



City of Milwaukee Employees' Retirement Services

Investments Audit

JULY 28, 2018

EXPERIS FINANCE
RISK ADVISORY SERVICES
WISCONSIN OFFICE

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EXECUTIVE SUMMARY

Background

At the direction of the Administration and Operations Committee, an Investments Audit was performed during the period June 13 – July 18, 2018. 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.

ERS manages its investments in accordance with the prudent investor rule, ERS Statement of Investment policy, and legislative statutes. ERS utilizes third party investment managers to allocate assets, and also uses an investment consultant and custodian.

Audit Scope & Objectives

The objective of the Investment audit encompassed the review of processes and controls related to the following:

- Oversight of investment manager performance
- Administration of contractual provisions between ERS and third party investment managers, custodian, and investment consultant
- Monitoring for compliance with the ERS Statement of Investment Policy
- Reconciliation of investment reporting between the custodian and investment managers
- Calculation, approval, and payment of investment manager and other third party fees

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

Overall Assessment

ERS management has implemented a solid internal control environment for its Investment Management process. Based on the results of our review, **no internal control deficiencies** were noted.

Audits are only one part of a comprehensive risk management and control program. Recommendations are provided with the objective to assist the Board, Administration and Operations Committee and management in the effort to eliminate, reduce or mitigate overall risks. The procedures performed are included in the next section of the report.

Procedures Performed

The following procedures were performed during the audit.

- Obtained the contract for the investment manager AQR that had been executed since the last audit was performed in 2016. Reviewed contractual provisions including fees and insurance requirements, and verified contracts were signed by the investment managers/consultant and appropriate ERS representative(s).
- Reviewed ERS BOD reporting packages and determined that the data being reported to the BOD was accurate and properly supported by the records maintained by Northern Trust.
- Obtained and reviewed the quarterly performance reporting packages for a sample of 21 investment managers. Reviewed ERS calculated manager returns, benchmarking index returns, and values of holdings against those reported by the investment consultant and custodian for accuracy on a sample basis.
- Verified that quarterly investment manager holdings statements are reconciled to the Northern Trust custodian reporting statement.
- Obtained the SSAE 18 SOC-1 report from Northern Trust to confirm that the custodian maintains adequate internal controls over trades and movements, and that ERS reviews.
- Confirmed that sufficient position backup and cross training occurs in the investment area and is supported with supervisory review.
- Reviewed the process to monitor investment manager compliance with the ERS Statement of Investment Policy through the use of the Northern Trust Compliance Analyst application.
- Reviewed investment manager due diligence schedule and a sample of seven due diligence reports to confirm the biennial review process.
- Reviewed custodian Northern Trust contract and amendments to compare the securities lending fees stipulated by these agreements to those being charged.
- Obtained invoicing for a sample of 10 investment managers and obtained private equity partnership financial statements to verify that ERS is being charged in accordance with the terms of the agreements with these third parties.