

# City of Milwaukee Employees' Retirement System (ERS)

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## *Benefits Calculation Internal Audit Report*

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## **EXECUTIVE SUMMARY**

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### **Scope**

Jefferson Wells performed a limited scope internal audit of the benefit calculation processes performed by ERS, as well as completed a follow-up of the prior year's audit findings.

The objective of the audit was to determine whether ERS has implemented adequate controls to mitigate risks inherent in the benefit calculation processes, as well as to perform testing of key controls.

The audit included the following high level activities. A more detailed listing of the procedures performed is included in the next section of the report.

- Ensured existing controls documentation, including a process narrative and risk control matrix, accurately reflect the current process, key risks, and controls.
- Performed testing of key process controls to determine operating effectiveness.

Fieldwork was completed from May 5 through June 4, 2009.

### **Conclusion**

This report reflects the results of the Jefferson Wells engagement. The techniques used to identify these results included interviews, observations, and review of supporting documentation. Based on the results of our audit, the controls related to the benefit calculation processes are generally adequate and functioning as intended by management.

ERS should be commended on the following practices:

- Contract settlements are completed timely and calculated accurately. Proper review takes place by key personnel at ERS.
- Member's calculations and records are reviewed by several personnel in the Finance Department.

There were no key observations or opportunities for improvement regarding the benefit calculation processes; however certain prior year observations have not been fully addressed.

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## PROCEDURES PERFORMED

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The following procedures were performed during the internal audit. All items tested occurred during the period of April 2008 through April 2009 unless noted otherwise.

- Tested two recent union contract settlements to ensure all impacted members had their benefits recalculated as appropriate. The entire population for the union contract settlements was tested as requested by ERS management.
- Tested two recent legal opinions to ensure that they were incorporated into appropriate member benefit calculations as appropriate.
- Tested 15 terminated members to ensure:
  - All critical factors related to member vesting rights were reviewed prior to the issuance of a vesting rights letter.
  - Payments for 1.6% COLA contributions were processed correctly.
  - Employee contributions were returned appropriately.
- Reviewed the withdrawn amounts by members with over eight years of service and that terminated members who elect to withdraw all accumulated benefits have been subject to an independent review prior to payment.
- Reviewed retiring members with pension benefits less than \$100 per month who were given an actuarial lump sum settlement.
- Recalculated service benefit calculations of ten members who had reciprocity rights with either the State of Wisconsin or Milwaukee County. In addition to recalculating the benefit amounts for accuracy, the calculations were tested to ensure:
  - Service credit (including prior military service and service with reciprocal agencies), final average salary, eligibility and survivorship options were reviewed prior to determining the member's final benefit
  - Benefit calculations were reviewed by someone independent of the calculation process.
  - The Finance Officer compared a list of expected member payroll changes with the trial payroll report of actual member payroll changes to determine the payroll report's completeness and accuracy.
- Performed a follow-up review of prior year observations to ensure:
  - Supporting documentation is retained during the actuarial table upload into MERITS
  - A formalized staff cross training program is developed
  - Completeness and accuracy of ARIS process maps and the Standard Process Instructions (SPIs) related to the benefit calculation process