

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

Minutes of the Special Administration and Operations Committee Meeting  
held July 18, 2023 via teleconference

The meeting was called to order at 11:04 a.m.

Committee Members Present: Tom Klusman  
Aycha Sawa, Chair

Committee Members Not Present: Molly King (arrived at 11:12 a.m.)

ERS Staff Present: Bernard Allen, Executive Director  
Melody Johnson, Deputy Director  
David Silber, Chief Investment Officer  
Dan Gopalan, Chief Financial Officer  
Erich Sauer, Deputy Chief Investment Officer  
Robin Hayes, Pension Accounting Manager  
Mary Turk, Business Operations Analyst  
Jan Wills, Board Stenographer

Others Present: Jason Coyle, Darlene Middleman, Baker Tilly; Patrick McClain, City Attorney's Office; Terry Siddiqui, DS Consulting Partners, Inc., three members of the public called in to the meeting.

Please be 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 employe 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.

**Acceptance of Baker Tilly 2022 Financial Audit.**

The Committee did not convene in closed session as noticed.

As a matter of information, Committee members received from Baker Tilly the "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards" dated July 18, 2023. Committee members also received the Baker Tilly "Reporting and insights from 2022 audit: Employees' Retirement System of the City of Milwaukee" dated December 31, 2022. Mr. Coyle said they did not find anything to deviate from their audit plan when they originally met with the Committee in March. He congratulated the ERS for issuing an Annual Comprehensive Financial Report (ACFR) because organizations are not required to issue a financial statement that meets the ACFR standards. Mr. Coyle discussed the financial statement with its opinion and said it is similar to the prior year and is an unmodified or unqualified opinion which is the highest level of assurance readers of ERS' financial statements can rely on. He noted the most significant impacts every year are return on investment but in 2022 the losses

on investments exceeded the employer and employee contributions. Mr. Coyle said the ERS was at a negative \$440 million dollars and with the deductions, the net position was decreased by a little over \$900 million dollars. He said, however, the markets have started to come back in 2023. He said in 2022 there was a negative return of 6.5%, but in 2021, he said there was a return of almost 19%. Mr. Coyle said the Fund was 93% funded last year and this year is only 78% funded.

Ms. King arrived at 11:12 a.m.

Ms. Middleman went over the required communications to those charged with governance and said the presented packet is an all-inclusive deliverable of what those required communications are. She said the financial statements are prepared by senior management and that Baker Tilly, during their audit, looks to see that things are operating effectively, but they do not test internal controls. Ms. Middleman said that management is responsible for accounting policies and that new accounting pronouncements are captured in the financial statement. She noted there was one new accounting pronouncement, regarding GASB 87, which is accounting for leases. She also mentioned another new accounting pronouncement for 2024, GASB 96, regarding subscription-based information technology arrangements. Ms. Middleman also discussed additional required communications and the auditor is required to provide unadjusted figures in the financial statements. She said investment returns were \$8.2 million higher than booked due to the cutoff date for preparation of the statements and with Private Equity and Real Estate values coming in after the cutoff date. She said last year investment returns were \$10.2 million higher after the cutoff date. She said the audit can be finalized now and management can sign a management representation letter. Ms. Middleman noted they will also provide an opinion on the cost-sharing employer allocation after they receive the information from the actuary. Discussion ensued.

It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the Acceptance of Baker Tilly 2022 Financial Audit.

### **Approval of Annual Comprehensive Financial Report (ACFR) for the Year Ended December 31, 2022.**

As a matter of information, Committee members received the “Annual Comprehensive Financial Report” (ACFR). Mr. Gopalan said Baker Tilly provided an unmodified opinion and a clean opinion with no major audit findings or recommendations, other than the \$2 million adjustment noted above, based on estimated Private Equity and Real Estate returns. He noted the ERS received two awards in 2022 from NCPERS: the Certificate of Transparency resulting from ERS participation in NCPERS surveys and their requests for public data and the Government Finance Officers Association (GFOA) Certificate of Achievement in Financial Reporting for the 2021 ACFR. Mr. Gopalan said the 2022 ACFR is submitted for consideration. Mr. Gopalan said ERS implemented GASB Statement 87 updated standards for Accounting for Leases in the 2022 ACFR. He stated the statements disclosed the Wisconsin 2023 Act 12 along with adoption by the Common Council of a 2% city sales tax. He noted reported investment return of -6.5%, net of fees and that the ERS beat its benchmark by 400 basis points. Mr. Gopalan said in the last 10 years, the annual return, net of fees, was 8.1%, which exceeded the benchmark by 84 basis points. Mr. Allen noted the median outcome for public funds in the Callan universe as well as the WRS, were both at approximately -13%. He noted the ERS was 600 basis points better than the median. Mr. Gopalan noted the Fund’s investment returns ranked in the top quartile of public fund peers over the one-, three-, five-, and ten-year periods per Callan’s peer fund universe. He added that over \$2.9 billion was paid out in benefit payments over the last 10 years, while increasing the fiduciary net position from \$4.9 billion to \$5.5 billion. Mr. Gopalan said due to the -6.5% loss in 2022, the funded status

was at 78%. He commented that the investment income was 72% of revenue from 2018-2022 and dipped from 82% last year due to the negative investment return. Mr. Gopalan said from 2018-2022, benefit payments increased 16.3% and administrative expenses stayed level throughout the five years. He concluded that this year is Baker Tilly's last financial audit of the ERS and they have been auditing CMERS since 2001. He commended Baker-Tilly officials for conducting the financial audits for the last 20 years. Discussion ensued.

It was moved by Ms. King, seconded by Mr. Klusman, and unanimously carried, to approve the Approval of Annual Comprehensive Financial Report (ACFR) for the Year Ended December 31, 2022.

**Approval of Annual Report of the Annuity & Pension Board 85<sup>th</sup> Edition, December 31, 2022.** Mr. Gopalan noted the tri-fold report is sent every year to members who receive a benefit and is included with the August payroll statements. He said it is a condensation of the ACFR.

It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the Approval of Annual Reports of the Annuity & Pension Board 85<sup>th</sup> Edition, December 31, 2022.

Ms. Sawa advised that the Annuity and Pension Board may vote to convene in closed session on the following item as provided in Section 19.85(1)(e), Wisconsin State Statutes, to deliberate or negotiate the purchasing of public properties, the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. The Board may then vote to reconvene in open session following the closed session.

**Results and Approval of Proposals to RFP for Internal Audit Services.**

It was moved by Ms. King, seconded by Mr. Klusman, and unanimously carried to convene in closed session by the following roll call vote: AYES: Ms., Sawa, Ms. King, Mr. Klusman. NOES: None.

The Committee convened in closed session at 11:44 a.m.

The Committee reconvened in open session at 11:59 a.m.

It was moved by Mr. Klusman, seconded by Ms. King, and unanimously carried, to approve the decision made in closed session for the RFP for Internal Audit Services.

Ms. Sawa concluded by congratulating Ms. King who passed her NCPERS exam which is the accredited fiduciary program.

Ms. Sawa adjourned the meeting at 12:01 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.)