

City of Milwaukee Employees' Retirement System (ERS)

Benefits Payroll Internal Audit Report

JUNE 2010
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WISCONSIN OFFICE

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EXECUTIVE SUMMARY

Scope

Jefferson Wells performed an internal audit of the benefit payroll 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 payroll 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 17 through June 11, 2010.

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 payroll processes are generally adequate and functioning as intended by management.

ERS should be commended on the following practices:

- ERS strengthened certain controls including removing excessive rights within MERITS, banking applications, and bank signatories, as well as implementing monitoring to enhance restricted access and segregation of duties.
- The extensive user procedure documentation for the payroll process had been updated and used for the cross training of a new employee.
- Prior to the actual benefit payment to a member, the member's calculations and records are reviewed by several personnel in the Finance Department.

There was, however, one key observation regarding the benefit payroll processes:

- ARIS maps for the benefit payroll process should be updated to reflect current actual processes and procedures. For instance, during the audit it was determined that the ARIS map for the Death Benefit process is inaccurate.

Additional details regarding this finding, and other observations and opportunities for improvement, are provided later in this report.

PROCEDURES PERFORMED

The following procedures were performed during the internal audit. All transactions tested occurred during the period of April 2009 through May 2010, unless noted otherwise.

- Performed a high level review of the ARIS process maps to ensure accuracy.
- Tested three months of pending payroll audit reports to ensure the reports are reviewed monthly and all members entitled to payment are audited and paid timely.
- Tested three months of payroll reconciliations for accuracy. In addition to balancing values for gross pay, deductions, and net pay from the Fund Transfer Calculation worksheet to MERITS reporting, the reconciliation was tested to ensure:
 - Amounts payable to the City of Milwaukee, IRS, state, and other recipients in the Fund Transfer Calculation worksheet balance to the authorized ACH instructions to Northern Trust and Wells Fargo.
 - The net pay totals in MERITS balance to batch totals in the ACH file transmitted to Wells Fargo for direct deposit, and the positive pay file transmitted to Wells Fargo for check payments.
- Tested controls over the check printing process for accuracy and restricted access. In addition to reconciling the number of checks printed to the check stock log, and the total net pay to MERITS and the positive pay file, the process was tested to ensure:
 - A check log is maintained and updated upon removal of check stock
 - Member personal information is safeguarded
 - Check stock is stored in a secured location and safeguarded after printing
- Reviewed bank signatory designation and banking application access for reasonableness, given job function and authority.
- Tested accuracy of payments to members who were on duty disability.
- Reviewed the outside earnings process and requirements for those members who are on disability.
- Reviewed employee cross training efforts for individuals involved in the benefit payroll process for adequacy.
- Reviewed procedures over safeguarding member's personal information.
- Completed the follow-up of prior year audit findings.

ISSUES, RECOMMENDATIONS & MANAGEMENT'S RESPONSE

1. ARIS Maps

ARIS maps summarize in a flowchart format what actions need to be completed for a specified process, how MERITS is used to perform the process, and which statutes apply (e.g. Chapter 350, Chapter 36). Review of a sampling of ARIS process maps revealed that the ARIS map for the Death Benefit process does not accurately reflect how the process is currently being performed in MERITS.

Recommendation:

Management should perform a review of all ARIS process maps in the payroll area to verify if such maps are up to date. For those maps determined to be outdated, including the ARIS map for the Death Process, management should update to reflect current policies and procedures.

Management Response:

ARIS maps are reviewed and updated on a regular basis. Death process maps will receive priority and may be updated to reflect MERITS processing.

Implementation date: December 2010

Responsible party: Deputy Director

OTHER OBSERVATIONS

1. Outstanding Accounts Receivable Balances

The outstanding accounts receivable balance as April 30, 2010, consists of member account balances totaling \$47,705. Verified with the Pension Accounting Specialist that there are a number of items on the report that need to be written off as they are not actual receivables. In 2010, the Pension Accounting Specialist will clean up the receivable report so the balance accurately reflects amounts owed to ERS. The receivables report will be reviewed quarterly for accuracy.