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September 10, 2021

**Benefit Calculation Process Audit**

**City of Milwaukee**

**Employees' Retirement System**

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## Background

As part of the annual Enterprise Risk Assessment and related Audit Plan, under direction of Administration and Operations (A&O) Committee, an audit of the Benefit Calculation Process for the City of Milwaukee Employees' Retirement System (CMERS) was performed during the period from July 28, 2021, through August 31, 2021. The audit was requested to review and evaluate the organization's Benefit Calculation process against leading practices and determine whether control deficiencies existed within the internal control environment. This audit cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations.



# Internal Controls Assessment Objectives and Scope

The objective of the Benefit Calculation Process Audit was to review and evaluate processes and controls currently in place against leading practices. The focus of the assessment was to address the following risks:

1. Perform a current state process assessment, internal controls assessment and organization assessment of the Benefit Calculation Process Team to evaluate the design of current state processes and internal controls as it pertains to the organizations Benefit Calculation processes.
2. Assess the governance and accountability over the Benefit Calculation process, as well as the inherent risks from misappropriation, fraud, and abuse
3. Compare current state internal controls versus leading practices
4. Propose future state changes that mitigate risk, better support internal controls of CMERS

## **The following processes and sub-processes are in-scope, as well as segregation of duties in each area:**

The objective of the Benefit Calculation Process Audit will include the review of processes and controls related to the design and operating effectiveness of the processes and controls, including:

1. Participant Benefit Calculations
  - Processes and Controls
  - System Applications and Controls
  - Use of Authorized Supporting Documentation
  - Management Review and Approval Procedures
2. Employment Contracts
  - Impact of Employee Contract Changes in MERITS
  - Impact of Retroactive Changes
3. System Access Restrictions
  - System Access Review and Approval
  - Access and Safeguarding of PII
  - Segregation of Duties
4. Organizational Resilience
  - Standard Practice Instructions (SPIs)
  - Cross Training Procedures



# Procedures Performed

The Benefit Calculation Process Audit was performed in collaboration with members of CMERS.

As part of the audit, various techniques were used to audit and assess the effectiveness of the internal controls, including:

1. Interviewed members of CMERS
  - Dan Gopalan, ERS Chief Financial Officer
  - Terry Siddiqui, IT Consultant
2. Gathered supporting documents describing current state processes (e.g., policies, procedures, screenshots, flowcharts, reconciliations, analyses, etc.)
3. Reviewed, tested and evaluated CMERS processes and controls for the following functions;
  - Benefit Calculation process controls covering;
    - Service Retirement Payments
    - Early Retirement Payments
    - Global Pension Settlement (GPS) Lump Sum Retirement Payments
    - Disability Retirement Payments
    - Early Termination Payments
    - Survivorship Benefit Payments
    - Service Reciprocity Retirement Payments
  - Employee Contract Changes in MERITS
  - Physical Access and Policies governing the use of PII
  - Employee Cross Training
  - User System Access
  - Segregation of Duties
4. Ranked current-state processes against five levels of maturity definition (1. Initial; 2. Repeatable; 3. Defined; 4. Managed; and 5. Optimized)

We would like to acknowledge and thank management with whom we interacted. The time, effort, and discussions they provided were instrumental in our understanding and provided the necessary information to complete our project. During the course of our assessment, management and personnel provided all of the materials requested and answered all of our questions promptly. Below is the assessment executive summary.



## Audit and Assessment Results – Executive Summary

All processes assessed during the audit were rated as having either Managed or Defined Maturity. Management has established defined and documented formalized processes, procedures, and transaction flows that are regularly updated. Portions of the process are regulated and monitored using automated controls. This level of maturity is considered suitable for these control environments by management and internal audit.

Processes	Control Description	Control Finding?	Process Maturity Level
<b>Benefit Calculation Process</b>	<p>ERS has developed and implemented defined procedures to accurately compile and calculate member benefit calculation payments. For each calculation, the Benefit Calculation Team will.</p> <ul style="list-style-type: none"> <li>• Verify the members compensation history and ensure that the members earnings are adjusted for any retroactive payments.</li> <li>• The appropriate documentation initiating the transaction is properly authorized by the member.</li> <li>• Benefit Payment calculations are accurate and are then independently reviewed by appropriate personnel.</li> <li>• Payment Calculation Testing Results: <ul style="list-style-type: none"> <li>○ Service Retirement Payments</li> <li>○ Early Retirement Payments</li> <li>○ Global Pension Settlement (GPS) Lump Sum Retirement Payments</li> <li>○ Disability Retirement Payments</li> <li>○ Employee Termination Payments</li> <li>○ Survivorship Benefit Payments</li> <li>○ Service Reciprocity Retirement Payments</li> </ul> </li> </ul>	<b>No</b>	<b>Managed</b>
		<b>No</b>	
		<b>No</b>	
		<b>No</b>	
		<b>No</b>	
		<b>No</b>	
		<b>No</b>	
		<b>No</b>	
<b>Employment Contract</b>	Employee Contract Updates and Changes approved by the Common Council are properly updated and reflected in MERITS	<b>No</b>	<b>Managed</b>
<b>System Access, Segregation of Duties and Access to PII</b>	<p>Employee access to CMERS systems is reviewed by management twice a year to ensure that ERS's employees and business partners have the appropriate system access and that no Segregation of Duties conflicts exist.</p> <p>In addition, internal organization policies and system controls are in place that guide and control employee access to member Personal Identifiable Information (PII) that are regularly reviewed and monitored by CMERS management.</p>	<b>No</b>	<b>Defined</b>

Organization Resilience	Standard Practice Instructions (SPIs) are regularly reviewed and updated by management to ensure process and control procedural document is complete and accurate.	No	Defined
	Management regularly cross trains and evaluates department personnel as to their ability to competently perform duties outside of the employee’s current role and responsibilities.	No	
*DEFINED MATURITY	Internal control uniform across the entity's processes; transaction flows documented; risk of fraud, errors, and omissions identified; control processes for mitigating risks have enhanced documentation and integration.		
*Managed Maturity	Procedures and controls are well documented and kept current; Preventive and detective controls are employed, with greater use of automation to reduce human error. Many metrics are used with a blend of automated and manual performance monitoring. Best practices and/or benchmarking are used to improve process.		
See Appendix for all Maturity Definitions.			

***Following the conclusion of our testing of CMERS Internal Control Environment, we identified No Internal Control Deficiencies.***

## Observations, Recommendations, and Management Responses

None.





## Closing

We wish to extend our appreciation to management and staff for their timely cooperation and assistance during the project.

\* \* \* \* \*

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*CliftonLarsonAllen LLP*

September 10, 2021



# Appendix

## Maturity Definitions

Capability Level	Capability Description	Capabilities Attribute
5. Optimized	Policies and processes are continuously reviewed and improved within a highly automated control environment.	<ul style="list-style-type: none"> <li>Processes and controls are continuously reviewed and improved</li> <li>Preventive and detective controls are highly automated to reduce human error and cost of operation.</li> <li>Comprehensive, defined performance metrics exist, with extensive automated performance monitoring.</li> <li>Extensive use of best practices, benchmarking, and/or self-assessment to continuously improve process.</li> </ul>
4. Managed	Policies and processes are documented, standardized, regularly updated and controls increasingly use automation.	<ul style="list-style-type: none"> <li>Procedures and controls are well documented and kept current.</li> <li>Preventive and detective controls are employed, with greater use of automation to reduce human error.</li> <li>Many metrics are used with a blend of automated and manual performance monitoring.</li> <li>Best practices and/or benchmarking are used to improve process</li> </ul>
3. Defined	Policies and processes are documented, standardized and updated, e.g., annually with heavy reliance on manual processes.	<ul style="list-style-type: none"> <li>Procedures are well documented, but not kept current to reflect changing business needs.</li> <li>Preventive and detective controls are employed, still reliant on manual activities.</li> <li>Some metrics are used, but performance monitoring is still manual and/or infrequent.</li> <li>Generally occurs during periodic (e.g., annual) policy and procedure renewal.</li> </ul>
2. Repeatable	Some standard processes are defined and success depends largely on "tribal knowledge" and detective controls.	<ul style="list-style-type: none"> <li>Some standard procedures exist, relies on "tribal knowledge."</li> <li>Mostly detective are in place, minimal preventive controls, and highly manual.</li> <li>Few performance metrics exist, thus performance monitoring is inconsistent or informal.</li> <li>Most likely in reaction to audits or service disruptions.</li> </ul>
1. Initial	Few processes are defined and success depends on individual effort and heroics.	<ul style="list-style-type: none"> <li>No formal procedures exist.</li> <li>Controls are non-existent or primarily in reaction to a "surprise."</li> <li>There are no metrics or performance monitoring.</li> </ul>