

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

Minutes of the Administration and Operations Committee Meeting
held April 18, 2019

The meeting was called to order at 9:01 a.m.

Committee Members Present: James Campbell
 Thomas Klusman, Chair
 Martin Matson

ERS Staff Present: Bernard Allen, Executive Director
 David Silber, Chief Investment Officer
 Daniel Gopalan, Chief Financial Officer
 Melody Johnson, Deputy Director
 Erich Sauer, Deputy Chief Investment Officer
 Venkat Manchur, Functional Applications Manager
 Manny Raynal, Senior Systems Administrator
 Robin Earleywine, Pension Accounting Manager
 Lisa Ory, Administrative Assistant II
 Jan Wills, Board Stenographer

Others Present: Wayne Morgan, Darlene Middleman, Jason Coyle, Baker Tilly; Daniel Ludwig, Connie McDonald, Kyle Johnson, Experis; Miriam Horwitz, Andrea Fowler, City Attorney's Office; Eric Pearson, Budget Office; Terry Siddiqui, DS Consulting Partners, Inc.

Baker Tilly Financial Audit. As a matter of information, Committee members received the January 18, 2019 standard pre-audit communication letter from Baker Tilly. Mr. Morgan presented their preliminary pre-audit conversation. He said the required communications to those in governance have been performed and completed before the audit. Mr. Coyle introduced himself and stated he would be taking over the technical review of the ERS audit. He noted he works with governments, public pension plans and GASB regulations that apply to the ERS plan. Ms. Middleman, who manages the day-to-day activities of the audit, highlighted key areas of the letter. She noted the responsibility between auditor and management is to state whether the financial statements are free of misstatements and that an audit does not relieve management of their fiduciary responsibilities. She noted in January that Baker Tilly did not find any deficiencies in internal controls. She said for their opinions for the financial statements, three sections are included which are the required supplementary information, materiality, and statistical and non-statistical samples. Ms. Middleman said final financial statements would be presented to the Board on June 24. She noted they also do the agencies' supplemental allocation schedules for the GASB 68 requirements. Discussion ensued.

Mr. Klusman advised that the Administration & Operations Committee may vote to convene in closed session of the following item (I.), as provided in Section 19.85 (1)(c), for considering employment, promotion, compensation or performance evaluation data of any public employee over which the governmental body has jurisdiction or exercises responsibility and in Section 19.85 (1)(f), when considering financial, medical, social or personal histories or disciplinary data of specific persons, preliminary consideration of specific personnel problems or the investigation of

charges against specific persons except where par. (b) applies which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data, or involved in such problems or investigations. The Administration & Operations Committee may then vote to reconvene in open session following the closed session. It was moved by Mr. Campbell, and seconded by Mr. Matson, that the Committee convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Campbell, Matson, and Klusman. NOES: None.

The Committee convened in closed session at 9:15 a.m.

The Committee re-convened in open session at 9:29 a.m.

Experis Internal Audit Reports. As a matter of information, Mr. Ludwig distributed to Committee members an Internal Audit Update dated April 18, 2019. He discussed the results of the audits (Investments Audit, Vendor Management Audit, Contributions Audit, Benefit Payroll Audit, Business Issue Follow-up Review, and Information Technology General Controls Audit) conducted in 2018 and one finance and accounting function audit done in 2017.

Mr. Ludwig discussed the Investments Audit and said Experis looks at how the assets are managed and accounted for, the authorizations needed to move money around, how distributions are calculated, rates of return, general management and oversight and how the Board and Committees pertain to the management of the money. Mr. Ludwig reported there were no internal control deficiencies with the Investment Audit.

Mr. Ludwig discussed the Vendor Management Audit and said they make sure all contracts are up-to-date and everything is properly approved. Mr. Ludwig reported there were no internal control deficiencies with the Vendor Management Audit.

He discussed the Contributions Audit and contributions from the City and participants. Mr. Ludwig said Experis checks that the contribution rates are re-calculated and properly recorded. He stated they also look at the banking relationship, contributions from the agencies and make sure all the controls are in place. Discussion ensued. Mr. Ludwig reported there were no internal control deficiencies with the Contributions Audit.

Mr. Ludwig reported on the Benefit Payroll Audit but noted a distinction from the Benefit Calculation Audit which is the benefit payment the participant receives whether through the disability process or as a retiree. He said the Benefit Payroll Audit looks at the disbursement process including how many dollars are being distributed, how many checks are being made out, dollars being calculated correctly, contributions, cash flow process, preventative measures, reclaiming of cash, receivable monitoring process, federal, state and local tax withholding processes, and COLA calculations. Mr. Ludwig reported there were no internal control deficiencies with the Benefit Payroll Audit.

Mr. Ludwig also noted for all audits where information is put into the system, a second person with equal knowledge endorses the change to the system so integrity is maintained in the system. He also noted all processes within ERS now have standard procedural instructions.

Mr. Ludwig also reported on the Business Issue Follow-up Review that relates to a Finance and Accounting Audit done in 2017 and said the Finance and Accounting standard procedural instructions have been updated.

Mr. Klusman advised that the Administration & Operations Committee may vote to convene in closed session on the following item (II.) as provided in Section 19.85(1)(i), Wisconsin State Statutes, for considering all matters related to acts by businesses under s. 560.15 which, if discussed in public could adversely affect the business, its employees or former employees. The Committee may then vote to reconvene in open session following the closed session. It was moved by Mr. Campbell, and seconded by Mr. Matson, that the Committee convene in closed session on this item. The motion prevailed by the following roll call vote: AYES: Messrs. Campbell, Matson, and Klusman. NOES: None.

The Committee convened in closed session at 9:52 a.m.

The Committee re-convened in open session at 10:18 a.m.

Mr. Ludwig concluded with a status update and said they took a deeper dive on the risk assessment process last year. He noted the collective hours and budget came in under budget. He said this year they will be looking at Ethics and Governance, the functions of ERS and the Board, the benefit calculation process, retiree and disability payments, accounting and finance, and an IT general controls review, vulnerability assessment review, social engineering and business and continuity.

Mr. Klusman called for a break at 10:24 a.m.

Mr. Klusman resumed the meeting at 10:32 a.m.

Draft ERS 2020 City Budget Request. As a matter of information, Committee members received the 2020 Draft City Budget Request Memo. Mr. Gopalan stated the ERS is required to submit its budget request to the City's budget department by May 14. He said he and the staff reviewed the 2018 actual expenses to determine the 2020 budget. He said the budget is \$2.3 million dollars less than 2019 due to a reduction in investment performance fees. Mr. Gopalan noted some of the investment performance fees are paid via the investment assets. He noted the fringe benefit rate decreased from 45% to 40%. He commented there was a \$169,000 reduction in equipment due to the IT asset lifecycle. He said there was a \$40,000 reduction in rent and property services due to the fiber provider at Femrite. Discussion ensued. Mr. Silber noted the budgeted fees the ERS is invoiced for is decreasing but the investment fees have gone up. Mr. Silber commented that the investment fees in 2017 were 80 basis points of the Fund, which amounted to approximately \$40 million. Mr. Gopalan also went over the non-trust items and noted payments are still being made to beneficiaries of the Policemen's Annuity and Benefit Fund with a budget of \$111,000 for 2020. He said the Group Life Insurance Premium went to \$3.5 million and the Retirees' Benefit Adjustment Fund was reduced by \$10,000 to \$50,000. It was moved by Mr. Campbell, seconded by Mr. Matson, and unanimously carried, to approve the Draft ERS 2020 City Budget Request.

At this point, Mr. Klusman took the agenda out of order.

Discussion of Spectrum Fiber Optic Cable Contract. Ms. Fowler advised that the discussion of the Spectrum Fiber Optic Cable Contract did not need to go into closed session as noticed. Ms. Fowler said the ERS IT Department contacted Spectrum which has now provided a contact for

negotiation. She said terms would now be able to be negotiated. Discussion ensued. Mr. Allen said a new contract should be ready for approval for the June Board meeting.

Mr. Klusman returned the meeting agenda to the IT Projects Portfolio and Organizational/Personnel Update items.

IT Projects Portfolio. As a matter of information, Committee members received the ERS IT Portfolio Report dated April 18, 2019. Mr. Raynal and Mr. Manchu updated the Committee on the technology projects and provided a snapshot of the IT portfolio as of April 18, 2019. Discussion ensued. Mr. Klusman accepted the report and placed it on file.

Organizational/Personnel Update. As a matter of information, Committee members received a copy of the Organizational/Personnel Update dated April 18, 2019. Ms. Johnson noted that Mr. Anthony Lubarsky filled the Pension Investment Analyst – Sr. position. She also noted that the ERS is working with DER to fill the vacancies for the Accounting Assistant II and Network Administrator positions. Mr. Klusman accepted the report and placed it on file.

There being no further business, Mr. Klusman adjourned the meeting at 11:03 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.)