September 15, 2021

COSO 2013 Assessment of Entity Level Controls
City of Milwaukee
Employes' Retirement System

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Background

As part of the City of Milwaukee Employes' Retirement Systems (CMERS) 2021 Internal Audit Plan, a COSO 2013 Assessment of Entity Controls was performed during the period from August 3, 2021, through September 15, 2021. The COSO 2013 Assessment of Entity Controls was performed to benchmark CMERS' Entity Level Controls against leading practices of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (2013). This assessment cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations.

Findings & Observations – Executive Summary

Following the conclusion of our assessment and testing of CMERS Internal Control Environment, we identified No Internal Control or Design Deficiencies.

Internal Controls Assessment Objectives and Scope

The objective of the COSO 2013 Controls Framework Assessment was to review and evaluate the Entity Level processes and controls that are in place against leading practices leading practices of the COSO Internal Control – Integrated Framework (2013). The focus of the assessment was to compare the organization's entity level controls against the 2013 COSO Framework (*Framework*)which includes 5 components according to its 17 principles and approximately 70 points of focus

Control Environment
1. The organization demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment
6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
9. The organization identifies and assesses changes that could significantly impact the system of internal control

Control Activities
10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over technology to support the achievement of objectives.
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information and Communication
13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring Activities
16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

Benefits: Internal control helps entities achieve important objectives and sustain and improve performance. COSO's *Internal Control—Integrated Framework (Framework)* enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization.

The **Framework** assists management, boards of directors, external stakeholders, and others interacting with the CMERS in their respective duties regarding internal control without being overly prescriptive. It does so by providing both understanding of what constitutes a system of internal control and insight into when internal control is being applied effectively.

Internal Controls Procedures Performed

The CMERS COSO 2013 Assessment of Entity Level Controls was performed via virtual walkthroughs in collaboration with members of CMERS Executive Management.

Techniques used to assess the effectiveness of the internal controls, included:
1. Review of the COSO 2013 Framework tool with CMERS' Management and gain an understanding of the entity level controls currently in place.
2. Gathering evidence from management supporting the effectiveness of those controls that are in place.
3. For a select number of controls (4), sample test of the company's compliance with these selected controls and assessed their effectiveness; for the remainder of controls Internal Audit performed inquiry and inspection of supporting documentation
4. Assessing the overall effectiveness of CMERS' Entity Level Control Environment according to COSO 2013 Controls Framework.

The following personnel participated in the COSO 2013 Internal Controls Framework Assessment:
- Jerry Allen, Executive Director
- Melody Johnson, Deputy Executive Director
- Dan Gopalan, ERS Chief Financial Officer
- Terry Siddiqui, IT Consultant

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.

Process Assessment – Executive Summary

All but two of the processes assessed were rated as Defined Maturity*: Management has established defined, formalized processes, procedures, and transaction flows. This level of maturity is considered suitable for these control environments by management and internal audit.

COSO Control	COSO 2013 Control Objective	Control Description	Control Deficiency?	Process Maturity
CE 1	Annual review of BOD/Organization charters, including audit committee.	The Administrative & Operations (A&O) Committee and the Audit Committee Charter are reviewed and approved by the BOD on an annual basis.	No	Defined
CE 2	Monitoring of execution of Board Charters.	CMERS has developed an internal checklist to track and manage its annual BOD activities. All actions requiring BOD approval are recorded in the Committee minutes.	No	Defined
CE 3	Financial expert on the Audit Committee.	The City Comptroller is a permanent member of the A&O Committee.	No	Defined
CE 4	Succession planning for Board and Executive Management.	CMERS BOD members are either elected by the active members of the retirement system or elected or appointed by the Mayor of Milwaukee. In the event the Executive Director of CMERS becomes open, the Executive Deputy Director will assume responsibility according to the Rules defined in Chapter 36. CMERS has evaluated its personnel and have identified those individuals who could step in either replace or assume responsibility in the event of employee Turnover.	No	Defined
CE 5	Employee acknowledgement of handbook and code of ethics.	Annually, employees are asked to review and acknowledge receipt and compliance with CMERS Basic Office Guidelines Policy and Protecting Personal and Private Information Policy.	No	Defined
CE 6	Approach to disciplinary action for employee violations of code of conduct.	Employee disciplinary action arising from conduct violations is governed and administered according to the Loudermill Hearing process. Upon an employee's termination, an employee exit checklist is completed and an email is sent to the Department of Employee Relations to alert them to cancel that employee's payroll.	No	Defined

CE 7	Compensation Committee oversight of management compensation and incentives.	Compensation increases are determined by the Department of Employee Relations and approved by the Common Council. Increases typically fall into three categories; > Cost of Living Increases > Employee promotions > An employee chooses to live in the City of Milwaukee	**No**	**Defined**
CE 8	Defined procedures exist for hiring and recruiting.	The City of Milwaukee Department of Employee Relations (DER) has provided CMERS with detailed instructions for both the recruiting and hiring employees.	**No**	**Defined**
CE 9	Annual review of employee performance and compensation.	Before 2020, Employee Performance Evaluations were not required for City of Milwaukee Employees. Following the COVID-19 Pandemic and an interest of the City's workforce to work remotely, the City has decided to implement a Performance Evaluation Process.	**No**	**Defined**
CE 10	Organization charts are used to define roles and reporting structure.	CMERS maintains up to date organization charts that define organizational roles and responsibilities of its management and personnel.	**No**	**Defined**
CE 11	Employee job descriptions are defined.	Employee job descriptions within CMERS are defined and current.	**No**	**Defined**
CE 12	Management preparation of the Fraud Risk Assessment.	As part of its Internal Controls Environment, management has considered and assessed the possible ways that Fraud could occur within the organization and has implemented the appropriate mitigating controls. These mitigating controls are tested as part of each audit.	**No**	**Defined**
CE 13	Board and management review of budget to actual for forecasts.	CMERS Management and by its BOD review and approve the annual budget.	**No**	**Defined**
CE 14	Functioning whistleblower hotline exists.	A functioning employee hotline is provided by the City of Milwaukee to CMERS employees. CMERS employees are aware of the hotline and how to use it, if needed.	**No**	**Defined**

CE 15	Audit committee review of SOX scoping, risk assessment and materiality, including Audit Committee oversight of SOX testing and control deficiencies.	CMERS is not a publicly traded company and does not need to comply SOX. This control objective is **NOT APPLICABLE**. *(1)* *(1) SOX Compliance Control Objective has been included in the table for completeness as it is an integral part of the COSO 2013 Control framework.*	N/A	N/A
CE 16	Annual internal control testing to validate key control functioning.	An Audit Plan is prepared annually. The plan identifies those IT and Administrative processes that will be tested during the year. At the completion an Audit Report is prepared that identifies any findings or procedural improvements.	No	Defined
CE 17	Independent internal audit function / activity, in-house or outsourced.	CMERS Audit Committee Charter provides for the use of an independent Internal Auditor. CMERS has chosen to utilize an Independent Third Party to provide Internal Audit Services to the organization.	No	Defined
CE 18	Monitoring of reports from external agencies, e.g., FDA or other regulators.	Monitoring and compliance with External Agencies (e.g., IRS Determination Letter) is are monitored by CMERS Management.	No	Defined
CE 19	Delegation of authority matrix exists and is regularly reviewed.	CMERS Delegation of Authority Matrix is aligned with the City of Milwaukee directives and is properly communicated within the organization. Only Authorized members of CMERS management are capable of approving vendor transactions.	No	Defined
CE 20	Management preparation of the Enterprise Risk Assessment with mitigation strategies or a strategic plan identifying key risks.	An Enterprise Risk Assessment is prepared every three years by CMERS Internal Audit department. The Risk Assessment is then used to develop a Three-Year Audit plan.	No	Defined
CE 21	Monitoring of financial reporting process.	The Financial Reporting process is monitored and reviewed by both CMERS Executive Management throughout the Calendar year.	No	Defined

CE 22	Accounting policies and procedures.	CMERS maintains detailed policies and procedures that ensure that organization's financial statements are properly prepared.	No	Defined
CE 23	IT systems are well controlled to support information management.	IT General Controls Environment and Security Infrastructure are regularly reviewed and updated to ensure that the environment and security measures are capable of meeting the needs of the organization and protecting its members Personal Identifiable Information.	No	Defined
*DEFINED MATURITY	Policies and processes are documented, standardized and updated, e.g., annually with heavy reliance on manual processes. *See Appendix for all Maturity Definitions.*			

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

Current Year Findings, 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

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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.	• Processes and controls are continuously reviewed and improved • Preventive and detective controls are highly automated to reduce human error and cost of operation. • Comprehensive, defined performance metrics exist, with extensive automated performance monitoring. • Extensive use of best practices, benchmarking, and/or self-assessment to continuously improve process.
4. Managed	Policies and processes are documented, standardized, regularly updated and controls increasingly use automation.	• 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
3. Defined	Policies and processes are documented, standardized and updated, e.g., annually with heavy reliance on manual processes.	• Procedures are well documented, but not kept current to reflect changing business needs. • Preventive and detective controls are employed, still reliant on manual activities. • Some metrics are used, but performance monitoring is still manual and/or infrequent. • Generally occurs during periodic (e.g., annual) policy and procedure renewal.
2. Repeatable	Some standard processes are defined and success depends largely on "tribal knowledge" and detective controls.	• Some standard procedures exist, relies on "tribal knowledge." • Mostly detective are in place, minimal preventive controls, and highly manual. • Few performance metrics exist, thus performance monitoring is inconsistent or informal. • Most likely in reaction to audits or service disruptions.
1. Initial	Few processes are defined and success depends on individual effort and heroics.	• No formal procedures exist. • Controls are non-existent or primarily in reaction to a "surprise." • There are no metrics or performance monitoring.