

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

Minutes of the Administration and Operations Committee Meeting
held September 16, 2008

The meeting was called to order at 10:05 a.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
 Suzanne Fortier, Board Stenographer

Others Present: Beth Cleary, City Attorney's Office; Jon Granger, Sagetic Solutions;
Tony Popanz and Heidi Weir, Jefferson Wells.

ERS Special Projects Report. As a matter of information, Committee members received a copy of the ERS Special Projects report, dated September 16, 2008. Mr. Granger updated the Committee on the special projects work plan. He stated ERS' basic business functions continued to be met during August. Mr. Granger indicated that ERS continues to find issues, but they are being fixed in a timely manner by the team, including the contractors and ERS employees. The average amount of defects and deficiency discoveries overall since August 2006 is around 66 new issues each month. He updated the Committee on the new procedures that arose from the escheat letter issue that occurred in July 2008. As of today, the Member Self Service has 772 members who have created user ids and logged into the system. Mr. Granger reported on the direct transfer of rollover funds indicating that a variety of options were looked at and a procedure was proposed to deliver rollover checks directly to Nationwide Retirement Solutions rather than mail them to the retiree. ERS has sent this procedure to Nationwide but they have not acknowledged that procedure as yet. Once Nationwide gets back to us, ERS will begin the procedure. Mr. Granger stated that as far as product acceptance, ERS has accepted various parts of the product that were delivered by Saber; some are still under warranty and the rest of the system is under a support agreement with Saber.

He talked about the program incident and change request activity for the last 12 months, the ticket inventory composition as of September 8, 2008 and the Total Ticket Inventory from August 19, 2006 through September 8, 2008. Mr. Granger said the service level performance for August shows a small hit for on-line performance as there was an outage that had to do with FileNet imaging, which was addressed and solved. On the disaster prevention and management, he indicated one of the things on the work plan is to improve the environment in the server room we have on the fourth floor. Mr. Granger said ERS has been working with Inland Construction to take a look at what might need to be done to undertake the air conditioning project in order to make that room operational for the number of servers ERS will put there. Discussion ensued. He talked about the vulnerability assessment and the McAfee Hacker Safe Service. Mr. Granger indicated that the Board has approved ERS issuing an RFP to have a company come in and do a bona fide vulnerability assessment project, which is something identified by Jefferson

Wells. He indicated he found this task has a considerable amount of steps and hours to do this assessment, so his recommendation would be to put the RFP plan on hold until the outcome of Jefferson Wells' survey is completed. Mr. Granger talked about the opening for the IT Manager and brief discussion ensued. He updated the Committee on the status of the Disaster Recover Site options. Lengthy discussion ensued. Mr. Granger briefly talked about the MERITS and special projects budget. Further discussion ensued on a disaster recovery site.

Jefferson Wells Report on Internal Audit. As a matter of information, Committee members received a copy of the Internal Audit Update, dated September 16, 2008. Ms. Weir reported that Jefferson Wells has completed the payroll processing audit, as well as the benefit administration audit. She said all audits to date have been completed on budget. Jefferson Wells is currently working on the enrollment and contribution audit, and they will be starting the employee HR and payroll process this week. Ms. Weir reported that Jefferson Wells has not had a lot of progress on the technology audit, and they are working with Mr. Granger to schedule this work. Discussion ensued with respect to the completion of the audit work. Mr. Morics indicated he would like to have the audit reports posted onto the website.

Ms. Weir stated that based on the testing, Jefferson Wells found that the controls over the payroll processing and benefit administration area are generally adequate and functioning as intended. Two noteworthy exceptions are: 1) vacant positions are not filled in a timely manner, which may result in deteriorated service levels; and 2) there were differences in the calculations of the life insurance premiums potentially resulting in overpayment of the life insurance premiums. She indicated that management has continued to be very cooperative and responsive to the findings. Mr. Barmore asked if there was any recourse on those overpayments to the life insurance. Mr. Matson reported that ERS did a 100 percent audit of the group life insurance database and found that in the end it was a wash. There were instances where ERS was paying too much and other instances where we paid less. ERS is sending a new census survey to the insurance company and they are aware that ERS found issues.

Mr. Popanz talked about the summary of results from the payroll processing audit. One issue is the lengthy time positions are vacant within ERS. He stated that another issue is updating and maintaining standard operating procedures, which will help should there be unexpected absences or turnover. Mr. Popanz said the third issue involves system access. He stated that ERS is doing an above average job in maintaining this considering system access has not been closely audited in the past. There are a few small exceptions in terms of updating of bank signatories and also banking application access, but nothing that would indicate any sort of transgressions or fraud whatsoever. Mr. Popanz said it was mainly keeping your access rights up to date with employees who depart ERS for any reason, as well as any employees who transfer to different positions in ERS. He said the primary finding in MERITS is Jefferson Wells came across four non-user specific accounts. The significance of that is there is no accountability in the use of those non-user specific accounts. Mr. Popanz also talked about the segregation of duties and bank account reconciliations. Discussion ensued.

Update on Custodial RFP. Mr. Rick briefly talked about the Fund's value. He reported that the review committee did meet with the four custodial firms: JP Morgan, Bank of NY Mellon, State Street and Northern Trust. Mr. Rick indicated the demonstrations went Well, and there is a lot of interest on the review committee to go a little deeper into some of the systems that are being offered by some of the providers. This will slow down his expectation of bringing this to the full Board. Mr. Rick said he would like to bring a recommendation to the A & O Committee, and then to the full Board in October.

Update on Organizational Review RFP. Mr. Allen reported that ERS is in the process of reviewing and scoring the responses from five firms and staff expects to have a recommendation for the October Board meeting.

Approval to Renew Comcentia Contract. As a matter of information, Committee members received a copy of the contract. Mr. Matson indicated this is for one individual who is currently our backup for all our image processing and has been with ERS since Global Settlement. Mr. Chavez works on various projects and ERS would like to renew this contract for another year. It was moved by Mr. Morics, seconded by Mr. Carey, and unanimously carried, to approve the Comcentia Contract.

Approval of Henneman Contract for 809 Bldg. Chiller Review. As a matter of information, Committee members received a draft copy of the contract. Mr. Granger indicated this is the contractor the Board approved hiring to look at the server room on the 4th floor and recommend any changes that need to be made. He stated that in the 809 building where ERS has the primary site for our servers has had outages and problems related to the HVAC systems. Mr. Granger said ERS was getting the run around from DPW, so the Board authorized staff to go ahead with having an outside contractor look at those issues. After discussion, it was moved by Mr. Morics, seconded by Mr. Raclaw, and unanimously carried, to approve the contract pending City Attorney review.

Approval of Inland Contract for 789 N. Water St. Server Room HVAC. As a matter of information, Committee members received a draft copy of the contract. Mr. Granger said that Inland Construction did the build-out of this floor, and a company called Condition Air did the HVAC work. This contract allows Inland to proceed with the HVAC solution recommended by Henneman. After discussion, it was moved by Mr. Carey, seconded by Mr. Raclaw, and unanimously carried, to approve the contract based on staff recommendation and pending City Attorney Review.

There being no further business, Mr. Barmore adjourned the meeting at 11:35 a.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.)