

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

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

The meeting was called to order at 10:10 a.m.

Committee Members Present: John Barmore, Chair
 William C. Carey
 W. Martin Morics

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

Others Present: Rudy Konrad and Beth Cleary, City Attorney's Office; Jon Granger, Sagetic Solutions; Heidi Weir and Bethann Ambrose, Jefferson Wells.

ERS Special Projects Report. As a matter of information, Committee members received a copy of the ERS Special Projects Report, dated November 18, 2008. Mr. Granger updated the Committee stating ERS' basic business functions continued to be met during October. He indicated that ERS continues to find issues, which are logged and tracked, but ERS still manages to provide the services required. Mr. Granger briefly touched on some of the annual processes. Discussion ensued with respect to costs related to retiree health care upgrades that need to be made in MERITS. He reported that Member Self Service has close to 1,000 members who have created user IDs and logged into the system. Mr. Granger stated that Nationwide Solutions has accepted the procedure for the direct transfer of rollover funds, which involves ERS hand carrying checks to them and getting a signed acknowledgement of receipt. He reported that ERS is running in the warranty period for configuration maintenance and member self service, and continued support and maintenance of the MERITS system.

Mr. Granger talked about the program incident and change request activity for the last 12 months, and also went over the high priority PIR and CCR comparisons from 2008 versus 2007 and the inventory for November. On the disaster prevention and management, he indicated ERS has an executed contract with Inland Construction to handle the HVAC in the fourth floor server. The parts have been ordered after review by the engineering firm, and the vendor will begin as soon as the parts are received. Mr. Granger said that Henneman Engineering did their initial evaluation of the 809 building data center, and will come back with their recommendations early in December. He talked about the vulnerability assessment and the McAfee Hacker Safe Service, which has found no major issues. Consistent with that, Jefferson Wells has done a formal vulnerability assessment, both external and internal, as part of the audit plan. Their

report is forthcoming, which will state they did not find anything outstanding that would put ERS at risk. Hopefully, Jefferson Wells will have some good recommendations for improvements that can be made. Discussion ensued. Mr. Granger updated the Committee on the status of the Disaster Recover Site options and a discussion ensued. He briefly talked about the MERITS and special projects budget.

Jefferson Wells Internal Audit Reports. As a matter of information, Committee members received copies of the presentation booklet, Internal Audit Update, dated November 18, 2008 and the Enrollment and Contributions Internal Audit Report, dated November 11, 2008. Using the presentation booklet, Ms. Weir stated the Enrollment and Contributions audit and HR and Payroll audit have been completed. She said Jefferson Wells is currently in the process of completing the accounting and financial reporting and investment management audits. The remaining audits are scheduled for November, December and January, and are on budget. Ms. Weir stated Jefferson Wells has gotten off to a slower start on the technology audit based on some changes happening in the technology area in ERS, but things are moving forward. Brief discussion ensued with respect to the technology audit.

Ms. Weir indicated that most of the controls that were tested for the enrollment and contributions and HR and payroll were functioning as intended by management. There were a few exceptions identified such as system access for management, independent review of agency reconciliations, and a \$59,000 aged receivable from MPS. She reported the primary observation from the HR were incomplete personnel files, which exists but are not maintained in a central location, as well as inconsistently completing personnel performance reviews. Ms. Weir talked about these issues in more depth and lengthy discussion ensued with respect to the MPS issue. Mr. Carey moved to have Mr. Greer of Whyte Hirschboeck Dudek at the next Board meeting to review the matter. Mr. Barmore asked Mr. Carey to amend his motion to ask the full Board to approve outside legal counsel for this matter. Mr. Morics seconded the motion for discussion. Mr. Konrad stated that as currently drafted it is the duty of the agencies to report, and that is something that should be pursued if an agency breached that duty. Secondly, he said if the Board seeks to change this so that ERS plays a role or has a responsibility to get the information, you should consider what affect this might have on ERS' liability. Mr. Konrad indicated that as it stands now, if information is not reported to ERS, you always have a defense that it is not ERS' duty to obtain the information. If the Board changes this that makes it a duty to obtain the information, and there is a lawsuit, ERS would be in a less than advantageous position. After further discussion, the motion unanimously carried.

As Mr. Morics had to leave he asked that the information on compensation being gathered under the organization study being done by L. R. Wechsler be brought to the Board as Mr. Allen's review was coming up soon.

(Mr. Morics left at 11:42 a.m.)

Mr. Barmore directed the Committee's attention back to the Jefferson Wells report. Ms. Weir proceeded to talk about segregation of duties for contribution receipts; documented procedures in the enrollment and contributions process; annual performance reviews and personnel files. Discussion ensued with respect to receipt of checks.

Approval of Northern Trust Contract Extension. As a matter of information, Committee members received a letter from the City Attorney's Office, dated November 3, 2008, with the contract extension attached. Mr. Rick briefly talked about the contract extension. After discussion, it was moved by Mr. Barmore, seconded by Mr. Carey, and unanimously carried, to approve the Northern Trust Contract extension.

Approval of L. R. Wechsler Contract for Organizational Study. Mr. Matson indicated this was on the agenda as a place holder. Ms. Cleary indicated the contract was in negotiations, and it could possibly be ready to present to the Board at their November meeting.

Further discussion ensued with respect to the Northern Trust contract extension.

There being no further business, Mr. Barmore adjourned the meeting at 11:55 a.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.)