

City of Milwaukee Employees' Retirement Services

Benefit Payroll Internal Audit

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JEFFERSON WELLS
RISK AND COMPLIANCE
WISCONSIN OFFICE

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EXECUTIVE SUMMARY

Background

At the direction of the Administration and Operations (A&O) Committee, a Benefit Payroll Internal Audit was performed from June 15, 2020 – July 31, 2020. The City of Milwaukee Employees' Retirement System (ERS) has the responsibility of administering the benefits to its member constituency, which is comprised of employees and retirees of the City of Milwaukee and its related agencies.

ERS manages the benefits of its members in accordance with legislative guidance and contractual obligations. A database of monthly benefits is maintained for over 13,000 retired and/or disabled ERS members. ERS uses the MERITS application to calculate and prepare monthly pay checks for each member or surviving beneficiary, as applicable. The prepared benefit payroll file from MERITS must be transferred to the Planet Press application for proper print format and to have check printing initiated. A third-party vendor (UMS) is used to stuff the monthly checks, ACH notices and newsletters into envelopes. UMS also delivers the envelopes to the post office for metering and mailing. Standard Practice Instructions (SPIs) are maintained to document individual processes.

Audit Scope & Objectives

The objective of this internal audit was to determine the design and operating effectiveness of the controls in place to mitigate the risks in the Benefit Payroll processes. The scope of the Benefit Payroll internal audit included the following processes:

- Bank Authorizations
- Payment Processing
- Benefit Payment and Calculation Reconciliations
- User Access Review
- Participant Receivables
- Cost of Living Adjustment (COLA)
- Withholding Taxes
- 1099 Reporting

Various internal audit techniques were used to assess and examine the effectiveness of the ERS internal control environment. Techniques included conducting interviews with ERS personnel, observation of performance of required procedures and controls, and examination of related documentation.

Overall Assessment

Historically, ERS management has implemented and maintained a solid internal control environment for its Benefit Payroll process. As the audit was conducted during the COVID-19, ERS employees have now either worked from home or have worked in the office according to an office rotation plan. There were no changes in either the Internal Control Environment or in its ability to operate effectively during the Pandemic. Based on the results of our review, no internal control deficiencies were identified.

Internal audits are only one part of a comprehensive risk management and control program. The procedures performed are included in the next section of the report.

Procedures Performed

The following internal audit procedures included the period January 1, 2019 through April 30, 2020, unless otherwise noted:

- Reviewed existing documented procedures for process updates related to the benefit process.
- Tested four months of Fund Transfers to determine that the monthly benefit payroll payments made to its participants were accurately and completely recorded in the MERITS system.
 - Reviewed and agreed participant direct deposit and check records to their proper inclusion in the monthly distribution.
 - Reviewed the monthly payment reconciliation and verified MERITS Benefit Payment totals to monthly bank transfers.
- Determined that the check stock used for benefit payments was properly accounted for and secured.
- Reviewed Wells Fargo Authorized Bank Signatory list and the User Security Report and determined that the current users were properly authorized.
- Selected a sample of four months for testing and examined evidence that all changes made to benefit payroll data were independently reviewed and verified for accuracy and validity.
- Selected four months of MERITS Expected Changes Report and determined that the reports were being properly reviewed and approved by management.
- Tested MERITS system to ensure that the System could not make a duplicate payment to a plan participant.
- Assessed physical and system controls over sensitive member information:
 - Determined that User Access for systems used by ERS were regularly reviewed and approved by management for the MERITS systems.
 - Through virtual observation, noted that employee workstations were clear of sensitive member information at the end of the day and were in compliance with ERS policy.
 - Evaluated those controls in place that would prevent fraudulent transactions (ie. Creation of Ghost Employees).
 - Evaluated access to MERITS and relevant System applications for propriety and potential segregation of duties concerns.
 - Determined a Remote Access policy is established.

- Additional procedures will be performed during the IT General controls audit for employees working remotely during the pandemic.
- Reviewed the internal controls over participant receivables following the death of a member:
 - Reviewed and determined that the processes used by ERS to identify deceased members were operating effectively
 - Tested the MERITS system and determined that the system will not issue a payment to a participant who passed and where a receivable is outstanding.
- Determined that ERS management is properly reviewing the Receivable listing and is actively engaged in collections.
- Reviewed Cost of Living Adjustment (COLA) table/schedule used in MERITS and determined that the COLA table/schedule was properly supported and calculated.
 - Noted that the COLA table/schedule was reviewed and approved by another person who was independent and knowledgeable of the process.
- Reviewed the 2019 Federal and State Tax Filings and performed the following:
 - Reviewed and agreed Federal and State Tax withholding tables/schedules used within MERITS and determined they were approved by another person who was independent and knowledgeable of the process.
 - Determined that the Federal and State withholding taxes were properly supported, reviewed and approved by management.
- Determined that management regularly evaluates personnel assigned to manage the Benefit Payroll process.