

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

Minutes of the Special Administration and Operations Committee Meeting
held February 27, 2024 via teleconference

The meeting was called to order at 8:30 a.m.

Committee Members Present: Molly King
Tom Klusman
Aycha Sawa, Chair

ERS Staff Present: Bernard Allen, Executive Director
Melody Johnson, Deputy Director
David Silber, Chief Investment Officer
Dan Gopalan, Chief Financial Officer
Gust Petropoulos, Deputy Director – Disability
Mary Turk, Business Operations Analyst
Jan Wills, Board Stenographer

Others Present: Patrick McClain, City Attorney's Office; Lisa Casel, Erin Scharlau, Carolyn Stittleburg, Legislative Audit Bureau; Matthew Bell, Deborah Ford, Timothy Heling, Annuity and Pension Board Trustees; Terry Siddiqui, DS Consulting, Inc., four members of the public called in to the meeting.

Approval of Terms of Audit Engagement Letter with the Wisconsin Legislative Audit Bureau.

Mr. Allen said the Charter Ordinance 36-15 and the A&O Audit Charter provide that the Board of Trustees will engage the auditors and the role of the A&O Committee is to make a recommendation to the full Board. He stated under 36-15, the Board is charged with administering the system in all of its aspects, including recordkeeping, investment management, preparation of financial statements, and engaging the auditors for the financial audit. Mr. Allen said 2023 Wisconsin Act 12 provides that the financial audit, both the ERS and for the County pension plan, will be performed by the Legislative Audit Bureau (LAB). He added that it is mandated by Act 12, but there is more to the state pension law than just Act 12. He noted there is Chapter 36, the 1937 Act, the 1947 Act, the 2018 Supreme Court case, the decision that gives the Board the authority to administer the Plan, and also Act 12 itself by its terms. Mr. Allen stated Section 242 provides that the Annuity and Pension Board will continue to administer the Plan. He said, after talking with Mr. McClain, there needs to be some governance authority that engages the auditors. Mr. Allen referred Committee members to their packets containing the Terms of Audit Engagement letter from the Legislative Audit Bureau regarding the audit engagement. He said the bureau is asking for the Chief Financial Officer, Chief Investment Officer, and Executive Director to sign the letter and to acknowledge several things mentioned on page four that are shown as ERS staff responsibilities. Mr. Allen said the ERS staff took exception to bullet number five on page four which is the ERS Staff to acknowledge they are responsible for determining the reasonableness

of significant assumptions used in making accounting estimates. He said the ERS asked the Legislative Audit Bureau (LAB) to clarify this item. Mr. Allen said there are accounting assumptions made in connection with the financial statements, some of which are actuarial assumptions which the Charter reserves exclusively to the Board of Trustees and not to the staff. He said the staff asked LAB to clarify the assumptions they are asking the staff to acknowledge they are responsible for determining. Mr. Allen noted the Legislative Audit Bureau said they would modify this and send us a revised letter but they have not done so to date. He said because the ERS wants to get on with the audit, the ERS has some suggested language which will be annotated in the letter. Mr. Allen said it is also stated in his February 7, 2024 letter to the State Auditor that the last paragraph explains that determining the actuarial assumptions is reserved to the Board of Trustees and not the Staff. He said the audit engagement letter is a part of the financials and is a sworn statement. ERS staff is careful about signing sworn statements so everything is factually correct.

Mr. Allen noted the ERS is suggesting the following language (displayed on the screen) which is factually correct:

“ERS management has no vote in Board proceedings and as a result does not have any authority to make plan actuarial assumptions or determine their reasonableness. Accordingly, determining the reasonableness of plan actuarial assumptions used in making accounting estimates is outside of ERS management's purview and control.”

“During the course of the audit, ERS management will provide documentation that the Board, in consultation with its expert independent actuarial and investment consultants, has duly authorized the plan actuarial assumptions used in making accounting estimates and thus determined their reasonableness.”

Mr. Allen stated there are accounting assumptions made for routine things which are not material for the ERS' situation. He gave an example of estimating the percentage of receivables ultimately paid and noted the ERS has a good track record for this item. He clarified in the financial statements, the ERS has to make some assumption of the actual receivables received. He said those assumptions are made by the ERS accounting team, but the ERS staff does not make actuarial assumptions.

Mr. Gopalan named other assumptions for financial statements which included receivables, certain accruals made as part of year-end in relation to payables, routine annual accrual estimates, and the ERS does some estimates for investments which are based on information from given to ERS by investment managers.

Mr. Allen also said staff would retain the bullet point, but footnote it with the two quoted paragraphs listed above to make it clear the ERS staff is not making the actuarial assumptions. He said a motion would be in order to engage the Legislative Audit Bureau to perform the audit.

Ms. Sawa asked Mr. McClain if the revision is made with the added language, does that make the engagement letter valid. Mr. McClain said “absolutely” as there are no signature lines for both the ERS and the LAB. He referred the Committee to the last page and said it was an Acknowledgement, acknowledging the terms of the engagement, including the responsibilities of

the ERS management. Mr. Allen said in prior audits there was an agreement with the outside audit firm that the Board authorized. Mr. McClain said it is not a contract, but the ERS officers are being asked to acknowledge the terms and representation stated in the letter, but there is just one bullet point the ERS wants a correction on. He said the Legislative Audit Bureau agreed to make a change, but the ERS did not receive the change at the time of the meeting. Mr. McClain said they would propose the language and submit it. Mr. McClain stated if they come back and provide clarification language close to what the ERS has, the Committee and Board could approve the execution of the engagement letter, with the caveat that provision be corrected, and giving the officers the latitude to use the ERS' correction or whatever correction the LAB proposes. Mr. McClain noted it is the LAB's letter and based upon what they want to accept, and based on prior representations, the ERS is optimistic the LAB will make the required changes or accept the required changes. He said if the LAB refuses to accept a modified letter, the ERS is at an impasse because the ERS can't sign a factually incorrect acknowledgement. Mr. McClain said he thinks the LAB understands the ERS' concerns. Mr. McClain concluded the Committee can approve the engagement letter with the understanding the bullet point be corrected to reflect the actual governance responsibilities of the system.

Mr. Klusman asked why the ERS is entertaining signing something as he had a couple of concerns and would be comfortable signing something not called an engagement letter, but rather a memo of understanding. Mr. McClain said Act 12, in relation to the Legislative Audit Bureau, empowered it to do two things: one, an annual financial audit of the ERS, which is in Wisconsin Statutes 13.941 and two, require the Legislative Audit Bureau to contract for an actuarial audit every five years. He said the letter before the Board, and if one reads Chapter 13, the sections relating to the audit bureau, it says they are governed by industry standards, and are required to comply with generally accepted auditing standards. Mr. McClain noted an engagement letter is industry standard practice, required by statute. He said nothing in Act 12 did away with the ERS governance controls, but created a state-mandated auditor. Ms. Sawa stated the Comptroller's office does engagement letters with its external auditors and is standard practice. Mr. McClain said this is also new for the Legislative Audit Bureau. Mr. Allen said the audit director explained requesting ERS staff to agree to the audit engagement is pursuant to their professional audit standards. However, the audit profession cannot change the governance requirements of the ERS and that is why approval of the letter was brought to the Committee. He said there was also concern about the factual correctness of the statement about the assumptions. The Legislative Audit Bureau did not distinguish actuarial assumptions from the other accounting assumptions. Mr. Allen said Act 12 prescribes both the County fund and City fund will pay for the audit. He said there is no contract in place with a "not to exceed," cost provision. Instead the ERS will receive a billing letter from LAB which will be brought back to the Committee and Board to determine the reasonableness of any amount for services for which the ERS is billed.,.

Mr. Klusman said he is not comfortable with the form the letter is in and wants to see the final product. Mr. Allen said staff is planning to put a footnote using the language on the screen and retain the bullet point number five on page four, asterisk it, and clarify that the assumptions do not include actuarial assumptions.

It was moved by Mr. Klusman, and seconded by Ms. King to approve, as modified, the Approval of Terms of Audit Engagement Letter, as modified, with the Wisconsin Legislative Audit Bureau.

It was moved by Ms. King, and seconded by Mr. Klusman to adjourn the meeting.

Ms. Sawa adjourned the meeting at 8:55 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.)