



City of Milwaukee Employees' Retirement Services

Benefit Calculation Process Audit

MAY/JULY 2019

EXPERIS FINANCE
RISK ADVISORY SERVICES
WISCONSIN OFFICE

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EXECUTIVE SUMMARY

Background

At the direction of the Administration and Operations (A&O) Committee, a Benefit Calculation Audit was performed during the period May 31, 2019 – July 31, 2019. 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 the benefits of City of Milwaukee workers in accordance with legislative guidance and contractual obligations. A database of monthly benefits is maintained for over 13,000 retired and/or disabled City workers. ERS uses the MERITS application to calculate benefits in accordance with legislative statutes and contractual obligations and process monthly pay checks for each member or surviving beneficiary, as applicable. Prior to payment processing, each retiree's benefits calculation is independently reviewed for accuracy. As changes to benefit calculations occur as a result of collective bargaining, legal opinion, or legislative activity, MERITS is updated and all changes to MERITS are reviewed for accuracy prior to implementation.

Audit Scope & Objectives

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

- Calculation and independent review of member benefits;
- Verification processes over changes to benefits calculation methodology;
- Physical security over members' confidential paperwork; and
- User access review controls.

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 Benefit Calculation 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, A&O 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 testing period, January 2018 through May 2019.

- Selected and tested the various benefit calculations performed by ERS, including:
 - 25 Standard Defined Benefit payments;
 - 5 participants with Early Retirement Benefit payments;
 - 5 Lump Sum Benefit payments;
 - 5 Disability Benefit payments;
 - 25 Early Termination Benefit payments;
 - 3 Survivorship Benefit payments that transitioned to the spouse; and
 - 5 Benefit payments involving service reciprocity with other state and local government entities.

Sample sizes for each subset were determined based upon the volume of the population for that subset:

<u>Sample Size</u>	<u>Population Size</u>
25	>= 100
5	50 – 100
3	< 50

- From each of these sample populations, the benefit calculations were analyzed for the following transactions:
 - Verified that member compensation history was reviewed and earnings adjusted for any retroactive payments.
 - Verified that benefits for the following calculations were accurately calculated and independently reviewed:
 - Service retirement
 - Global Pension Settlement (GPS) lump sum bonus
 - Disability
 - Death benefits
 - Determined that all benefit calculations were independently reviewed and approved by appropriate personnel.
- Examined evidence that all approved contract changes were properly reviewed, analyzed and, as appropriate, adopted for use within MERITS.
- Reviewed the clean desk policy controls by observing the status of employees' work areas after normal operating hours.
- Determined system user access controls that management has put in place to manage and control access to sensitive member information have been reviewed at least annually.
- Reviewed a sample of five Standard Practice Instructions Guidelines (SPI) for accuracy.

- Determined that management regularly evaluates the Benefit Calculation personnel process for the purposes of assessing employee cross training.