



City of Milwaukee – Employees’ Retirement System (ERS)

Ethics and Governance Internal Audit Report

APRIL 2015

EXPERIS
RISK ADVISORY SERVICES
WISCONSIN OFFICE

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EXECUTIVE SUMMARY

Background

At the direction of the Administration and Operations Committee, an Ethics and Governance audit was performed during the period March 9 – March 31, 2015. The City of Milwaukee Employees' Retirement System (ERS) has the responsibility of administering the benefits of its member constituency, which is comprised of employees and retirees of the City of Milwaukee and its related agencies.

The Annuity and Pension Board (Board) governs the ERS, and serves as trustee of the System's funds. Board members are fiduciaries of the trust, along with the Executive Director, Deputy Director and Chief Investment Officer and other ERS Senior Management serving in specific capacities. The ERS' Executive Director is responsible for daily operations, and also serves as secretary for the Board. The Board is composed of eleven members;

- Three active employee members elected by active employees and one member elected by retirees, and serve a four-year term.
- Three other members are appointed by the Common Council President, and serve a two-year term.
- In 2014, the charter was amended and three additional members were added to the Board. These members are appointed by the Mayor of Milwaukee.
- The City Comptroller is ex-officio and serves on the Board as a part of his duties as an elected official.

Audit Scope and Objectives

The objective of the Ethics and Governance audit encompassed the review of processes and controls related to the following:

- ERS compliance with conflict of interest provisions among its Board members and senior management employees
- Board governance practices, including compliance with the Board Rules and Regulations
- Adherence to the ERS code of ethics certification requirement among ERS employees

Various audit techniques were used to assess and examine the effectiveness of the ERS internal control environment. Audit techniques included conducting interviews with ERS personnel, observation of performance of required procedures and controls, and examination of related documentation.

PROCEDURES PERFORMED

The following procedures were performed during the internal audit. All transactions tested occurred during the period of January 2014 through December 2014, unless noted otherwise.

- Reviewed the Board's adherence with the Board Rules and Regulations.
- Reviewed Board minutes for evidence that the Board and its committees meet periodically with management and third parties to maintain oversight over investment performance, quality of member service, accuracy of reporting, information technology, compliance, and associated risks in these areas.
- Reviewed Board minutes for evidence that Audit Charters, Rules and Regulations, and ERS policies were reviewed and updated as needed.
- Verified that Board members and senior management employees complied with conflict of interest provisions via the Statement of Economic Interests.
- Verified ERS employees reviewed and signed the Basic Office Guidelines, which reflects the office code of conduct.

OVERALL ASSESSMENT

ERS management has implemented a solid internal control environment for its Investment Management process. Based on the results of our review, **no internal control deficiencies** were noted, but two opportunities were identified that would improve and enhance the Ethics and Governance internal control framework. Those opportunities are:

- Experis recommends that ERS receive from the City of Milwaukee an annual confirmation that indicates that all Statements of Economic Interest for ERS's operations have been received and that no conflicts were identified in those statements.
- Experis believes that the ERS Board should adopt an annual self-evaluation process.

Audits are only one part of a comprehensive risk management and control program. Recommendations are provided with the objective to assist the Board, Audit Committee and management in the effort to eliminate, reduce or mitigate overall risks. The procedures performed, findings, and recommendations, including management's written response, are included in the next sections of the report.

OBSERVATIONS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE

1. Procedural Improvement: Board Ethics and Rules Communication

Annually, ERS's Board and management provide personal information to the City of Milwaukee through the Statement of Economic Interest (SEI). The purpose of this form is to identify economic conflicts of interest that could impair an individual's judgment with regards to the roles that they hold.

Recommendation:

Experis recommends that ERS receive from the City of Milwaukee an annual confirmation that indicates that all required members of the ERS Board and Management have completed and provided completed SEI forms to the City of Milwaukee for review.

Management Response: ERS staff is notified via the Ethics Board, as are Board members, if the SEI forms have not been completed and turned in by the deadline (typically the end of February, annually), as a fee is associated with SEIs that are untimely filed. Per the initial recommendation of Experis via this audit, ERS has requested confirmation of the 2015 SEI forms filed by both ERS Board members and ERS senior management.

Individual Responsible: Beth Cleary

Estimated Completion Date: An annual confirmation request that forms have appropriately been filed by obligated staff and trustees will take place March of each year (note, this confirmation has already been completed for 2015).

2. Procedural Improvement: Board of Directors Evaluation

Currently the ERS Board does not perform a self-evaluation of their annual work and activities. Annual internal Board self-evaluations are considered to be "Best Practice" by organizations where Board's play an active and important role in the governance of an organization. A board self-assessment is an efficient way to get input from all of your board members on how the full board is performing and use that information to create positive change. It leads to a shared understanding of the board's responsibilities related to compliance, accountability, financial oversight, and ultimately, setting direction for the organization. It also provides the framework for setting priorities that can maintain your strengths and will address those areas in need of improvement, such as strategic planning.

Recommendation:

Experis believes that the ERS Board should adopt an annual self-evaluation process as it would provide the following benefits to the organization;

- Holds the board accountable to themselves, the staff and the community.
- Allows for reflection by board members on their individual and collective behavior and performance.
- Fosters open communication.
- Improves decision making by enhancing a common understanding of philosophies and goals.
- Resolves differences of opinion and challenges assumptions.
- Provides insight into how and why decisions are reached.
- Allows new board members an opportunity to understand board processes.
- Identifies strengths and weaknesses of board performance and that of the board as a whole.
- Holds the board accountable in its role as representative of the public.

Management Response:

Staff does not feel that it is appropriate to comment on the Recommendation as this is a specific Recommendation for the Board to take into consideration amongst itself.

Individual Responsible: Board

Estimated Completion Date: unknown