

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

Minutes of the Administration and Operations Committee Meeting
held March 19, 2009

The meeting was called to order at 10:00 a.m.

Committee Members Present: John Barmore, Chair
 Thomas Fischer

Committee Members Not Present: William C. Carey (excused)

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: Beth Cleary, City Attorney's Office; Jay Patel, S & S Consulting; Terry Siddiqui, DS Consulting; Heidi Wier, Steve Schmidbauer, and Brian Blanchette, Jefferson Wells.

Election of Vice-Chair. Mr. Barmore asked for nominations for Vice-Chair. Mr. Barmore nominated Mr. Fischer. Mr. Fischer seconded the nomination. Mr. Barmore asked for nominations three more times. There being no further nominations, Mr. Barmore moved that a unanimous vote be cast for Mr. Fischer as Vice-Chair.

ERS Special Projects Report. As a matter of information, Committee members received a copy of the ERS Special Projects Report, dated March 19, 2009. Mr. Patel updated the Committee on the organization study activities. Discussion ensued. Mr. Patel reported that all member services, payroll services and employer reporting were all functional. Issues are still being found in both problems and enhancements; however, the Saber fix team has been able to fix these issues in a timely manner. Mr. Patel indicated that during the processing of the annual jobs an issue was discovered with the 1099R filings. Mr. Haley stated that when the 1099R's are done at year end, ERS provides a file to an outside vendor who produces the 1099R's. ERS did have a discussion with the vendor last year, who agreed to handle the filing with the IRS. He indicated that during discussions with the vendor this year for the 1099Rs and filing, ERS found out that the vendor did not file with the IRS for 2007. The 1099R forms were mailed to all members, but were not filed with the IRS. Mr. Haley stated that he brought this to the attention of Mr. Allen and the City Attorney's Office. The City Attorney's Office advised that ERS have an attorney deal with the IRS to find out what are the next steps to be taken. Discussion ensued.

Mr. Patel talked about the program incident and change request activity; the defect and deficiency trend and inventory; and the year-to-year high priority PIR/CCR comparison. He reported that for February, both on-line levels and batch levels were 100 percent. Mr. Patel updated the Committee on the 2008 IT Operational improvements. He talked about the Disaster Prevention and Management: vulnerability assessment; Development environment replacement – new production at 789 data center and 809 data center evaluation/assessment. Mr. Barmore asked if a motion was needed regarding the HVAC facility improvements. Mr. Matson stated that item V. on the agenda was to seek approval to make the necessary improvements.

Mr. Barmore directed that item V. be taken up at this time.

Request for Authorization to Replace HVAC in 4th Floor Server Room at 789 N. Water St. It was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to authorize the replacement of the HVAC in the 4th floor server room with an amount not to exceed \$50,000.

Mr. Patel stated that a letter was drafted and sent to DPW along with the Henneman report for their review, as well as ERS' understanding of the priority items; what DPW should do; what are the things that ERS is open to discussion of in terms of who owns it from an execution standpoint. He indicated that ERS has not heard back from DPW on that request. Mr. Matson stated that he would contact the superintendent and get this issue moving. Mr. Patel updated the Committee on the disaster recovery action items: arrange for data communications services that are separate from the City network; proceed to develop detailed specifications for a Remote Office, and initiate a search for a site; and proceed to secure a Remote Server site at the State. He briefly talked about the budget and financial reports.

Presentation of Outline for IT Strategic Plan. As a matter of information, Committee members received a copy of the Draft Information Technology Strategic Plan. Mr. Matson indicated that one of the IT audits mentioned the lack of an Information Technology Strategic Plan. He said before you today is that plan, and as the year progresses, staff will start inserting pieces into the plan. We already have some of the pieces, but staff still needs to develop other pieces. Brief discussion ensued.

Mr. Barmore indicated that the closed session item will be taken up as the last order of business.

Jefferson Wells Internal Audit Reports. As a matter of information, Committee members received copies of the Internal Audit Update, dated March 19, 2009; the Accounting and Financial Reporting Internal Audit Report, dated March 12, 2009; the Member Services Internal Audit Report, dated March 3, 2009; the Vendor Management Audit Report, dated January 30, 2009; and the IT Operations Audit Report, dated February 27, 2009. Ms. Wier stated that on the non-IT side, Jefferson Wells (“JW”) was about 154 hours under budget, and on the IT side, JW was 680 hours under budget, with the majority of that due to deferring work into 2009. She stated that a lot of that has to do

with the cooperation and courtesy that JW is being extended by the ERS team. Ms. Wier indicated that JW has started some of the 2009 audit work in the Benefit Administration area, Information Security and Change Management and Configuration Management.

She indicated the specific 2008 audit areas completed were the Vulnerability Assessment, Vendor Management, IT Operations, Accounting & Financial Reporting, and Member Services, with no recommendations being made in the Member Services area. For the IT Operations Audit, she indicated that access to the data center in the 809 building was excessive, with 28 individuals having access, and four being former ERS employees. Management indicated the list would be reviewed and access changes are handled as part of the ERS User Access Form. She stated that management also set up a March and September access review process going forward. Mr. Matson indicated that ERS did hold the March access review, and even though ERS eliminated people off this list, his opinion is that it is still excessive. He said he did not know what could be done about it because it is mostly DPW employees such as the phone person, an electrician, and HVAC person, the Commissioner of Public Works, etc. Brief discussion ensued. Ms. Wier said the Vendor Management Audit found that a formal, documented Vendor Management Program does not exist, and that is the recommendation. Management's response was that they acknowledge that a more formal approach would be beneficial.

Mr. Schmidbauer reported on the Accounting and Financial Reporting Audit stating that the entire process of obtaining the respective actuarial information that goes to the actuary is the responsibility of an IT consultant. The overall observation is that there should be an ERS employee trained to understand the process itself. He indicated that there is currently a variance of \$871, 000 between the amounts housed in MERITS and what is actually sent to the actuary, which is due to some converted legacy data. Management's response is that this is a known variance, and they will begin researching that respective variance to make sure that is addressed. Brief discussion ensued.

Mr. Schmidbauer stated the second issue is the Supervisory Review and Approval of Journal Entries and Financial Statements. The journal entries and reconciliations are prepared on a monthly basis and at fiscal year-end but are not independently reviewed by management. He said the overall observation is there needs to be a little more formality around this process. Management's response was there would be more procedures developed surrounding journal entries and reconciliations. Mr. Schmidbauer indicated that JW is not saying there is no review throughout the annual closing process and monthly interim processes; clearly the Finance Officer's involvement is noted. He stated that item 3 involves FMIS user access for budgeting and vendor payments. Mr. Schmidbauer said the observation here is that two of 17 logins belonged to former employees. Management's response is this access will also be included in the management's semi-annual review of system access in March and September. He stated that items 4 and 5 are closely related. The theory that the department is lean, which JW recognizes, elevates the need for documentation and cross-training. Management's response is that the annual close procedures will be updated, as well as cross-training that will continue to occur to keep the processes going. Discussion ensued.

Approval of Contract Amendment for S & S. Consulting. As a matter of information, Committee members received a copy of the contract amendment. Mr. Matson indicated that this amendment is contingent on the City Attorney's approval. Essentially what this does is increase the contract amount by \$435,000 as ERS has been adding additional resources onto this contract since August 2008, and the contract was never amended to cover those additional resources. Mr. Matson indicated that ERS will be running out of money this year on this contract. There is a little contingency built into this number, but staff only wanted to bring this before the Board once to get through the end of 2009. After discussion, it was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to approve the Fifth Amendment to the contract.

Approval to Amend the Intergovernmental Cooperation Agreement with the City of Milwaukee and ERS. As a matter of information, Committee members received a copy of the Draft Second Amendment. Mr. Matson stated it has taken almost one year to get this amendment done, but the Budget Office and Comptroller's Office agreeing with the ERS on how we should reimburse the expenses to the City. The result is to be cash neutral to the City as much as possible. Therefore; ERS will be forwarding the month of January to kick-off the year, and then the rest of the months, ERS will forward actual expenditures. It was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to approve the draft Second Amendment to the Intergovernmental Cooperation Agreement. Mr. Matson indicated that ERS will open a file with the Council, and this should be completed by May 2009. Until that time, ERS will continue with our normal procedure for paying expenses.

Approval to Increase Hourly Rate for Medical Council Physicians. As a matter of information, Committee members received a copy of a memorandum, dated February 3, 2009. Mr. Matson indicated that this was presented to the full Board in February. ERS' research analyst did research to find out what other agencies were paying their doctors as ERS has been having difficulty filling hearing examiner positions. He stated that ERS averaged out what the County and Medical College both pay, and came up with the rate of \$175 per hour. Mr. Matson stated that staff feels this is a reasonable rate and ERS should be able to attract additional resources for the Medical Council. After lengthy discussion, it was moved by Mr. Barmore, seconded by Mr. Fischer, and unanimously carried, to amend the rate to \$150 per hour.

Approval of Contract with Whyte Hirschboeck Dudek. As a matter of information, Committee members received a copy of the Contract for Legal Services. Mr. Matson said that ERS has always had contracts with Whyte Hirschboeck Dudek on an individual case basis for particular lawsuits. Currently, the Board is using the services of WHD to review MPS contribution requirements, which does not involve a lawsuit. He said that in order to make a contractual agreement ERS asked the City Attorney to draft a contract for WHD. This contract will facilitate ERS paying Mr. Greer for his services. After discussion, it was moved by Mr. Fischer, seconded by Mr. Barmore, and unanimously carried, to approve the contract with Whyte Hirschboeck Dudek.

Jefferson Wells Vulnerability Assessment Report. Mr. Barmore advised that the A & O Committee may vote to convene in closed session on this item, as provide in Section 19.85 (1) (d), Wisconsin State Statutes, except as provided by rule promulgated under s. 304.06 (1) (em), considering specific applications of probation or parole, or considering strategy for crime detection or prevention. The Committee may then reconvene in open session following the closed session. Mr. Barmore indicated it was his intent to adjourn the meeting from closed session. The motion prevailed by the following roll call vote: AYES: Messrs. Fischer and Barmore. NOES: None.

The Committee convened in closed session at 11:18 a.m.

There being no further business, the meeting was adjourned at 12:00 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.)