

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

Minutes of the Administration and Operations Committee Meeting
held March 18, 2008

The meeting was called to order at 1:33 p.m.

Committee Members Present: John Barmore

Committee Members Not Present: William C. Carey
 W. Martin Morics
 Sebastian Raclaw (excused)

Retirement System Staff Present: Bernard J. Allen, Executive Director
 Martin Matson, Deputy Director
 Tom Rick, Chief Investment Officer
 Alva Coleman, Information Systems Manager
 Michael Haley, Financial Officer
 Suzanne Fortier, Board Stenographer

Others Present: Beth Cleary, City Attorney's Office; Jon Granger, Consultant, Jay Patel, S&S Consulting; Heidi Wier, Jack Bullis, Rich McClure and Tony Popanz.

Due to the lack of a quorum, the meeting convened as a sub-committee.

Election of Vice-Chair. Mr. Barmore directed this be held as there was no quorum present.

ERS Special Projects Report. Ms. Owens reported that the basic business functions continue to be met. On the PIR/CCR status, she indicated all tickets are being fixed in a timely manner, and there has actually been a decrease in the discovery rate of new tickets. Ms Owens stated that almost all of the annual processing items have been completed. ERS has accepted all applications except for Member Self Service functionality, which is still being worked on by Saber, and is expected to be completed by month end. Mr. Granger talked about the Program Incident and Change Request Activity for the last twelve months and the total inventory, which has stabilized over time. Mr. Patel talked about the service level performance, stating for February the up time for on-line application was 99.38 percent. There was one outage on a weekend and the next morning the team was notified by the business community and the system was brought back up within 30 minutes.

Mr. Patel went on to discuss Disaster Management stating the vulnerability assessment work has begun using templates from other retirement systems as a baseline for ERS' RFP to find out what services we can procure. He said ERS has ordered a subscription for approximately \$2,000 from McAfee for their Hacker Safe Service. Once Member Self Service is on-line, that Hacker Safe Service can be turned on and it will try to hack ERS' site on a real-time basis. They would communicate to ERS any vulnerabilities found. Mr. Patel indicated ERS needed to make some improvements to our data center on the 4th floor of this building as it relates to the air conditioning unit, and we are working with DPW and vendors. He indicated there was some discussion with vendors and they are putting together a RFP of the different services ERS can procure from them. Mr. Patel stated this was a pre-requisite for ERS before we replace our development environment here and make that a production environment. He said ERS is also in

constant dialog with Dell to understand what new products they have to offer, and wanted to make sure the new procurement is “right-sized” for ERS’ needs. Mr. Granger talked about Product Life-Cycle management and the decision that needs to be made about when the current application needs to be sunset and then restarting a new product. Mr. Patel talked about the five key components contained in MERITS. Mr. Granger talked about five key factors that influence the product usability. He also discussed how long will MERITS last and how long it will take to replace and getting started (sample activities) and should ERS budget to begin this process in 2009. Moving on the financial report, Mr. Granger noted that ERS has paid out the retention to Saber for those phases of work that have now been accepted.

Approval of Jefferson Wells Internal Audit Plan and Statement of Work #2. As a matter of information, Committee members received a presentation booklet, “Internal Audit Kickoff”, dated March 18, 2008, and a copy of the Statement of Work #2. Ms. Wier briefly talked about the methodology used by Jefferson Wells. Mr. Popanz walked through the audit plan development overview which included Inputs: the RFP hours and budget; initial information request including ERS background, policies, process documentation and the KPMG risk assessment; and conducted interviews and had discussions with ERS management and process owners. He talked about the process: 1) identified auditable risks and mitigating controls; 2) prioritized risks based on potential likelihood and severity; 3) scheduled audits and estimated time to complete audits, and 4) provided initial findings to ERS management. Mr. Popanz talked about the current status stating that ERS and Jefferson Wells reviewed the plan and the feedback has been incorporated. Resources were assigned to begin execution of the 2008 portion of plan. Progress will be tracked and managed, with periodic status reporting to ERS management and Board. Mr. Popanz indicated the audit plan will be reassessed before commencing subsequent year audits.

Mr. Matson noted that the Committee will have to decide how often they want Jefferson Wells to come back and report on the internal audit. He indicated that staff is recommending quarterly reports, but the Committee may make that decision. Mr. Popanz and Mr. McClure briefly talked about the 3 year audit plan for business processes and IT. Mr. Matson stated that Jefferson Wells did go back through the original risk assessment from KPMG and all of the items except one are incorporated into their audit plan. The one item excluded really is not auditable as it had to do with Saber’s ability to retain their employees, which was identified as a risk. Mr. Barmore thanked the individuals from Jefferson Wells and asked that one of their representatives appear before the Board at their March 31, 2008 meeting.

Approval of 13th Amendment to the Saber Contract. Mr. Matson said the 13th amendment totally removes the paragraph on total amount of contract and replaces it in its entirety with this new version. He indicated the dollar amounts are increased to include all the changes that the Board approved during implementation, which amounts to \$1.1 million. Mr. Matson stated that for whatever reason, those dollar amounts had never been incorporated into the totals of the contract. ERS added in additional dollars for 2009, which will be approved as part of the 2009 budget. This was done so staff would not have to come back again for approval. He reported that in one of the contract amendments, either the 11th or 12th, extended the maintenance through the end of 2009.

Mr. Matson indicated the 13th amendment formally accepts both Configuration Maintenance as of December 31, 2007, and the Member Self Service (MSS) module as of March 31, 2008. He reported that Saber finished the bulk of their work on MSS about a week or two ago and there were some small technical issues to resolve. Mr. Matson indicated there is no reason not to officially accept the MSS as of the end of this month. He also stated the draft does not have Exhibit A attached, but that will delineate the individuals that will be here through 2009. Brief discussion ensued.

Discussion on Recommendation for ERS Staff to Settle Expenses with the City of Milwaukee. Mr. Matson handed out a copy of the memorandum from Mr. Haley, dated March 4, 2008. Mr. Haley indicated that for the last few years ERS has been advancing the City 1/12th of our operating budget every month as the year progressed to give them money to fund ERS' costs. He stated this calculation excluded any special projects like the MERITS. Normally when we come to year end there is a final settlement. There was a tendency that ERS still owed the City money when adding some of the dollars spent in the special projects. He reported that this past year the City ended up owing ERS around \$4.5 million. Mr. Haley stated that in prior years it is likely the Trust was advancing the City funds in excess of what was needed to pay ERS' bills. He looked at the types of expenses that make up ERS' budget. When breaking these items down he said about 28 percent are things that occur very consistently every month, such as salaries, fringe benefits, and rent. Mr. Haley noted that about 62 percent of ERS' budget is for items that are billed quarterly and in arrears, with the biggest item being the investment management fees. The remaining 10 percent of the budget is not easily predictable, such as one time costs for insurance premiums, or medical exams and equipment purchases. Mr. Haley said budgeting 1/12th to the City every month is too much. He felt there might be a simpler way to deal with this issue. Mr. Haley talked about an alternate methodology to reimburse the City for Trust expenses. If we follow the new process, the Trust money would stay in the Trust to earn interest rather than be going to the City. Discussion ensued. Staff indicated the memorandum would be included in the regular meeting packet so all Board members had a chance to review the possible change for reimbursing the City for ERS expenses.

There being no further business, Mr. Barmore adjourned the sub-committee meeting at 2:30 p.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.)