



City of Milwaukee –Employees' Retirement System (ERS)

Ethics and Governance Internal Audit Report

MAY 2017

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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 February 10 – February 25, 2017. 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 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 2016 through February 2017, 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 Ethics and Governance process. Based on the results of our review, **no internal control deficiencies** were identified.

Audits are only one part of a comprehensive risk management and control program. Recommendations are provided with the objective to assist the Board, Administration and Operations 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 section of this report.

OBSERVATIONS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE

None.