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December 2, 2021

Contributions Process Audit
City of Milwaukee
Employees' Retirement System

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Background

At the request and direction of Administration and Operations (A&O) Committee, an audit of the Contributions Process for the City of Milwaukee Employees' Retirement System (CMERS) was performed during the period from September 27, 2021 through November 15, 2021. The audit was requested to review and evaluate the organization's Contributions process against leading practices and determine whether control deficiencies existed within the internal control environment or whether there were identified control design deficiencies. 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 Contributions 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. Assess the suitability of the design for process and controls over Contribution process, including the inherent risks of inaccurate employee contribution payments and the non-compliance with organizational policies.
2. Assess the governance and accountability over the Contribution 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 or enhance CMERS' internal control structure and outcomes.

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

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

1. Receipt of Contributions
 - a. Reconciliation Procedures with Contributing Organizations and Agencies
 - b. Management Review and Approval
 - c. Suspended Member Account Procedures
 - d. Northern Trust Reconciliation
2. Contribution Rates
 - a. Employment Contracts Changes in MERITS
 - b. Change Approval Process
 - c. Rate Change Procedures
3. System Access Restrictions
 - a. User System Access Review and Approval
 - b. Segregation of Duties
4. Organizational Resilience
 - a. Standard Practice Instructions (SPIs)
 - b. Cross Training Procedures



Procedures Performed

The Contributions 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, 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;
 - Receipt of Contributions
 - Contribution Rates
 - User System Access
 - Segregation of Duties
 - Employee Cross Training
 - Standard Practice Instructions
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 Defined Maturity*: Management has established defined and documented formalized processes, procedures, and transaction flows that are regularly updated. This level of maturity is considered suitable for these control environments by management and internal audit.

Processes	Control Description	Control Finding?	Process Maturity Level
Receipt of Contributions	<p>ERS has developed and implemented defined procedures to review and reconcile employee bi-weekly contributions. These procedures include:</p> <ul style="list-style-type: none"> • Review and reconcile employee contributions activity by pay period from the Agency reports to the activity recorded in MERITS. The reconciliations consider the number of participant records and dollar amounts posted for each contribution cycle. • Reconcile and verify agency contributions to the wire transfer deposits were properly recorded in the MERITS system and in Northern Trust. These reconciliations are reviewed and approved by CMERS management. • If a difference between the Agency contributions and Merits is identified, CMERS will: <ul style="list-style-type: none"> ○ Follow-up with the agency via email to ensure that the appropriate changes are made to the Agency’s records. ○ Recognize the appropriate receivable from the agency until a supplemental contribution has been received. Inter-agency receivables are approved by management and are regularly monitored until the receivable is collected. • Contribution Reconciliation Testing Results; <ul style="list-style-type: none"> ○ A sample of contribution reconciliations from several entities were selected and determined that the defined controls were in place and operating as described. 	No	Defined
		No	
Contribution Rates	<p>Changes made to employee Contribution Rates are made according to defined procedures and receive the appropriate approval:</p> <ul style="list-style-type: none"> • Changes to Employee Contribution Rates are approved by the Common Council and then later updated in MERITS. • Changes to employee contribution rates in MERITS must be independently reviewed and approved by appropriate personnel. • Contribution Testing Results: <ul style="list-style-type: none"> ○ Contributions rates defined and directed by Chapter 36 of the Milwaukee City Charter were properly applied. 	No	Defined
		No	
System Access Controls	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.	No	Defined

Organization Resilience	Standard Practice Instructions (SPIs) are regularly reviewed and updated by management to reflect current processes and controls.	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	Policies and processes are established and are reviewed and updated as needed (e.g., annually) to reflect changing business needs; preventive and detective controls are employed but are primarily reliant on manual activities; performance monitoring is performed using a mix of manual and automated processes. <u>See Appendix for all Maturity Definitions.</u>		

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

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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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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 established and are reviewed and updated as needed (e.g., annually) to reflect changing business needs; preventive and detective controls are employed but are primarily reliant on manual activities; performance monitoring is performed using a mix of manual and automated processes.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • No formal procedures exist. • Controls are non-existent or primarily in reaction to a "surprise." • There are no metrics or performance monitoring.