally well documented, defined and working effectively. Ms. Wier noted they did not find any significant exceptions. She informed the Committee that the individuals they worked with were very cooperative and knowledgeable. There were three recommendations for enhancement: 1. Validation of actuarial table upload. Management had the IT staff compare the data and no differences were identified. Documentation will be retained going forward. 2. Cross training of benefit calculation duties. Management had already identified the need for formal cross training and will continue to work towards this over the next year. 3. Documented procedures. There is a lot of documentation that exists with the ARIS process maps and Standard Process Instructions, but one thing Jefferson Wells noticed was that information is not always current, and does not always pertain to the actual day-to-day procedures. The recommendation is that the information be reviewed and updated appropriately to reflect the current procedures. Mr. Matson indicated that the larger report in the packet

goes into more detail as to the issues, recommendations and management's response. He noted that both staff and Jefferson Wells would like direction from the Committee whether this information is adequate for a report, or would the Committee like to see more or less information. Also, would the Committee want to see the full audit report when it comes out, or see this on a quarterly basis. Mr. Morics said brief responses are adequate because the findings in the audit report are complete. He said the only time the Committee would need a long response would be if there is some kind of extenuating circumstance or disagreement. Mr. Morics also stated he would like to hear the findings as they are done rather than quarterly, with Jefferson Wells in attendance. Mr. Morics also felt it would be good to post these reports on ERS' website. Brief discussion ensued. Mr. Morics commented that benefits are a huge matter to our participants and he thinks this is eloquent in not only what it says, but what it does not say. It does not say that 85 percent of the samples were incorrectly computed, which is a great testimony to the accuracy of what staff does. Mr. Morics said he did not want that to be lost on this Board.

Review and Comment on Virchow Krause Letter. As a matter of information, Committee members received a copy of the Virchow Krause letter, dated January 28, 2008. Mr. Morgan and Ms. Middleman were present. Mr. Allen stated that in January Virchow Krause submitted a letter to ERS indicating that there were going to be certain changes in the auditing procedures for the 2007 Financial Audit. Specifically, there are some inquiries that the auditors now need to make directly to the Board. He said staff has prepared some response, but would like direction from the Board as to how they want to proceed with this. Mr. Morics stated that the A & O Committee does function as the Audit Committee. He indicated that in other places, such as the Convention Center, they meet as the Audit Committee, but they will spend an hour with the auditors going through the issues without staff being present. Mr. Morics said whatever format works well should be followed, either an individual meeting or a future meeting scheduled, the A & O Committee could then go through these questions and any issues the Board may have. Mr. Morgan noted that this letter really formalizes a process that has always been in place under Statement of Auditing Standards 114, and he briefly talked about this issue. He indicated the way he has seen it work most efficiently is starting the communication with management as they have the responsibility for executing the day-to-day operation of the plan and solicit their responses to the comments. After that would come a meeting such as this, which provides value for both the auditor and committee to see what management's representations and answers are to the questions from an oversight standpoint.

Mr. Morgan said there is often a discussion and then management would leave the meeting for discussion with just the Audit Committee to talk specifically about focus, scope and issue of concern to the Audit Committee. He indicated that 9 times out of 10, when dealing with an Audit Committee, that would be burned into the schedule every year, rather than waiting for the one-year when the Committee wants managements out of the room to talk about a significant issue. Discussion ensued. Mr. Morgan said for future years, concurrent with this letter going out in January, VK would set up a meeting sometime from the date of the letter to the date VK actually starts the fieldwork. After

discussion, the Committee decided that going forward this meeting should be held every March. Mr. Matson asked for clarification as to whether that portion of these meetings should be posted for closed session? Mr. Barmore answered in affirmative.

ERS Special Projects Report. As a matter of information, Committee members received a copy of the Special Projects Report, dated May 20, 2008. Mrs. Owens updated the Committee stating the basic business functions continue to be met. ERS has seen an overall decline in April for PIRs and CCRs. She said the internal audit with Jefferson Wells in is the review process for payroll and death processing, and concerns are being met for updates on the system tables. The Member Self Service went live on April 15 and there are approximately 110 members who have created user ids and logged into the system. Mrs. Owens reported that all components have been delivered and accepted, and ERS is now operating under the warranty period with Saber.

Mr. Granger talked about the program incident and change request activity for the last 12 months. He said on average there are about 60 new events each month, with 38 being program incident reports (defects), and 22 being change requests. Mr. Granger said that this report shows where the application support team is spending their efforts by focusing on the MERITS application to make sure the tools, functions and capabilities are available to serve ERS' customers. He also talked about the ticket inventory composition for the last 13 weeks, which shows a slight downward trend. Discussion ensued with respect to PIRs and CCRs.

Mr. Patel talked about the service level performance, which for April had 100 percent for both on-line services and batch services. On the disaster prevention and management, he reported that ERS has McAfee's Hacker Safe service that has been running for about two months and since Member Self Service has gone live there has been no detection of any new vulnerability within the infrastructure. He reported that as part of the project for near term disaster recovery strategy, ERS is replacing the development server, which will be housed as a new production environment to capitalize on the infrastructure and the processing power. Mr. Patel said in order to do this there is some HVAC work that needs to be done on the fourth floor of this building. ERS is just waiting for a contract execution with Henneman Engineering to get some design work done for the server room. Once the server room is ready, the servers ERS has ordered that are non-production critical will be set up and activated. Mr. Patel noted that the Verisign logo has been activated on the ERS website. If you click on that logo it will tell you that this is a secure site and your communication to the site is encrypted, so that gives a visual comfort to ERS' customers.

Approval to Continue Disaster Recovery Option(s). Mrs. Owens reported that to continue with the Business Continuity Planning, the team has met with all the ERS managers and tried to get ideas of recovery time objectives and recovery point objectives of the different services and she talked about these objectives. She said that this gives the team information needed to plan the disaster recovery and business continuity on which applications need to be backed when or restored at what point in time. Mr. Granger said that based on these service level requirements, the options for being able to restore or

recover a system such as MERITS in equal or less than four hours means you cannot have a cold site somewhere; you have to have a hot site. Lengthy discussion ensued with respect to the nine variations of hot site disaster recovery site options. Mr. Barmore directed staff to continue researching the disaster recovery site options and bring this back to the Committee at the next meeting. It was moved by Mr. Morics, seconded by Mr. Raclaw and unanimously carried, to continue to look at options 1 through 4, but also keep the other options open for consideration.

Mr. Granger handed out a financial report on MERITS and ERS Special Projects – Budget Analysis, and talked about the appropriations for the three funded projects. He indicated that the Document Management System has an uncommitted balance of \$37,755 and there is no further work to be done in that area. Mr. Granger said the team would ask that the Committee concur with them to close out those project funds. The Data Remediation Project was budgeted for \$1.5 million; ERS spent slightly over \$400,000 and then let the fund lapse because we did not have more money to spend on things to further that project. He said a lot of this work was done in-house with Mr. Matson's leadership; therefore, this fund was closed out on the controller's books. Mr. Granger said the Custom Automation Project is where the money came from to pay for MERITS. This is the one that will pay for the continual service of Saber and other contractors through 2008. In 2009 those operating costs will be picked up under ERS' normal operating budget. He indicated that out of project funds, ERS is estimating \$2 million through the remainder of 2008 to complete those services to stand up a disaster recovery site, which was part of the original plan. This would leave an uncommitted balance of slightly over \$1 million.

Mr. Granger said this is where the budget stands; where ERS plans to go and what the balance is which is favorable to the project. He reported that there is a retention amount of \$56,000 which ERS is holding back from Saber on the completion of the Member Self Service and Configuration Maintenance projects. Mr. Granger said this money will be paid when the warranty period comes to an end. So far on post implementation support ERS has paid Saber slightly over \$1 million. He said there is a balance against what was originally appropriated for Saber's post implementation support, which has been updated by previous contract amendments, so through the remainder of 2008 we will pay them slightly over an additional \$1 million to be sure they continue to provide the staffing ERS needs to keep MERITS working.

Approval of Contract Amendment with DS Consulting Group. As a matter of information, Committee members received a copy of the Second Amendment to the Contract. Mr. Matson indicated this renewal is for ERS' quality assurance team. He stated this would extend their contract for three years and would lock in their rates, which are very reasonable. It was moved by Mr. Morics, seconded by Mr. Raclaw, and unanimously carried, to approve the Second Amendment.

Approval of Contract Amendment with S&S Consulting. As a matter of information, Committee members received a copy of the Fourth Amendment to the Contract. Mr. Matson indicated this is the contract for ERS' technical team, and this is basically

securing the time period through 2009. He said this does provide for some rate increase, which again will be locked in through 2009. It was moved by Mr. Morics, seconded by Mr. Raclaw, and unanimously carried to approve the Fourth Amendment.

Approval of Contract Amendment with Sagetic. As a matter of information, Committee members received a copy of the First Amendment to the Contract. Mr. Matson indicated this is for our project manager. This contract currently expires in September 2008, so ERS is extending it out through the end of 2009, also with a slight rate increase. It was moved by Mr. Raclaw, seconded by Mr. Morics, and unanimously carried, to approve the First Amendment.

Approval of Contract Amendment with Symphony Corp. As a matter of information, Committee members received a copy of the First Amendment to the Contract along with a Statement of Work. Mr. Matson stated Symphony was hired back in 2000 or 2001 to provide development and programming services. ERS treated Symphony as if they were a temporary employment agency, and from time to time ERS would get services from them. The agreement did not have a dollar amount attached. He stated that he discovered that the term of the contract had expired, so this amendment would extend the contract until the end of 2009. The Statement of Work that is attached shows the rates per hour for a particular individual who has been with ERS since GPS. After discussion, it was moved by Mr. Morics, seconded by Mr. Carey, and unanimously carried, to approve the First Amendment.

Summary Review of the RFP for Banking Services and Approval to Extend the Wells Fargo Contract. As a matter of information, Committee members received a copy of a Memorandum from Mr. Haley, dated May 12, 2008, along with a copy of the RFP, dated April 30, 2008. Mr. Haley provided the Committee members with a summary of the banking RFP and discussion ensued. Mr. Barmore stated that he felt it was appropriate for staff to review the submissions and submit the accepted ones to the Board for possible presentations. After discussion, it was moved by Mr. Carey, seconded by Mr. Morics, and unanimously carried, to approve the distribution of the RFP and also the extension of the Wells Fargo contract. Mr. Matson indicated that the contract amendment would come back to the Board for approval.

Approval to Conduct RFP for Organizational Study. As a matter of information, Committee members received a draft copy of the RFP for the Organizational Study. Mr. Matson briefly talked about the draft RFP and the scope of work, and asked direction from the Committee if there is anything they would like to see included. He said the Ms. Montegudo from DER has reviewed the draft and was very impressed with the contents. It was also reviewed internally by the ERS management. After discussion, it was moved by Mr. Morics, seconded by Mr. Raclaw, and unanimously carried, to hold the RFP in Committee until the next A & O Committee meeting. Mr. Morics indicated he would like to have a vendors list also. Mr. Matson stated he was working on that list, and asked Committee members to let him know if they have any vendor suggestions.

Response from DPW regarding ERS Server Room in the 809 Building. As a matter of information, Committee members received a copy of a letter from DPW, dated April 2, 2008. Mr. Allen said DPW provided three options to address the current deficiency in the 809 building, and he talked about those options. After discussion, it was moved by Mr. Morics and seconded by Mr. Carey, to authorize staff to contact outside vendors for quotes. After discussion, Mr. Morics amended the motion to authorize staff to go out and get RFPs for a design of a system, with a not to exceed amount of \$15,000. Mr. Carey accepted the amendment, and the motion unanimously carried.

Update on ARIS Mapping Project. As a matter of information, Committee members received a copy of the chart for the ARIS Project. Mr. Matson indicated this was the close out of the ARIS mapping project from last year. He stated that this report shows nine maps left to review, but six of those maps are now complete. One of the remaining three maps is done but it is with the City Attorney for review as it is an authoritative map. The remaining two maps will go to the City Attorney for review when done as they are also authoritative maps. Mr. Matson said the entire project was done under budget, and other than the three remaining maps, the project was completed on time. He said this project will now go into the ongoing maintenance phase.

Brief discussion ensued with respect to legislation regarding unfunded retiree healthcare.

There being no further business, Mr. Barmore adjourned the meeting at 3:12 p.m.

Bernard J. Allen
Secretary and Executive Director

(NOTE: All proceedings of the Annuity and Pension Board Meetings and related Committee Meetings are recorded. All recordings and material mentioned herein are on file in the office of the Employees' Retirement System, 789 N. Water Street, Suite 300.)