



March 20, 2024

Human Resources and Payroll Process Audit:

City of Milwaukee Employees' Retirement System

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Background

At the request and direction of the Administration and Operations (A&O) Committee, an audit of the Human Resources and Payroll Process and controls for the City of Milwaukee Employees' Retirement System (CMERS) was performed during the period from January 8, 2024, through March 20, 2024. The audit was requested to review, evaluate and test the organization's Human Resource and Payroll process against leading practices, test controls and determine whether control deficiencies existed within the internal control environment or whether there were identified control design or operating deficiencies. This audit cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations.

We have concluded our consulting engagement to perform the procedures described in the attached report. These procedures, which were agreed to by CMERS, were applied solely to assist in evaluating the internal controls of CMERS. Management of CMERS is responsible for their operations and internal controls. The execution and maintenance of adequate internal controls is solely the responsibility of the management of CMERS. Consequently, we make no representations regarding the sufficiency of the procedures described in the attached document either for the purpose for which this report has been requested or for any other purpose.

CliftonLarsonAllen (CLA) was not engaged by CMERS to conduct a financial audit, for which the objective would be the expression of an opinion on the financial statements. Had we been hired to perform an audit of financial statement information in accordance with U.S. generally accepted auditing standards, other issues may have come to our attention that would have been reported to you. Therefore, we express no opinion on the effectiveness of CMERS's controls over all or any part of its financial statements.

Internal Controls Assessment Objectives and Scope

The objective of the Human Resource and Payroll Process Audit was to review, evaluate, and test processes and controls currently in place against leading practices and evaluate operating effectiveness. The focus of the assessment was to address the following risks:

1. Assess the suitability of the design for process and controls over Human Resource and Payroll Process, including the inherent risk of inaccurate payments and non-compliance with financial reporting requirements.
2. Assess the governance and accountability over the Human Resource and Payroll Process, as well as the inherent risks from misappropriation, fraud, and abuse.
3. Compare current state internal controls versus leading practices and test for operating effectiveness.
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 Human Resources and Payroll Process Audit included the review of processes and controls related to the design and test of operating effectiveness, including:

1. Human Resource Compliance with City Milwaukee Department of Employee Relations (DER)
 - a. Background Check of Eligible Candidates
 - b. Hiring, Transfer, and Promotion of Employees
 - c. Termination of Employees
 - d. Approval of Wage Increases
2. Payroll Process
 - a. Employee Time Sheet Approval
 - b. Payroll Reconciliation
3. System Access Restrictions
 - a. User System Access Review and Approval
 - b. Segregation of Duties
4. Organizational Resilience
 - a. Review and Update of Standard Practice Instructions (SPIs)
 - b. Cross Training Procedures

Procedures Performed

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. Gathered evidence and tested CMERS processes and controls for the following functions;
 - Human Resource Compliance with City of Milwaukee Department of Employee Relations (DER)
 - Payroll Process
 - System Access Restrictions
 - Organizational Resilience
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 and audit, management and personnel provided all the materials requested and answered all of our questions promptly.

Audit and Assessment Results – Executive Summary

All the established processes and controls that were 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 Deficiency?	Issues Identified	Process Maturity Level
Human Resource Compliance with City of Milwaukee Department of Employee Relations (DER)	Background checks are performed by the City of Milwaukee DER or their Service Provider for those individuals’ seeking employment at CMERS. Employees passing the background check are then “eligible” to participate in the interview process. All new hires, hired at CMERS had the appropriate documentation required by the DER and exhibited the appropriate level of management approval.	No	None	Defined
	DER policies and documentation requirements surrounding the Hiring, Transfer and Promotion of Employees were properly prepared and exhibited the appropriate approval. Wage increases were properly approved by the CMERS Executive Director.	No	None	Defined
	CMERS employees whose employment terminated, followed DER and CMERS guidelines. The necessary documentation and checklists were properly followed to ensure access to CMERS offices and systems were properly secured in a timely manner.	No	None	Defined
	Prior to receiving an employee wage increase, an annual review of the employee’s performance is conducted. Any employee wage increases are properly approved by the Executive Director and Deputy Director and are properly recorded in PeopleSoft.	No	None	Defined
Payroll Process	Weekly Time Sheets, including time-off requests, are properly approved by the appropriate member of management.	No	None	Defined
	Bi-weekly time reports are properly reviewed and approved by the appropriate member of CMERS management in PeopleSoft. Once complete, the Payroll Clerk performs a final review of the payroll report before it is submitted to the City of Milwaukee.	No	None	



Payroll Process	As an additional test of the control environment, CLA selected a sample of employees from a sample of pay periods and determined that the approved pay rates were properly reflected in each pay period and the employee’s pay was properly calculated.	No	None	Defined
	Monthly, CMERS reimburses the City of Milwaukee for its operating expenses, including payroll expense, which has been incurred during the month. This reimbursement is reviewed by CMERS leadership for accuracy and completeness before payment is made.	No	None	Defined
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 “high-risk” Segregation of Duties conflicts exist.	No	None	Defined
Organization Resilience	Standard Practice Instructions (SPIs) are regularly reviewed and updated by management to reflect current processes and controls.	No	None	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	None	
PROCESS MATURITY DEFINITIONS				
*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. <i>See Appendix for all Maturity Definitions.</i>			

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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This report has been prepared in accordance with Statement of Standards for Consulting Services issued by the American Institute of Certified Public Accountants and is solely for use by management. It is not intended for use, in whole or in part, by outside parties without the specific consent of CliftonLarsonAllen LLP.

CliftonLarsonAllen LLP
March 20, 2024



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.