



City of Milwaukee Employees' Retirement Services

Vendor Management Audit Report

MARCH 17, 2016

**EXPERIS FINANCE
RISK ADVISORY SERVICES
WISCONSIN OFFICE**

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ERS
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TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

 Background 3

 Audit Scope & Objectives 3

 Overall Assessment 3

 Procedures Performed 4

OBSERVATIONS, RECOMMENDATIONS & MANAGEMENT’S RESPONSE. 5

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EXECUTIVE SUMMARY

Background

At the direction of the Administration and Operations Committee, a Vendor Management Audit was performed during the period February 9 – 26, 2016. The City of Milwaukee Employees' Retirement System (ERS) has the responsibility of administering the benefits of its member constituency, which is comprised of employees and retirees of the City of Milwaukee and its related agencies.

Audit Scope & Objectives

The objective of the Vendor Management audit was to determine whether ERS has a Vendor Management process that assesses the risk of its vendor relationships and requires appropriate efforts to monitor and mitigate those risks.

A comprehensive vendor management program generally includes an assessment of risks to identify the organization's needs, the importance and criticality of the function, and the necessary controls and reporting processes over the activity. Based on the risk level, the program should define the following activities:

- Level of due diligence efforts to identify and select a vendor including, assessing the vendor's financial and operational competence and stability and its ability to provide the contracted services over the life of the contract.
- Use of a written contract that states the duties, obligations, and responsibilities of the vendor and ensures that the vendor maintains adequate internal controls over activities
- Ongoing oversight (including policies and controls) and periodic reviews of vendor performance, including assessments of costs, contract compliance and service levels.

Overall Assessment

ERS management has implemented a solid internal control environment for its Vendor Management Approval Process. Based on the results of our review, **no internal control deficiencies** were noted. In addition, we made an observation that Experis believes would improve and enhance the Vendor Management internal control framework.

Audits are only one part of a comprehensive risk management and control program. Recommendations are provided with the objective to assist the Board, Audit Committee and management in the effort to eliminate, reduce or mitigate overall risks. The procedures performed, findings, and recommendations, including management's written response, are included in the next sections of the report.

Procedures Performed

During the course of the audit the following procedures were performed:

- Reviewed and analyzed the top 25 highest paid vendors in fiscal years 2014 and 2015.
- Verified that each vendor was properly evaluated during the due diligence process prior to it being utilized. Determined that the ERS verification process considered the importance and criticality of the function to be provided and the Vendor's financial and operational competence.
- Reviewed various ERS Contracts for the following:
 - Review that the contract complied with the provisions of the Vendor Management Policy.
 - Contracts were properly reviewed by the City Attorney's office or Counsel
 - Once approved by Legal, contracts were properly approved and executed by ERS management.
- Reviewed the current Vendor Management Policy in order determine that the procedures defined in the policy were being followed and that they were relevant to the current operational environment.
- Verified that the ERS was receiving and monitoring the company's SSAE 16 Service Auditor Reports provided by the organization's third party service providers.

OBSERVATIONS, RECOMMENDATIONS & MANAGEMENT'S RESPONSE

1. Observation: SSAE 16 Centralized Contract Log / Database

During the audit, it was observed that ERS does not maintain the SSAE 16 Service Audit reports it receives from its vendors in a central location. An SSAE 16 report is designed to provide organizations the ability to place reliance on the controls reported. Without an inventory of significant third party providers and a process to assess their impact on ERS's internal controls, the organization may not have a complete understanding of potential internal control risks.

The inclusion of SSAE 16 reports in ERS vendor database will enhance the organization's ability to manage and monitor those third party service reports that are relevant to the organization's operations.