

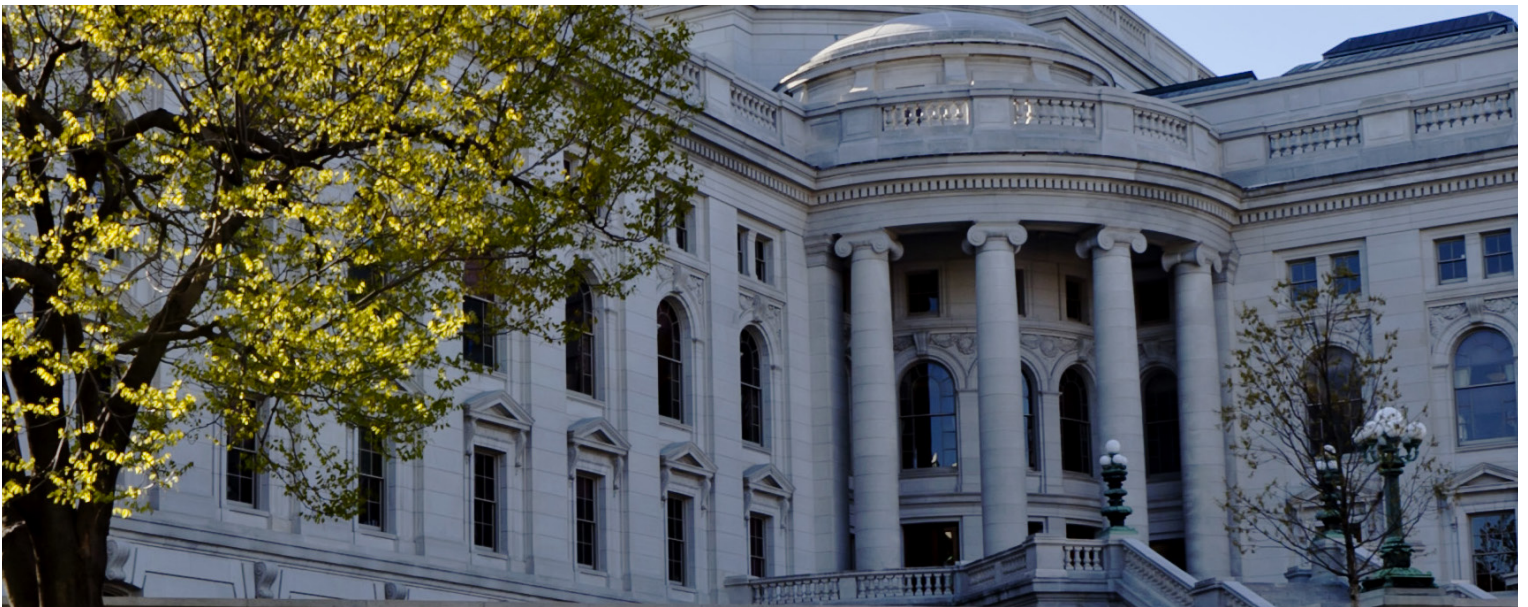


STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-7
July 2024

Employees' Retirement System of the County of Milwaukee

Calendar Year 2023



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Employees' Retirement System of the County of Milwaukee

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STATE OF WISCONSIN

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Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

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Appendix 3—Finding of Noncompliance by the Milwaukee County Office
of the Comptroller

Opinion Published Separately

The financial statements and our opinion on them are included in the Retirement Plan Services' *2023 Annual Report of the Pension Board*.



STATE OF WISCONSIN

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July 24, 2024

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

As required by s. 13.94 (1) (x), Wis. Stats., we have completed an audit of the financial statements of the Employees' Retirement System of the County of Milwaukee (ERS) as of and for the year ended December 31, 2023, as prepared by Milwaukee County's Retirement Plan Services (RPS). RPS's *2023 Annual Report of the Pension Board*, which can be found on the RPS website, includes the financial statements and our unmodified opinion on them. This is the first audit of the ERS we completed under provisions of 2023 Wisconsin Act 12.


The ERS is authorized in Milwaukee County Ordinance 201.24 and governed by the Pension Board. The single-employer, defined-benefit retirement system had 12,466 participants and a fiduciary net position of \$1.7 billion as of December 31, 2023. Contributions from Milwaukee County and its employees totaled \$73.3 million during 2023 and benefit payments totaled \$199.4 million.

As of December 31, 2023, the ERS reported a net pension liability totaling \$729.4 million and was 70.1 percent funded. Several provisions of Act 12 were implemented for the ERS valuation following Milwaukee County's adoption of a 0.4 percent sales and use tax increase in July 2023, including decreasing the investment return assumption from 7.5 percent to 6.8 percent. Milwaukee County employees hired after December 31, 2024, will be required to participate in the Wisconsin Retirement System. RPS staff will continue to provide pension benefits to existing ERS participants.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 31. We reported four internal control deficiencies that we considered to be significant deficiencies. These significant deficiencies relate to the adequacy of the system of internal control, the internal controls for the pension benefit computer system, the service organization internal controls, and incorrect creditable service years used in the actuarial valuation. We also identified two other items of interest that pertain to noncompliance by RPS in collecting all employee contributions required by ordinances and ensuring investment managers completed all required reporting. We also found the Milwaukee County Office of the Comptroller was noncompliant with Wisconsin Statutes and Milwaukee County Ordinances when it did not ensure that prior ERS financial audits were conducted in accordance with *Government Auditing Standards*.

We appreciate the courtesy and cooperation extended to us by RPS and Milwaukee County staff during the audit.

Respectfully submitted,


Joe Chrisman
State Auditor

JC/SH/ss

Introduction

Originally established in 1937 by the Wisconsin Legislature in Chapter 201 of the Laws of Wisconsin of 1937, and subsequently modified through Milwaukee County Ordinances, the Employees' Retirement System of the County of Milwaukee (ERS) is a single-employer, defined-benefit pension plan that provides postretirement financial benefits to participating employees, as well as disability and death benefits to participants and their beneficiaries. The ERS is a trust for which assets can only be used to fund pension benefits and certain administrative costs. As of December 31, 2023, the ERS had 12,466 participants.

The ERS is governed by the Pension Board, which has 10 members.

Under Milwaukee County Ordinance 201.24, 8.1, the 10-member Pension Board is responsible for the administration and operation of the ERS. Board members are limited to serving two three-year terms. The 2023 board members are shown in Appendix 1 and include:

- three participants appointed by the Milwaukee County Executive and confirmed by the Milwaukee County Board of Supervisors;
- two participants appointed by the Milwaukee County Board of Supervisors chairperson, confirmed by the Milwaukee County Board of Supervisors, and subject to Milwaukee County Executive approval or veto;
- one participant appointed by the Executive Board of the Milwaukee Deputy Sheriffs' Association who is an active county employee;

4 › INTRODUCTION

- three elected employee participants who are not participants of the Milwaukee Deputy Sheriffs' Association; and
- one elected retiree participant.

In 2020, the Pension Board approved a charter, including the establishment of four committees. Although committees may take actions on certain topics, most approvals are made by the Pension Board. The four committees include:

- Actuarial, Audit, and Risk Committee, which assists the Board in its oversight responsibilities in the areas of actuarial audits and analyses, internal controls, and compliance matters;
- Appeals Committee, which advises the Board by recommending actions on appeals brought by ERS participants or former Milwaukee County employees regarding ERS benefits and proposing changes to ERS ordinances and rules;
- Investment Committee, which provides oversight of ERS investments; and
- Governance Committee, which focuses on strategic planning, board member education, and other general business.

RPS is a unit within Milwaukee County's Department of Human Resources and had 18 authorized positions as of December 31, 2023.

Milwaukee County administers employee benefits and payroll for its employees. Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, is responsible for managing the ERS operations. As of December 31, 2023, RPS had a total of 18 positions, which are authorized and funded by Milwaukee County. RPS also contracted for additional positions as needed. Certain RPS administrative costs are funded by Milwaukee County and costs associated with the direct administration of the ERS are funded by contributions and investment income.

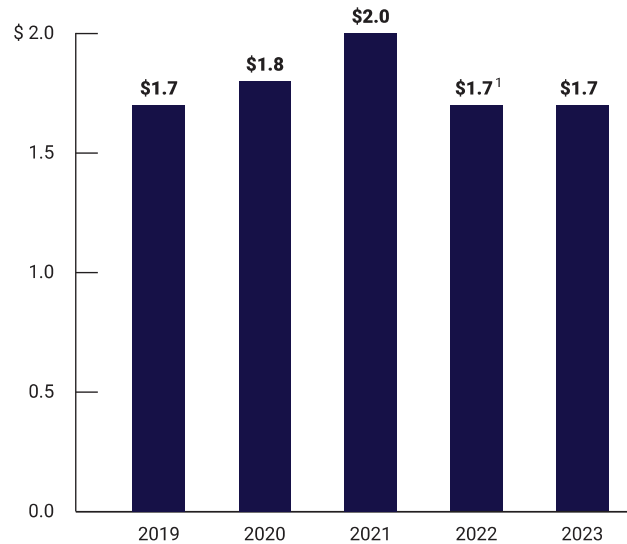
As required by Milwaukee County Ordinances, the Pension Board also designates an actuary to serve as a technical advisor to the Board and perform actuarial valuations. In addition, the Pension Board contracted with an Investment Consultant to assist it with development of investment policies and guidelines, oversight and monitoring of investments, and selection of investment managers to manage the assets of the ERS.

As of December 31, 2023, the ERS had a fiduciary net position of \$1.7 billion.

Fiduciary net position, which is the assets less liabilities, is a measure of overall financial condition. Although the fiduciary net position of the ERS on the basis of generally accepted accounting principles (GAAP) increased by 2.4 percent, it remained \$1.7 billion as of December 31, 2023, as shown in Figure 1. The increase is primarily attributable to an increase in cash and in the value of investments due to favorable market conditions during 2023.

Figure 1

ERS Fiduciary Net Position
As of December 31
(in billions)



¹ As restated for a new accounting standard RPS implemented for 2023.

***As of December 31, 2023,
the OBRA System had a
fiduciary net position of
\$4.6 million.***

In addition to the ERS, the Pension Board also oversees the OBRA 1990 Retirement System (OBRA System), which refers to the federal Omnibus Budget Reconciliation Act of 1990 that permits establishment of a retirement plan for seasonal and certain temporary employees who do not qualify for the ERS. The OBRA System is authorized under Milwaukee County Ordinance 203. Investment assets of the ERS and the OBRA System are commingled and legally may be used to meet either ERS or OBRA System benefit payments. As of December 31, 2023, the OBRA System had a total of 5,549 participants and a fiduciary net position of \$4.6 million.

2023 Wisconsin Act 12 Requirements

2023 Wisconsin Act 12 permitted Milwaukee County to impose an increase of 0.4 percent in the sales and use tax. Milwaukee County adopted the increase of the sales and use tax in July 2023, which became effective on January 1, 2024. The increased sales and use tax will end after 30 years or the first year the ERS actuary determines the ERS is fully funded.

The additional sales and use tax funds may be used to address the ERS's unfunded actuarial liability and payments associated with

\$199.0 million in outstanding Milwaukee County pension bond obligations as of January 1, 2024. According to Milwaukee County 2024 budget information, it is estimated that the increased sales and use tax will result in additional revenues of \$84.0 million in 2024, of which \$60.6 million is anticipated for the unfunded pension liability and \$23.4 million for pension bond obligations. Under Act 12, beginning in 2026 Milwaukee County is required to annually submit a report to the Joint Legislative Committee on Finance on its use of the sales and use tax funds.

2023 Wisconsin Act 12, and subsequent Milwaukee County actions, required changes to the ERS.

In addition, as required under Act 12:

- The Pension Board must adopt an annual investment return assumption that is the same as or less than that of the Wisconsin Retirement System (WRS).
- The ERS actuary may use no more than a 30-year amortization period for determining annual required contributions.
- The ERS is closed to new employees hired after December 31, 2024. Employees hired after December 31, 2024, will be required to participate in the WRS and the ERS will continue to provide pension benefits for existing participants.
- No increases or enhancements may be made to the ERS benefits of employees remaining in the ERS after January 1, 2024, except those required for compliance with federal law.

Under Act 12, Milwaukee County employees hired after December 31, 2024, who qualify will participate in the WRS. However, because the WRS does not offer postemployment retirement benefits to seasonal or temporary employees, Milwaukee County will continue to operate the OBRA System for seasonal and certain temporary employees.

We are required to perform an annual financial audit of the ERS and contract for an actuarial audit of the ERS at least every five years. In conducting this annual financial audit, we gained an understanding of RPS operations, reviewed internal controls, and identified fiscal effects of certain Act 12 provisions.

Audit Results

As required by s. 13.94 (1) (x), Wis. Stats., we have completed an audit of the financial statements and related notes of the ERS as of and for the year ended December 31, 2023, and rendered an unmodified opinion on them. The ERS financial statements were prepared by RPS using generally

accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). To complete our audit of the financial statements of the ERS, we reviewed RPS's internal controls over financial reporting; tested financial transactions; and reviewed the financial statements, notes, and required supplementary information that were prepared by RPS management.

Findings Related to Internal Control over Financial Reporting

We identified four significant deficiencies in internal control.

We identified internal control deficiencies during our audit that are required to be reported under *Government Auditing Standards*. Specifically, we identified four significant deficiencies in internal control. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. In comparison, a material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the ERS financial statements will not be prevented or will not be detected and corrected on a timely basis. We did not report any material weaknesses. The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 31, discusses concerns and includes the responses from RPS management. The corrective action plans prepared by RPS management for these findings begin on page 43.

Overall System of Internal Control

We found RPS had not conducted a comprehensive review to ensure there was an adequate system of internal control related to its fiscal employee positions.

We found RPS had not conducted a comprehensive review to ensure there was an adequate system of internal control related to its fiscal employee positions (Finding 2024-001, p. 33). For example, there was no assessment of the access granted to the fiscal employee positions across multiple systems or an assessment of whether duties related to cash and disbursement activities were appropriately segregated. We found that one fiscal employee completed the bank reconciliation, was responsible for authorizing disbursements from the ERS bank accounts, and was granted administrator access to the RPS accounting system, which could permit the fiscal position to modify accounting records that support the bank reconciliation. We also found there was no review by other RPS staff of the accounting entries prepared and entered in the accounting system by fiscal staff.

Although RPS had implemented some compensating controls, the compensating controls did not effectively mitigate all risks. Without adequate internal controls, there is an increased risk of misappropriation of ERS assets and inadvertent or intentional errors in the ERS financial statements that may not be prevented or detected and corrected in a timely manner. We recommended RPS segregate duties and implement

effective monitoring procedures, fully document its system of internal control, reassess its system of internal control annually, update the Pension Board charter to require a periodic assessment of the system of internal control, and report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.

Pension Benefit Computer System Controls

We identified deficiencies in RPS controls over its pension benefit computer system, including access role configurations, user provisioning and deprovisioning processes, and its review of users provided with access to the system.

We identified deficiencies in RPS controls over its pension benefit computer system, including access role configurations, user provisioning and deprovisioning processes, and its review of users provided with access to the system (Finding 2024-002, p. 36). We found RPS improperly configured one access component within the pension benefit computer system to permit all RPS staff with access to the pension benefit computer system to edit the component, did not consistently complete user access provisioning processes for the pension benefit computer system during 2023, and did not properly document its access reviews.

Without effective information technology controls, there is an increased risk of inaccurate pension benefit information and financial reporting, whether due to error or fraud. We recommended RPS develop written procedures for a periodic review of user role configurations, provisioning and deprovisioning of user access, and user access reviews; and report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.

Service Organization Internal Controls

We identified an internal control deficiency related to the assessment of internal controls at the custodian bank, which RPS relies on for investment transaction processing, custody of investments, and reporting.

The Pension Board contracts with a custodian bank that acts in a custodial capacity to hold and safeguard the investment assets of the pension plan. We identified an internal control deficiency related to the assessment of internal controls at the custodian bank, which RPS relies on for investment transaction processing, custody of investments, and reporting (Finding 2024-003, p. 39). RPS did not review the service organization audit report on the controls at the custodian bank or document that it ensured it had implemented appropriate complementary internal controls as listed in the service organization audit report. We recommended RPS develop and implement procedures to annually obtain and review the custodian bank's service organization audit report; review and assess that it had implemented the complementary internal controls; document its review; and report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.

Incorrect Creditable Service Years Used in the Actuarial Valuation

We found that RPS's consulting actuary used inaccurate creditable years of service for 118 active participants who had prior years of creditable service with the City of Milwaukee.

In the January 1, 2024 valuation, we found that RPS's consulting actuary used inaccurate creditable years of service for 118 active participants who had prior years of creditable service with the City of Milwaukee (Finding 2024-006, p. 41). The ERS has reciprocity provisions for service earned as a participating employee of the City of Milwaukee.

When modifying data RPS provided, the consulting actuary incorrectly combined participant years of creditable service with the City of Milwaukee with participant years of creditable service with the ERS and used this combined information to calculate the projected benefit payments for the valuation. We found that the incorrect data used in the consulting actuary's calculation of the ERS valuation resulted in an \$8.3 million overstatement of the ERS total pension liability as of December 31, 2023.

RPS staff did not review all modifications the consulting actuary made to the participant data, nor did RPS staff receive a final version of the data the actuary used in developing the valuation. We recommended that RPS staff develop procedures to obtain and review significant modifications included in the consulting actuary's data before actuarial calculations are completed, and that RPS staff report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement this recommendation.

Other Items of Interest

During our audit work, we identified other items of interest that did not meet the requirements for reporting under *Government Auditing Standards*.

Employee Contribution Noncompliance

We identified that Milwaukee County did not withhold employee contributions for hazard pay for deputy sheriff staff.

Employee ERS contribution rates are established by the Milwaukee County Board of Supervisors, based on recommendations from the Pension Board. We identified that Milwaukee County did not withhold employee contributions for hazard pay for deputy sheriff staff (Finding 2024-004, Appendix 2). We estimated Milwaukee County should have withheld \$19,000 in employee ERS contributions from employee paychecks related to hazard pay and remitted this amount to RPS during 2023. We recommended RPS staff work with the Milwaukee County Office of the Comptroller to address this issue and report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement our recommendations. Additional information, including RPS's corrective action plan, is found in Appendix 2.

Statement of Investment Policy

We found that investment managers did not meet some of the reporting requirements noted in the Statement of Investment Policy.

The Pension Board is responsible for managing the investments of the ERS to maximize returns with an appropriate level of risk. The Pension Board contracted with an Investment Consultant to assist it with the oversight and management of the investment program and the hiring of external investment managers to invest the ERS assets. The Pension Board worked with its Investment Consultant to develop policies, objectives, and guidelines, which are included in the *Statement of Investment Policy*. We found that investment managers did not meet some of the reporting requirements noted in the *Statement of Investment Policy* (Finding 2024-005, Appendix 2). In addition, we found that although the reporting requirements were largely to be made to the Pension Board, the reporting instead was made to the Investment Consultant. We recommended RPS staff work with the Pension Board to address this issue and report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement our recommendations. Additional information, including RPS's corrective action plan, is found in Appendix 2.

Finding of Noncompliance by the Milwaukee County Office of the Comptroller

The Milwaukee County Office of the Comptroller was noncompliant with Wisconsin Statutes and Milwaukee County Ordinances by not ensuring all audit functions were performed in accordance with Government Auditing Standards.

While conducting the financial audit of the ERS for calendar year 2023, we found that the Milwaukee County Office of the Comptroller was in noncompliance with Wisconsin Statutes and Milwaukee County Ordinances, which both require that the Milwaukee County Comptroller perform all audit functions in accordance with *Government Auditing Standards*. The Milwaukee County Office of the Comptroller entered into a contract for audit services in January 2021 that required the audits, including the annual financial audit of the ERS, be conducted in accordance with *Government Auditing Standards*.

We reviewed available prior ERS financial audit reports to identify whether the audits were conducted under *Government Auditing Standards*. Given the absence of any language in the audit opinions indicating the audits were conducted in accordance with *Government Auditing Standards*, and given the absence of any references in the audit opinions to other reporting required by *Government Auditing Standards*, we cannot conclude that the financial audits of the ERS conducted under contract and overseen by the Milwaukee County Office of the Comptroller were conducted in accordance with *Government Auditing Standards*.

As a result, Milwaukee County officials, plan participants, and citizens did not have the assurance that the standards prescribed by Wisconsin Statutes and Milwaukee County Ordinances were followed in conducting the financial audit or in completing the required reporting related to internal controls.

The review process used by the Milwaukee County Office of the Comptroller to oversee the audit services provided under contract was insufficient to ensure that the ERS financial audits were performed in accordance with all contract requirements, which were in place to achieve required compliance with Wisconsin Statutes and Milwaukee County Ordinances.

Under the requirements of Act 12, the Legislative Audit Bureau is now independently responsible for conducting the annual ERS financial audit, which it will consistently perform under *Government Auditing Standards*. However, we recommended that the Milwaukee County Office of the Comptroller develop and implement written procedures sufficient to ensure it complies with Wisconsin Statutes and Milwaukee County Ordinances and conducts its work in accordance with *Government Auditing Standards*, develop and implement written procedures sufficient to ensure it performs adequate monitoring and enforcement of all written requirements of the contracts for audit services it oversees, and report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations. Additional information, including the response from the Milwaukee County Comptroller, is in Appendix 3.

■ ■ ■ ■

Pension Funding

The ERS is funded through contributions from Milwaukee County, participants, and investment income. As of December 31, 2023, the ERS had 12,466 participants, including active and inactive employees and retired employees and their beneficiaries. In 2023, RPS reported \$73.3 million in total contributions and a net investment income of \$173.8 million. Employee contribution rates for 2023 ranged from 6.1 to 9.8 percent. 2023 Wisconsin Act 12 provisions resulted in changes to ERS contributions beginning in 2024.

ERS Participants

Generally, five years of creditable service is required before a participant is considered vested.

Any full-time employee of Milwaukee County is a participant of the ERS unless they meet certain conditions. Generally, five years of creditable service is required before a participant is considered vested. However, any participant who terminates employment after reaching retirement age is also vested, and there are various factors, including when a participant was an active employee and the participant's age, that can affect when a participant is vested.

If a vested participant separates from employment with Milwaukee County prior to retirement eligibility, the participant is eligible for a deferred pension benefit. Alternatively, such participants may receive a refund of their contributions during their employment with Milwaukee County. Prior to 2024, a separated participant had 180 days to request a refund of their contributions. In December 2023, Milwaukee County revised Milwaukee County Ordinance 201.24, 3.11 (6) (a), to permit up to five years for an ERS participant to request a contribution refund. The change was initiated, in part, due to a large number of appeals related to the 180-day requirement.

The ERS had a total of 12,466 participants as of December 31, 2023.

As of December 31, 2023, the ERS had a total of 12,466 participants, including:

- 3,480 (27.9 percent) active employees;
- 7,753 (62.2 percent) retired participants or their beneficiaries who were receiving ERS benefits; and
- 1,233 (9.9 percent) inactive employees entitled to but not yet receiving benefits.

The majority of Milwaukee County's employees are considered "general employees" and are not public safety employees. Milwaukee County had five collective bargaining agreements in 2023, including two agreements involving public service employees that contained provisions permitting the negotiation of wages, hours, and conditions of employment. The remaining three agreements contained provisions permitting the negotiation of wages. In addition, certain benefit provisions authorized by Milwaukee County Ordinances vary by historical representation status of employees.

Contributions

RPS reported contributions totaling \$73.3 million during 2023.

The ERS receives contributions primarily from Milwaukee County and active participants. The amount Milwaukee County will contribute for the year is authorized during Milwaukee County's annual budget process. In 2023, RPS reported \$73.3 million in total contributions. Of that amount, Milwaukee County contributed \$59.2 million, including amounts based on actuarial calculations and for certain RPS administrative expenses. Active participants contributed a total of \$14.1 million.

Contribution rates paid by Milwaukee County and active participants are determined using actuarial calculations, which vary each year based on investment gains or losses, assumption changes, and actual experience in areas such as participant retirements, salaries, and mortality relative to current assumptions. Contribution rates for 2023 were based on the actuarial valuation as of December 31, 2021. Because of favorable actuarial changes for the period ending December 31, 2021, Milwaukee County's 2023 payments for actuarially determined contributions totaled \$58.0 million, which was 4.8 percent less than the prior year. In addition, Milwaukee County also contributed \$1.2 million for the cost of certain RPS administrative expenses, which are also included in the contributions amount reported on the financial statements.

As required by 2011 Wisconsin Act 10, most full-time Milwaukee County active participants were required to make contributions to the ERS based on contribution rates determined by actuarial calculations. In 2023, employee contributions varied between 6.1 to 9.8 percent of employee pay.

In addition, since 2012 Milwaukee County has received contributions from the State of Wisconsin for employees who transferred from Milwaukee County to the State of Wisconsin Department of Health Services to administer certain public assistance benefits. Following the transfer of these responsibilities to the State of Wisconsin, and as authorized by 2009 Wisconsin Act 15, existing Milwaukee County employees could choose to remain in the ERS. During 2023, there were two remaining employees who were still active and who had chosen to remain in the ERS. In total, the State of Wisconsin contributed approximately \$5,500 to the ERS in 2023 for these employees.

Investments

RPS does not employ investment management staff. Instead, all investment activity is conducted through contracts with external investment managers who are hired and monitored by the Pension Board, the Pension Board's Investment Committee, and an investment consultant hired by the Pension Board to assist it in meeting its fiduciary responsibilities. As required by Milwaukee County Ordinance 201.24, 9.1, the Pension Board is required to exercise judgment and care in managing the ERS investments.

As of December 31, 2023, the Pension Board had authorized up to 51.0 percent in stock investments as part of the ERS asset allocation.

The Pension Board adopted an investment policy that delineates investment decision rights and oversight of ERS investments. The policy identifies that the investment objective is to maximize long-term investment return with an appropriate level of investment risk. As shown in Table 1, the Pension Board's asset allocation established as of December 31, 2023, for the ERS permits up to 51.0 percent in stock investments, which is less than the 75.0 percent limit established in Milwaukee County Ordinance 201.24, 9.1 (b). The Pension Board's asset allocation also permitted investments in fixed income and alternative investments, such as hedge funds, real estate, infrastructure, and private equity.

Table 1

Asset Allocation
As of December 31, 2023

Asset Class	Target ¹	Target Range ¹	Actual ²
Fixed Income	28.5%	15.0% to 35.0%	17.0%
Stocks	26.0	21.0% to 31.0%	24.3
International Stocks	15.5	11.0% to 20.0%	14.0
Infrastructure	10.0	6.0% to 14.0%	11.4
Private Equity	9.0	5.0% to 20.0%	17.9
Hedge Funds	6.0	0.0% to 10.0%	5.8
Real Estate	5.0	3.0% to 10.0%	6.1
Cash and Cash Equivalents	0.0	0.0% to 5.0%	3.5
	100.0%		100.0%

¹ As approved by the Pension Board in May 2023.

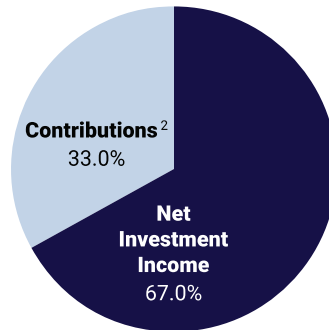
² As reported on the Statements of Fiduciary Net Position.

From 2019 through 2023, investment income accounted for 67.0 percent of ERS funding.

From 2019 through 2023, net investment income represented 67.0 percent of total funding for the ERS as shown in Figure 2. Milwaukee County and participant contributions represented 33.0 percent of total funding for the ERS during this period. In 2023, the ERS reported an investment return of 10.8 percent and net investment income of \$173.8 million, compared to an investment return of negative 9.7 percent and a net investment loss of \$174.1 million in 2022.

Figure 2

ERS Funding¹
2019 through 2023



¹ Includes amounts related to the OBRA System.

² Excludes contributions reported from Milwaukee County to fund RPS administrative costs.

Trend in Employee Contribution Rates

As noted, contribution rates are affected by actual investment gains and losses and actuarial factors. The Pension Board did not establish a written ERS funding policy. However, its current policy is to establish contribution rates to accumulate sufficient assets to pay benefits when due. Calculations for ERS contribution rates use an asset smoothing method that gradually reflects investment gains and losses over 10 years. Under this method, the effect of a large market fluctuation is not recognized in a single year.

In response to changes permitted by Act 12, the ERS “reset” the smoothing method, which resulted in the ERS recognizing \$40.8 million in investment losses in the January 1, 2024 actuarial valuation that otherwise would have been recognized over multiple years.

As shown in Table 2, employee contribution rates declined slightly in 2023 and for 2024. The decline for 2024 was primarily attributable to Act 12, which discontinued the allocation of a portion of the unfunded actuarial liability in the determination of employee contribution rates. However, contribution rates are anticipated to increase for 2025 due, in part, to other Act 12 changes and the Pension Board’s adoption of certain assumption changes unrelated to Act 12. In response to changes permitted by Act 12, the ERS “reset” the smoothing method, which resulted in the ERS recognizing \$40.8 million in investment losses in the January 1, 2024 actuarial valuation that otherwise would have been recognized over multiple years. In future years, the ERS actuary will resume recognition of investment gains and losses over a 10-year period. A portion of the increase in employee contribution rates proposed for 2025 is also attributable to the decrease in the investment return assumption.

Table 2

Milwaukee County ERS Participant Contribution Rates¹

Year	General Employees ²	Public Safety Employees
2016	6.5%	7.4%
2017	6.5	8.1
2018	6.5	8.3
2019	6.5	9.5
2020	6.2	8.9
2021	6.2	9.7
2022	6.1	9.9
2023	6.1	9.8
2024 ³	4.3	6.9
2025 ^{3,4}	5.2	9.1

¹ As reported in ERS annual reports, on the RPS website, and in Pension Board meeting materials.

² Includes all non-represented employees, represented employees other than public safety employees, and elected officials.

³ As a result of Act 12, these rates exclude a portion of the unfunded actuarial liability, which was included in employee contribution rates prior to 2024.

⁴ Represents rates proposed by the Pension Board to Milwaukee County as of May 2024, based on actuarial calculations.

As noted, under Act 12, full-time Milwaukee County employees hired after December 31, 2024, will participate in the WRS. However, existing ERS participants will continue to contribute to the ERS. Based on actuarial calculations, in May 2024 the Pension Board recommended 2025 ERS employee contribution rates ranging from 5.2 to 9.1 percent. These rates will be considered during Milwaukee County’s 2025 budget deliberations.



Pension Benefits

The ERS provides retired participants with monthly retirement annuity payments and, depending upon the annuity type selected, continuing payments to a beneficiary after the participant's death. RPS reported pension benefits totaled \$199.4 million in 2023 with an average ERS payment of \$24,600. Annuity payments are initially determined by a formula based on the participant's years of creditable service and final average salary. Each year, participants receive a fixed 2.0 percent postretirement pension adjustment to their monthly pension benefit amount. In 2001, Milwaukee County established a "back drop" pension benefit that permitted certain participants who work beyond their minimum retirement age to receive a lump sum benefit payment upon retirement. Such lump sum payments were limited by actions taken by Milwaukee County, effective April 2013.

Pension Benefit Payments in 2023

The average annual annuity payment increased from \$24,400 in 2022 to \$24,600 in 2023, or by 0.8 percent.

Pension benefits provided to retired participants or their beneficiaries as annuity payments increased from \$197.9 million in 2022 to \$199.4 million in 2023, or by 0.8 percent. The average annual annuity payment for ERS retirees increased from \$24,400 in 2022 to \$24,600 in 2023, or by 0.8 percent. The number of ERS retired participants decreased from 7,819 as of December 31, 2022, to 7,753 as of December 31, 2023, or by 0.8 percent. During 2023, RPS processed 188 ERS retirement applications, compared to 233 applications during 2022. The average annual pension benefit payment for the 188 applications processed during 2023 was \$15,800.

Pension Benefits Authorized by Ordinances

In most instances, an ERS monthly pension benefit amount will be determined using a multiplier of 1.6 percent for all new Milwaukee County employees hired since 2012.

ERS pension benefit amounts are determined by the use of a multiplier, the amount of years of creditable service the participant has completed, and the participant's final average salary. The multiplier ranges from 1.5 to 2.5 percent, as determined by the participant's ERS enrollment date and whether they are covered by a collective bargaining agreement. In most instances, an ERS monthly pension benefit amount will be determined using a multiplier of 1.6 percent for all new Milwaukee County employees hired since 2012.

Retirement age also varies by a participant's collective bargaining agreement and employee type. For example, Milwaukee County Ordinance 201.24, 4.1 (1) (a), generally establishes retirement age at 55 years with 30 years of creditable service. A specific provision, Milwaukee County Ordinance 201.24, 4.1 (2), referred to as the "Rule of 75," generally permits retirement at any age for certain participants if the combination of the participant's age and years of creditable service equals 75.

A participant's final average salary is determined by the three or five consecutive years of highest earnings, depending on the participant's collective bargaining agreement, ERS enrollment date, and ERS termination date. Milwaukee County Ordinances require that the pension benefit amount cannot exceed 80.0 percent of a participant's final average salary. Milwaukee County Ordinances also allow participants to receive, if certain eligibility requirements are met, a disability pension benefit or a pension benefit enhancement, such as a 25 percent bonus to their final average salary.

Upon retirement, participants may elect to receive the maximum monthly benefit, in which case the benefit ceases upon the participant's death, or they may choose to receive a reduced benefit in order to provide a surviving beneficiary with benefits at a certain percentage of the pension benefit after the participant's death.

ERS participants receive an annual fixed 2.0 percent postretirement pension adjustment.

Each year, participants receive a fixed 2.0 percent postretirement pension adjustment to their monthly pension benefit amount, as authorized by Milwaukee County Ordinance 201.24, 5.7. The postretirement pension adjustment is applied to the benefit amount determined at retirement on the participant's retirement anniversary month.

Back Drop Pension Benefits

Depending on a participant's enrollment date and collective bargaining agreement, certain participants are eligible for a back drop pension benefit, which was authorized by Milwaukee County Ordinance 201.24, 5.16. In 2001, Milwaukee County established the back drop pension benefit that permitted certain participants who work beyond their minimum retirement age to receive a lump-sum payment for the total of the monthly pension amounts and adjusted for postretirement

increases and applicable interest that a participant would have been entitled to receive had the participant retired at an earlier date. The benefit was to incentivize employees to work beyond their retirement date.

Milwaukee County placed limitations on back drop pension benefits effective April 1, 2013.

The back drop pension benefit payments have been the subject of scrutiny as, at times, the lump sum payments paid to certain participants have been significant. In addition, in 2006 Milwaukee County sued its actuary at the time the benefits were authorized, citing that the benefits were more costly than what was described in 2001. In December 2012, Milwaukee County enacted ordinances that limited the amount of back drop pension benefits for employees who were not eligible to retire on April 1, 2013, including a shortened period for which the back drop pension benefit applied.

During 2023, RPS authorized 50 back drop benefit payments totaling \$13.3 million, including a single payment totaling \$2.5 million.

During 2023, RPS authorized 50 back drop benefit payments totaling \$13.3 million, including a single payment totaling \$2.5 million. This was reported to be the largest single back drop pension benefit payment. According to the specific circumstances of this back drop pension benefit, the employee was eligible to retire in 2005 based on provisions of Milwaukee County Ordinance 201.24, 4.1 (2), and had over 38 years of creditable service. In addition to the employee’s high number of years of service, the payment was particularly large because the employee was eligible to retire prior to April 1, 2013. Although the employee received a large back drop pension benefit payment, the employee is not receiving an ongoing monthly pension benefit payment due to limitations imposed by the IRS. According to RPS information, as of December 31, 2021, 596 ERS participants remained eligible for a back drop benefit payment.

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Pension Liabilities

Accounting standards for public pension plans establish accounting and financial reporting requirements for measuring the pension liability and the requirements for both the notes and required supplementary information to the financial statements. The accounting standards require the ERS to calculate the total pension liability and the net pension liability. As of December 31, 2023, the ERS reported a net pension liability totaling \$729.4 million and was 70.1 percent funded. Several provisions of Act 12 were implemented for the ERS valuation, including decreasing the investment return assumption to 6.8 percent.

Calculating the Total Pension Liability

The total pension liability is the sum of the amounts needed to pay for the pension benefits earned by each participant.

The total pension liability for the ERS is the sum of the amounts needed to pay for the pension benefits earned by each participant based on service provided as of the date the actuarial valuation is performed. A total pension liability exists because Milwaukee County has committed to providing benefits to its employees in the future when those employees retire. That commitment is part of employee compensation and constitutes a liability.

The calculation of the total pension liability is complex and includes various actuarial assumptions and calculations, such as:

- a projection of future benefit payments for current and former participants and their beneficiaries based upon the current terms of the ERS;
- a discount of those payments to their present value, or the amount of funds currently needed to provide the projected payments in the future; and

- an allocation of the present value of benefit payments over past, present, and future periods of employee service.

An actuarial experience study for the ERS is completed every five years, and the last study completed was during 2022.

To ensure the various actuarial assumptions are supported by actual experience, once every five years the ERS actuary completes an experience study. The most recent actuarial experience study was completed in 2022 for the period January 1, 2017, through December 31, 2021. In February 2023, the Pension Board approved the revised actuarial assumptions based on this study, including modified salary scale assumptions, updated mortality tables, and other modified demographic assumptions.

The ERS investment return assumption was reduced from 7.5 percent to 6.8 percent to comply with 2023 Wisconsin Act 12.

The discount rate is another critical factor in calculating a pension plan liability, and it can have a significant effect on the amount of the total pension liability. The discount rate, or interest rate, is used to calculate the present value of projected benefit payments and is specifically defined under the accounting standards. The ERS used a discount rate of 7.5 percent to calculate the total pension liability as of December 31, 2019, through December 31, 2022. However, following Milwaukee County's July 2023 adoption of the sales and use tax increase authorized under Act 12, the investment return assumption for the ERS was required to be 6.8 percent, which is the same as the current WRS investment return assumption. The actuary used 6.8 percent as the discount rate for the valuation conducted for December 31, 2023, because current and projected future plan assets are expected to cover the projected benefit payments for the ERS.

The total pension liability for the ERS was \$2.4 billion as of December 31, 2023.

The total pension liability for the ERS was \$2.4 billion as of December 31, 2023, compared to the total pension liability of \$2.3 billion as of December 31, 2022. The changes in the actuarial assumptions and a reduction of the discount rate were the primary causes of the increase in the total pension liability. Increasing or decreasing the discount rate can have a significant effect on the total pension liability. For instance, a one percentage point decrease in the discount rate (5.8 percent) would increase the total pension liability to \$2.7 billion. A one percentage point increase in the discount rate (7.8 percent) would decrease the total pension liability to \$2.2 billion.

Calculating a Net Pension Liability

To determine the net pension liability, accounting standards require the total pension liability to be subtracted from the pension plan's fiduciary net position. When the total pension liability is greater than the fiduciary net position, the pension plan will disclose a net pension liability in its notes. When the fiduciary net position is greater than the total pension liability, the pension plan will disclose a net pension asset in its notes.

The ERS reported a net pension liability of \$729.4 million as of December 31, 2023.

As of December 31, 2023, the ERS had a fiduciary net position of \$1.7 billion and a total pension liability of \$2.4 billion, which resulted in a net pension liability of \$729.4 million. A net pension liability indicates that, as of December 31, 2023, the assets of the ERS were not sufficient to cover the projected liability for benefit payments to employees under the financial reporting standards. This represents an increase from the net pension liability of \$620.0 million, reported as of December 31, 2022.

As shown in Table 3, the ERS has reported a net pension liability in each of the past five years. Changes in the fair value of the investments as of the end of each calendar year contribute to the fluctuation in the pension liability each year. Under the accounting standards, pension plan assets are valued at fair value as of the reporting period end date. The use of the fair value of the plan assets in the calculation will cause volatility in the reported net pension liability, depending upon investment performance and fluctuations in the investment market.

Table 3

ERS Net Pension Liability
As of December 31
(in millions)

	2019	2020	2021	2022	2023
Fiduciary Net Position	\$ 1,738.6	\$ 1,792.9	\$ 1,970.4	\$ 1,666.0 ¹	\$ 1,706.6 ¹
Total Pension Liability	(2,320.3)	(2,305.2)	(2,301.2)	(2,286.0)	(2,436.0)
Net Pension Asset (Liability)	\$ (581.7)	\$ (512.3)	\$ (330.8)	\$ (620.0)	\$ (729.4)

¹ As reported in the ERS valuation report prepared by the actuary. The amounts differ from those reported in the financial statements due to implementation of a new accounting standard in 2023.

Funding and GASB Financial Reporting Methodologies

The ERS uses a funding methodology to establish required contribution rates for employers and employees and to measure the pension plan's unfunded liabilities. For financial reporting purposes, GASB pension accounting standards are required to be used for the ERS. GASB did not establish the financial reporting methodology to be used for funding purposes. Instead, GASB created the financial reporting methodology to enhance transparency of pension-related information in financial reports and to be a tool to allow for comparisons across public pension systems.

There are similarities in the actuarial assumptions used in calculating the projected future benefit payments under the funding and financial reporting methodologies for the ERS, including assumptions related to

mortality rates, salary increases, and disability rates. However, there are several differences in how the liability is calculated under each methodology, which creates a differing determination of the financial status of the pension plan.

Under the GASB financial reporting methodology, ERS investments are valued at fair value.

One of the key differences in the calculations is how investment income or loss is considered. Under the funding methodology, the ERS actuary uses a smoothing mechanism for investment income or loss. The actuary accumulated the difference between actual investment income or loss and expected investment income calculated at the long-term expected rate of return assumption. The difference was then distributed into the calculated plan net assets over a ten-year period. This results in less volatility in the plan net assets under the funding methodology and, thus, less volatility in the calculation of contributions required. In contrast, under the financial reporting methodology, pension plan assets are valued at fair value as of the reporting period end date, which causes increased volatility in the reported net pension liability.

Under the funding methodology, the ERS had an unfunded actuarial liability of \$514.1 million as of December 31, 2022, and was 77.5 percent funded. In addition, the ERS used an average amortization period of 14 years in determining the unfunded actuarial accrued liability. Under the GASB financial reporting methodology, the ERS had a net pension liability of \$620.0 million as of December 31, 2022, and was 72.9 percent funded.

The ERS was 70.1 percent funded as of December 31, 2023.

As noted, in response to changes permitted by Act 12, the ERS “reset” the smoothing method to reestablish its unfunded actuarial accrued liability to reflect the net pension liability as of December 31, 2023. As a result, the ERS had an unfunded actuarial liability and net pension liability of \$729.4 million as of December 31, 2023, and was 70.1 percent funded under both methodologies. As permitted by Act 12, the ERS used an amortization period of 30 years in determining the unfunded actuarial accrued liability. However, the ERS actuary is anticipated to resume recognition of investment gains and losses over a 10-year period in future years, which will again result in differences in the unfunded actuarial liability and net pension liability between the two methodologies in future years.

Actuarial Audit

As part of this audit, we retained an actuary to conduct an independent review of the actuarial calculations and actuarial valuation report for the ERS as of December 31, 2023. In general, the actuarial audit concluded that the actuarial valuation report of the program was prepared in compliance with GASB standards and the valuation was performed in accordance with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board (ASB).

The actuarial audit made six recommendations related to the application of certain rates and assumptions in the actuarial valuation.

The actuarial audit made six recommendations related to the application of certain rates and assumptions in the actuarial valuation. RPS's consulting actuary agreed with the results of the actuarial audit and stated that they would consider the recommendations in a future valuation and as part of the next experience study, which is anticipated to be completed in 2027.

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Auditor's Report

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Members of the Pension Board of the Employees' Retirement System of the County of Milwaukee; and
Ms. Erika Bronikowski, Director

We have audited the Statement of Fiduciary Net Position, the Statement of Changes in Fiduciary Net Position, and the related notes of the Employees' Retirement System of the County of Milwaukee (ERS) as of and for the year ended December 31, 2023, which make up the financial statements. The financial statements were compiled by Milwaukee County's Retirement Plan Services (RPS) and also include the financial activity of the OBRA 1990 Retirement System of the County of Milwaukee. We have issued our report thereon dated July 22, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinion have been included in RPS's *2023 Annual Report of the Pension Board*.

Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered RPS's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RPS's internal control. Accordingly, we do not express an opinion on the effectiveness of RPS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the ERS's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may

exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies included in the accompanying Findings and Responses Schedule, as Findings 2024-001 through 2024-003 and 2024-006, to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the ERS are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters related to noncompliance that are not required to be reported under *Government Auditing Standards*, including with employee contributions and investment manager reporting required under the Pension Board's *Statement of Investment Policy*. These findings, and the responses and corrective action plans from RPS, are in Appendix 2.

RPS's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on RPS's written responses to the findings identified in the audit and described in the accompanying Findings and Responses Schedule. RPS's responses and corrective action plans were not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses or corrective action plans.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering RPS's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of RPS's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

July 22, 2024

FINDINGS AND RESPONSES SCHEDULE

Finding 2024-001: Adequacy of the System of Internal Control

Criteria:

Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, is responsible for administering the Employees' Retirement System of the County of Milwaukee (ERS) with oversight by the Pension Board. RPS has its own accounting system and pension benefit system, and develops its own policies and procedures for administering the ERS. RPS is responsible for establishing and maintaining an effective system of internal control to safeguard ERS assets to prevent and detect errors, and RPS should periodically assess and address risks.

In establishing an effective system of internal control, RPS should ensure there is adequate segregation of duties or establish a procedure for monitoring fiscal activities if duties cannot be adequately segregated. An effective system of internal control would ensure that internal control activities, such as reconciliations, are not completed by an individual who is involved in processing the underlying transactions or who may have access to change information used to verify the accuracy of the activities. If it is not practical to segregate duties, other employees who have sufficient and direct knowledge should review the underlying information to support transactions and detect potential errors from the review.

Condition:

We found RPS staff had not conducted a comprehensive review to ensure there was an adequate system of internal control related to its fiscal employee positions, including the Fiscal Officer position. For example, there was no assessment of the access granted to the fiscal employee positions across multiple systems or an assessment of whether duties related to cash and disbursement activities were appropriately segregated. We found that the Fiscal Officer completed the bank reconciliation, was responsible for authorizing disbursements from the ERS bank accounts, and was granted administrator access to the RPS accounting system, which could permit the Fiscal Officer to modify accounting records that support the bank reconciliation. Further, there is no review by other RPS staff of the accounting entries prepared and entered in the accounting system by the Fiscal Officer. The accounting records are the basis for the compilation of the financial statements.

We identified that RPS staff had implemented some compensating controls to address the heightened risk related to the access granted to the fiscal employee positions to multiple systems, but these compensating controls did not effectively mitigate the risks. First, although RPS staff provided cash reconciliation documentation quarterly to the Milwaukee County Office of the Comptroller, the review was ineffective in serving as a check on fiscal employee positions' access because it relied on information provided by the Fiscal Officer. Second, certain payments require an emailed approval by other RPS staff, but the failure to obtain an approval would not prevent such a payment from being processed by the accounting system. Third, the Milwaukee County Treasurer's Office completes a portion of the physical processing of check disbursements, but does not have a role for electronic funds transfers initiated by RPS staff.

In addition, the fiscal employee positions were granted access to modify certain information within the pension benefit system. RPS staff completed a monthly review of participant bank account change requests after they were executed, in part, to address access the fiscal employee positions had to the pension benefit system. However, RPS staff did not assess whether the fiscal employee positions needed all access that was granted.

Context:

RPS staff fiscal activities include monitoring cash at two financial institutions, working with external managers that invest RPS assets, ensuring that benefits are properly paid to participants, performing periodic reconciliations of financial activity, and compiling the financial statements. As of December 31, 2023, RPS had a total of 18 authorized positions, including 2 positions responsible for completing the fiscal activities. We reviewed the system of internal control established for ERS activities and assessed oversight of RPS staff fiscal activities by Milwaukee County.

Effect:

There is an increased risk of misappropriation of ERS assets and inadvertent or intentional errors in the ERS financial statements that may not be prevented or detected and corrected in a timely manner.

Cause:

In 2022, RPS experienced turnover with one of its two fiscal employee positions. As a result, during portions of 2023 one employee was responsible for completing most fiscal activities and RPS had limited staff to properly segregate duties. RPS did not have other staff knowledgeable about accounting matters to adequately review reconciliations, financial reporting standards, or accounting entries, all of which form the basis of the ERS financial statements. In addition, RPS staff did not conduct a periodic assessment of its system of internal control.

RPS staff indicated it did not prioritize developing comprehensive written policies and procedures given the limited number of staff. However, comprehensive written policies and procedures are necessary for RPS staff to ensure that duties are properly segregated and fiscal employee access is limited to what is necessary to complete fiscal responsibilities without providing excessive access. If duties are unable to be properly segregated due to a limited number of employees, RPS staff should establish an adequate review of activities completed by fiscal employees to reduce risk and detect and correct errors.

RPS staff also did not periodically report to the Pension Board on its system of internal control. RPS staff had developed a project to compile a Pension Board policy to require periodic assessments of its system of internal control, but the policy was not in place during 2023.

☑ Recommendation

We recommend Retirement Plan Services staff:

- *segregate fiscal duties and implement effective monitoring procedures when segregation of duties cannot be accomplished;*
- *fully document its system of internal control;*
- *periodically, but at least annually, reassess its system of internal control to identify risks and make adjustments as necessary;*
- *work with the Pension Board to develop a change to its charter to require a periodic assessment of the system of internal control and report to the Pension Board on the results of the assessment; and*
- *report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.*

Type of Finding: Significant Deficiency

Response from Retirement Plan Services: RPS agrees with the finding and recommendations.

Finding 2024-002: Internal Controls for the Pension Benefit Computer System

Criteria:

Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, is responsible for administering the Employees' Retirement System of the County of Milwaukee (ERS) with oversight by the Pension Board. RPS is responsible for establishing and maintaining an effective system of internal control to safeguard ERS assets and ensure the accuracy of its information in administering pension benefits and to compile accurate ERS financial statements.

The pension benefits computer system used by RPS resides on the Milwaukee County network, and RPS is required to adhere to certain information security control guidance and standards from the Milwaukee County Information Management Services Division (IMSD). Milwaukee County has adopted the National Institute of Standards and Technology (NIST) framework, including NIST Special Publication 800-53, *Security and Privacy Controls for Information Systems and Organizations*, which provides security guidance for a government entity. RPS is responsible for granting access to the pension benefit computer system.

Among other provisions, NIST guidance recommends:

- developing and documenting access control procedures;
- using the principle of least privilege and enforcing separation of duties through access controls; and
- periodically reviewing the privileges assigned to roles to validate the need for such privileges.

Separation of duties includes identifying how business functions and support functions are assigned to different individuals to ensure that staff who administer access control functions do not also administer audit functions.

Condition:

We identified deficiencies in RPS controls over its pension benefit computer system, including access role configurations, user provisioning and deprovisioning processes, and its review of users provided with access to the system.

First, we found RPS improperly configured one access component within the pension benefit computer system to permit all RPS staff with access to the pension benefit computer system to edit the component. This configuration could permit a user to adversely affect the way the system calculated pension benefits. Although RPS immediately removed the excessive access when we identified it during the audit, the access was in place throughout 2023.

Second, we found RPS did not consistently complete user access provisioning or deprovisioning processes for the pension benefit computer system during 2023. For example, for two of four users for which RPS provisioned access during 2023, RPS did not provide documentation of who authorized the access.

Finally, in documentation RPS provided for its 2023 review of user access to the pension benefit computer system, we found the documentation did not identify who completed the review, when it was completed, or evidence that the process included RPS staff other than those information

technology staff responsible for granting and removing user access. Further, the data from the pension benefit computer system used to review access was not accurate in all instances, and RPS did not identify the cause of the inaccurate data. For example, there were erroneous individuals identified on the report that did not exist within system tables.

Context:

RPS relies on the pension benefit computer system in its administration of benefits to ERS participants. We reviewed role configurations for RPS users of the pension benefit computer system. RPS had 18 authorized positions, including 4 positions assigned information technology responsibilities with additional consultant staffing as needed. There were four instances of new access provisioned and two instances of access deprovisioned during 2023. We reviewed documentation for all of these instances. In addition, we reviewed user access reviews completed by RPS and compared RPS processes to IMSD and NIST guidance, as applicable.

Effect:

Without effective information technology controls, RPS users may be assigned roles that provide access that does not correlate to their job duties or may be assigned inappropriate access that allows them to unintentionally or intentionally make changes within the system. These conditions increase the risk of inaccurate pension benefit information and financial reporting, whether due to error or fraud.

Cause:

Although the software vendor established role configurations, RPS did not perform a sufficient review to identify that all users were granted excessive access to the one component. Because there was no periodic review process established for the pension benefit computer system role configuration, it was not subsequently identified by RPS.

We found that a RPS staff person in a backup role was responsible for the instances for which we identified inconsistencies in the provisioning or deprovisioning process or lack of documentation. RPS did not have written procedures for the user access provisioning and deprovisioning processes for the RPS staff person to follow when completing tasks.

RPS similarly did not have written procedures for its user access review process, including assigning clear responsibilities for the review, establishing instructions for documentation of the review, and ensuring there is separation between those responsible for provisioning the access and those that have direct knowledge of the job responsibilities supporting the access that was provisioned.

As noted, RPS has a small number of staff, which may have permitted the information technology staff to have direct knowledge of each staff person's responsibilities when completing the access review. However, clearly documented processes would permit RPS staff the opportunity to evaluate the sufficiency of controls, determine the timing and frequency necessary for the control activities, and further assess where duties may be appropriately segregated among RPS staff. RPS staff indicated that it had identified the need to formally document its processes, but had not yet done so at the time of the audit fieldwork.

Recommendation

We recommend Retirement Plan Services staff improve its internal control related to the pension benefit computer system by:

- *developing written procedures for and implementing a periodic review of user role configurations;*
- *developing written procedures for the provisioning and deprovisioning of user access;*
- *reassessing the process for existing periodic reviews of user access, identifying where duties may be appropriately segregated among its staff, and developing written procedures for the user access review process; and*
- *reporting to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.*

Type of Finding: Significant Deficiency

Response from Retirement Plan Services: RPS agrees with the finding and recommendations.

Finding 2024-003: Service Organization Internal Controls

Background:

Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, is responsible for administering the Employees' Retirement System of the County of Milwaukee (ERS) with oversight by the Pension Board. The Pension Board is responsible for managing the investments of the ERS to maximize returns with an appropriate level of risk. The Pension Board works with an Investment Consultant to hire external investment managers to invest the assets of the ERS. The Pension Board also contracts with a custodian bank that acts in a custodial capacity to hold and safeguard the investment assets of the pension plan.

Criteria:

Management is responsible for the proper design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement. This includes instances in which management contracts with a service organization, which is an organization that provides to another entity services that are relevant to the entity's internal controls over financial reporting. For example, an entity may use a service organization to process financial transactions or an entity may outsource some of its accounting functions to a service organization.

When using a service organization, RPS staff should gain assurances that the internal controls at the service organization are operating effectively because weaknesses in the service organization's internal controls could affect the financial activity of the entity. Such assurances could be gained through a service organization audit, which includes a report on the service organization's internal controls by an independent auditor. One type of audit that may be completed includes an opinion on the fairness of management's description of the internal controls in place at the service organization, whether the auditor believes the service organization's internal controls are suitably designed to achieve the internal control objective, and whether the service organization's internal controls are effective at achieving the internal control objective. In addition, a service organization audit report will include a list of internal controls that the entity should have in place in order to rely on the internal controls of the service organization. These are referred to as complementary user entity controls. As part of relying on a service organization audit report, RPS staff should ensure RPS has the appropriate complementary user entity controls in place.

RPS staff should document its assessment of the work being completed by the service organization, its review of the service organization audit report and the effectiveness of the service organization's internal controls, and its review of the complementary user entity controls identified in the service organization audit report.

Condition:

The custodian bank performs certain services for RPS that result in the custodian bank being classified as a service organization. For example, the custodian bank is responsible for conducting purchases and sales of investments as authorized by RPS. The custodian bank also makes wire transfers for capital calls for limited partnership investments, collects income, and maintains cash and investment holdings for the ERS. RPS also relies on accounting and investment reports prepared by the custodian bank, including reporting the fair value of certain investments to RPS, which are used for financial reporting.

Although RPS staff relied on the custodian bank, it did not document its assessment of its reliance on the custodian bank, it did not document a review of the service organization audit report from its

custodian bank, and it did not assess and document whether it had established the appropriate complementary user entity controls as noted in the service organization audit report.

Context:

We reviewed the investment records for the ERS and discussed its investment procedures, including the services provided by its custodian bank. When we inquired about the internal controls related to the custodian bank, we learned that RPS had not reviewed the service organization audit report it obtained from its custodian bank. The ERS investment assets totaled \$1.6 billion as of December 31, 2023.

Effect:

The custodian bank may have internal control deficiencies about which RPS is unaware that could affect the investments or financial reporting for the ERS.

Cause:

As noted, RPS staff indicated that it had obtained the service organization audit report for its custodian bank but did not review it. RPS staff noted that prior fiscal staff may have reviewed the custodian bank's service organization audit report. However, there were no written procedures regarding how to review the service organization audit report, including how to document its review.

Recommendation

We recommend Retirement Plan Services staff develop and implement procedures to:

- *annually obtain and review the custodian bank's service organization audit report and assess the effectiveness of the custodian bank's internal controls as reported in the service organization audit report;*
- *annually review the complementary user entity controls identified in the custodian bank's service organization audit report and assess whether appropriate and sufficient internal controls are present at Retirement Plan Services to complement the internal controls at the custodian bank;*
- *annually document its review of the service organization audit report and the complementary user entity controls; and*
- *report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.*

Type of Finding: Significant Deficiency

Response from Retirement Plan Services: RPS agrees with the finding and recommendations.

Finding 2024-006: Incorrect Creditable Service Years Used in the Actuarial Valuation

Background:

The Employees' Retirement System of the County of Milwaukee (ERS) is authorized by Milwaukee County Ordinance (MCO) 201.24. Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, is responsible for administering the ERS with oversight by the Pension Board. The Pension Board contracted with an actuary to perform annual actuarial valuations for financial reporting and for recommending contribution rates to Milwaukee County.

Criteria:

Annually, the consulting actuary completes a valuation for the ERS pension liabilities. To complete the valuation, actuarial calculations are made to summarize existing pension benefits for retired participants and to project pension benefits for active participants. The consulting actuary relies on participant data from RPS's pension benefit computer system. This data includes information such as enrollment date, creditable years of service, and salary for ERS participants. RPS staff provide this data to the consulting actuary, which then reviews the participant data, discusses discrepancies discovered in its review with RPS staff, and makes certain modifications to organize the data as needed for its valuation calculations. The consulting actuary also reviews ERS plan documents and amendments to ensure recent changes are properly reflected. RPS staff are responsible for ensuring the data used by the consulting actuary are accurate.

Under s. 40.30 (3), Wis. Stats., and MCO 201.24 (11.4), the ERS has reciprocity provisions for participants for service earned as participating employees of the Wisconsin Retirement System (WRS) and the Employees' Retirement System of the City of Milwaukee (City Retirement System). The reciprocated years of creditable service are applicable to the ERS in determining whether a participant meets the vesting requirement and to establish the participant's original enrollment date for applying ERS benefit provisions in effect at that time. However, in most instances, reciprocated years of creditable service should not be used to determine pension benefits. For the January 1, 2024 valuation calculations, the participant data RPS provided to the consulting actuary included various fields containing detail on each participant's years of creditable service to differentiate how the participant earned the service.

Condition:

For the January 1, 2024 valuation, we found that RPS's consulting actuary used inaccurate creditable years of service for 118 active participants who each had prior City Retirement System years of creditable service.

Context:

As of December 31, 2023, there were 3,480 active ERS participants. We reviewed the participant data provided by RPS staff and the data used by the consulting actuary for its January 1, 2024 valuation, which included the calculation of the total pension liability as of December 31, 2023. We verified 12 active participants' information with Milwaukee County payroll records and assessed the data used by the consulting actuary for each participant's projected benefit calculation. We identified one participant for which the consulting actuary included City Retirement System creditable years of service in the calculation of the projected benefit payment instead of including only the ERS creditable years of service. In addition, we identified a total of 118 active participants that had City Retirement System creditable years of service that were similarly used by the consulting actuary in its calculations. We discussed these differences with RPS staff and the consulting actuary.

Effect:

The incorrect data used in the consulting actuary's calculation of the ERS valuation resulted in an \$8.3 million overstatement of the ERS total pension liability as of December 31, 2023.

Cause:

The participant data RPS staff provided to the consulting actuary included seven service credit fields to account for each participant's years of creditable service, such as creditable service earned for the ERS, WRS, and City Retirement System. When the consulting actuary modified the data provided by RPS staff in order to perform calculations, the consulting actuary incorrectly included City Retirement System years of creditable service with ERS years of creditable service. The consulting actuary then used the incorrect data to calculate the projected benefit payment for the valuation.

RPS staff did not review all modifications the consulting actuary made to the participant data, nor did it receive a final version of the data the actuary used to develop the valuation. Had RPS staff obtained the final version of the data and reviewed it, RPS staff could have identified that the consulting actuary included incorrect creditable years of service in its calculations.

Recommendation

We recommend Retirement Plan Services staff:

- *develop and implement written procedures to obtain and review significant modifications included in the consulting actuary's data before the consulting actuary completes its calculations; and*
- *report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.*

Type of Finding: Significant Deficiency

Response from Retirement Plan Services: RPS agrees with the finding and recommendations.

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Corrective Action Plans



Milwaukee County Retirement Plan Services

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Corrective Action Plan

Finding 2024-001: Adequacy of the System of Internal Control

Planned Corrective Action:

In response to concerns related to the oversight of RPS fiscal activities, the following corrective action plan has been prepared.

The RPS fiscal team is trusted to ensure that benefit payments are made, invoices and bills are paid, taxes are paid, accounting is completed, and our financial statements are prepared. The RPS team is small and has two staff in the fiscal office which makes it challenging to fully segregate duties while ensuring coverage for time off and succession planning purposes. Where segregation of duties is not possible due to the size of the team, additional controls will be implemented to detect instances of fraud or misrepresentation.

The RPS team uses a variety of systems and applications to complete their responsibilities, and the fiscal team primarily accesses the pension administration system (for generating payment files), the custodian bank, the general bank, and accounting software.

Regarding segregation of duties, it was noted that in 2023 the Fiscal Officer completed the bank reconciliation, was responsible for authorizing disbursements from the ERS bank accounts and, was granted administrator access to the RPS accounting system, which could permit the Fiscal Officer to modify accounting records that support the bank reconciliation. The Fiscal Officer has ceased completing bank reconciliations and the Fiscal Analyst has completed bank reconciliations in 2024. Additionally, the Fiscal Analyst does not have administrator access to the RPS accounting system. These updates should provide additional segregation of duties within the accounting processes in the RPS Fiscal Office.

Regarding the Comptroller's Office's review of ERS and OBRA statements, it was noted that the RPS team provides cash reconciliation documentation quarterly, but the Comptroller's Office relied on information from the RPS team for its review. The internal audit team in the Milwaukee County Comptroller's Office is automatically and directly sent statements from the bank. To ensure they are aware and continuing to review the statements that are sent directly to them, RPS will implement an annual process of collecting confirmation from the internal audit team that they continue to receive statements directly from the bank. This process will be documented in the Risk Assessment/Risk Mitigation Policy that is currently under development with the RPS team. This policy is expected to be completed in December 2024.

Regarding approval of accounting system entries, RPS will procure and implement a new accounting software system that requires approval before payment can be issued. All of the current accounting software providers that are being considered include this approval. Additionally, certain Milwaukee County Comptroller Office staff will be granted read-only access to the newly procured accounting software system. The current accounting software system does not include enough licenses to grant access to any more individuals.

Regarding the ability of Fiscal Office staff to initiate electronic funds transfers from the bank, a process will be implemented and documented in the Risk Assessment/Risk Mitigation Policy that is currently being developed that provides additional review of payments issued by the bank on a monthly basis. Pending confirmation that the bank is able to export a payment report, RPS will provide a staff member with read-only access to the bank site and each month and they will download a copy of the pay files that were uploaded in the preceding month. That file will be reviewed against the benefit payment information in the pension administration system and the accounts payable information in the accounting system to ensure no unauthorized electronic funds transfer payments were issued. This review and any findings will be documented in a memo on a monthly basis.

Regarding pension administration system access, it was noted that fiscal employee positions were granted access to modify certain information within pension administration system and that review of that access was not completed regularly. To address this finding, RPS is currently drafting an Information Security Policy and will include written procedures for user access provisioning, deprovisioning, and review within the pension administration system. This policy document will be reviewed at least every other year by the RPS leadership team, beginning with the year it is established. RPS will implement an annual review of all role configurations within the pension administration system to ensure appropriate access controls and will include a standardized, documented process for provisioning and deprovisioning when individuals join or leave the team. This will be documented in the Information Security Policy. Any identified excessive access will be promptly corrected.

A status report will be provided to the Joint Legislative Audit Committee by December 1, 2024.

Anticipated Completion Date: December 31, 2024

Person responsible for corrective action:

Erika Bronikowski, Director

Milwaukee County Retirement Plan Services, Department of Human Resources

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Corrective Action Plan

Finding 2024-002: Internal Controls for the Pension Benefit Computer System

Planned Corrective Action:

The RPS team has prepared the following corrective action plan to address deficiencies in the documentation and standardization of the provisioning/deprovisioning of users for the pension administration system.

RPS is currently drafting an Information Security Policy and will include written procedures for user access provisioning, deprovisioning, and review within the pension administration system. These procedures will clarify responsibilities and outline clear documentation requirements for audit purposes. This policy document will be reviewed at least every other year by the RPS leadership team beginning with the year it is established.

RPS will implement an annual review of all role configurations within the pension administration system to ensure appropriate access controls and will include a standardized, documented process for provisioning and deprovisioning when individuals join or leave the team. This will be documented in the Information Security Policy. Any identified excessive access will be promptly corrected.

This plan outlines our dedication to improving access controls within RPS, ensuring compliance with NIST guidelines, and enhancing overall governance over the pension administration system.

A status report will be provided to the Joint Legislative Audit Committee by December 1, 2024.

Anticipated Completion Date: December 31, 2024

Person responsible for corrective action:
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Corrective Action Plan

Finding 2024-003: Service Organization Internal Controls

Planned Corrective Action:

In response to identified deficiencies in oversight and documentation pertaining to the custodian bank for the Employees' Retirement System of Milwaukee County (ERS), Retirement Plan Services (RPS) is taking the following corrective actions.

RPS will implement an annual process that includes not only retrieving but also reviewing the service organization audit report obtained from the custodian bank. This review will be completed in the first quarter of each year and documented in a memo that lists the reviewer, date reviewed, and any concerns identified in the report. These records will be maintained in a central repository accessible for audits and reviews. The review process will be detailed in the RPS Risk Assessment/Risk Mitigation policy that is currently under development and anticipated to be completed in December 2024.

A status report will be provided to the Joint Legislative Audit Committee by December 1, 2024.

Anticipated Completion Date: December 31, 2024

Person responsible for corrective action:

Erika Bronikowski, Director

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Corrective Action Plan

Finding 2024-006: Incorrect Creditable Service Years Used in the Actuarial Valuation

Planned Corrective Action:

The following corrective action plan was prepared to address the inaccuracies in the treatment of reciprocal City of Milwaukee ERS Service in the 2023 actuarial valuation conducted by the ERS actuary. The incorrect inclusion of City Retirement System service in benefit amount projections resulted in an overstatement of the Plan's liability.

To prevent this from happening in future valuations, RPS will establish a formal process to verify the propriety of modifications made by the consulting actuary to the participant data used in each valuation. RPS will receive a final version of the data used for valuation calculations directly from the actuary and for a sample of active lives, will request an explanation of the process used by the actuary to determine the projected benefit amount used in determining the liability. This review process will be completed annually during the valuation (Between January and June of each year) and will be detailed in the RPS Risk Assessment/Risk Mitigation policy that is currently under development (anticipated completion date is December 2024).

A status report will be provided to the Joint Legislative Audit Committee by December 1, 2024.

Anticipated Completion Date: December 31, 2024

Person responsible for corrective action:

Erika Bronikowski, Director

Milwaukee County Retirement Plan Services, Department of Human Resources

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Appendices

Appendix 1

Milwaukee County ERS Pension Board Members As of December 2023

Board Member	Affiliation	Term Start	Term End
David Robles, Chair	Elected by retirees	November 2022	November 2025 ¹
Ron Nelson, Vice Chair	Appointed by the Milwaukee County Executive	May 2021	April 2024 ¹
Adam Abelson	Employee elected	January 2023	February 2026
Nicole Best	Appointed by the Milwaukee County Board of Supervisors chairperson	September 2023	September 2026 ¹
Anthony Johnson	Appointed by the Milwaukee County Executive	September 2022	September 2025
Jeremy Lucas	Employee elected	March 2022	February 2025
Kessha Hobson	Employee elected	February 2024	February 2027 ¹
Himanshu Parikh	Appointed by the Milwaukee County Executive	January 2023	January 2026 ¹
Robert Worzalla	Appointed by the Milwaukee Deputy Sheriffs' Association	July 2021	July 2024 ¹
Vacant	Appointed by the Milwaukee County Board of Supervisors chairperson	-	-

¹ Board member's second term.

Other Items of Interest

Finding 2024-004: Employee Contribution Noncompliance

Background:

Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, is responsible for administering the Employees' Retirement System of the County of Milwaukee (ERS) with oversight by the Pension Board. This plan covers eligible Milwaukee County employees. Collective bargaining may affect certain employee benefit provisions. 2011 Wisconsin Act 10 permitted collective bargaining with respect to wages, hours, and conditions of employment for public safety employees, but limited collective bargaining to wages for other represented municipal employees if they voted to certify as a collective bargaining unit.

Criteria:

Employee ERS contributions are established as a percentage of compensation earned during active employment. In accordance with Milwaukee County Ordinance (MCO) 201.24, 3.11 (3) (c), employee contribution rates are established by the Milwaukee County Board of Supervisors during the annual budget process. These rates are based on a recommendation by the Pension Board. During 2023 and under 2011 Wisconsin Act 10, employees were required to pay one-half of all actuarially required contributions for funding pension benefits authorized by the ERS.

MCO 201.24, 3.11 (2), defines employee compensation as all salaries and wages with a limited number of exclusions, such as injury time and overtime earned and paid. Milwaukee County offers certain employees different types of compensation. For example, Section 3.08 of the 2021-2023 collective bargaining agreement between Milwaukee County and the Milwaukee Deputy Sheriff's Association (MDSA) required that each deputy sheriff employee annually receive hazard pay in the amount of \$750. The amount is prorated if a deputy sheriff is not employed for a full year. Although hazard pay existed prior to 2011 Wisconsin Act 10, it was suspended from January 1, 2012, through December 31, 2012.

Milwaukee County is responsible for withholding contributions from an employee's paycheck based on the employee's compensation and the established contribution rate and transferring these amounts to RPS biweekly. RPS is responsible for performing reviews of payroll information, including the contributions withheld and remitted to RPS by Milwaukee County.

Condition:

We identified that Milwaukee County did not withhold contributions for hazard pay from deputy sheriff employee paychecks during 2023. Hazard pay is not identified as an exclusion in the definition of employee compensation in MCO 201.24, 3.11(2). Further, we found that both the data used by the actuary in determining actuarially required contributions and the data used by RPS in calculating pension benefits upon an employee's retirement included hazard pay in the calculation of employee earnings.

We estimated Milwaukee County should have withheld \$19,000 in employee ERS contributions from employee paychecks related to hazard pay and remitted this amount to RPS during 2023. We also estimate a total of \$190,000 in ERS employee contributions for hazard payments that Milwaukee County should have remitted to RPS for 2013 through 2023.

Context:

In 2023, RPS received \$14.1 million in withheld ERS contributions from Milwaukee County employee paychecks and \$58.0 million from Milwaukee County for employer contributions. During 2023, the employee contribution rate established for general employees was 6.1 percent and was 9.8 percent for public safety employees. As of December 31, 2023, there were 261 deputy sheriff employees of the

3,480 active ERS employees. We also reviewed provisions within Milwaukee County's collective bargaining agreement with MDSA, which represented deputy sheriff employees.

Based on 2023 employee compensation data available from RPS, we reviewed whether contributions RPS received from Milwaukee County on behalf of employees were compliant with contribution rates established. We interviewed RPS and Milwaukee County payroll staff to discuss differences in contribution amounts received for public safety employees based on our analysis. We also reviewed a listing of compensation types recorded in Milwaukee County's payroll system and whether Milwaukee County considered compensation types that complied with the ordinances in its employee paycheck withholding process. Finally, we assessed whether compensation types RPS used in pension benefit calculations were consistent with those Milwaukee County used in withholding contributions. We did not identify any pay types, other than hazard pay, that did not meet these criteria.

Effect:

RPS did not comply with MCO 201.24, 3.11 (2) and 2011 Wisconsin Act 10, which require that the ERS receive from Milwaukee County employee contributions for all compensation for deputy sheriff employees. The current practice also results in a disparity in the compensation for which contributions are withheld from employee paychecks with the compensation considered in determining benefit payment calculations upon an employee's retirement.

Cause:

Milwaukee County and RPS acknowledged that a lack of clarity had existed about whether hazard pay should be considered compensation. For example, Milwaukee County payroll staff indicated that Milwaukee County had initially excluded hazard pay in its calculations of deputy sheriff employee ERS contributions withholding, but had planned to begin doing so in 2020. However, according to Milwaukee County staff, Milwaukee County chose not to implement the change that would withhold ERS contributions from hazard pay because deputy sheriff employees raised a concern with the change. RPS indicated that it had recommended a change to the ordinances to specifically identify hazard pay as an exclusion to the definition of compensation for the ERS. However, no ordinance change has been made as of May 2024.

We note that the current and prior MDSA bargaining agreements were silent with respect to whether hazard pay should be considered compensation and the effect on ERS contributions. Therefore, until ordinances are changed there is no exclusion preventing the application of the ERS employee contribution rate to the hazard payments Milwaukee County made to deputy sheriff employees.

Recommendation

We recommend Retirement Plan Services staff work with the Milwaukee County Office of the Comptroller to:

- *comply with current ordinances that require contributions to be withheld from hazard pay for deputy sheriff employees and collect contributions related to these payments on behalf of the Employees' Retirement System of the County of Milwaukee;*
- *obtain contributions for the Employees' Retirement System of the County of Milwaukee for hazard payments from 2013 through 2023 that had not previously been remitted on behalf of deputy sheriff employees; and*
- *report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.*

Type of Finding: Non-Reportable, Noncompliance

Response from Retirement Plan Services: RPS agrees with the finding and recommendations.



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Corrective Action Plan

Finding 2024-004: Employee Contribution Noncompliance

Planned Corrective Action:

In response to the findings regarding compliance with Milwaukee County Ordinance (MCO) 201.24, 3.11 (2) and 2011 Wisconsin Act 10 that pertain to the withholding of Employee Retirement System (ERS) contributions for hazard pay, Retirement Plan Services (RPS) will implement a corrective action plan as detailed in this document. This plan aims to address non-compliance; however, it should be noted that RPS does not withhold pension contributions from employee member pay and that RPS does not have authority to create or amend Milwaukee County Ordinance.

In May 2024, a draft resolution was submitted to the Milwaukee County Comptroller's Office that documents the pension contribution calculation methodology and clarifies the treatment of pay for the purpose of pension calculations and pension contribution withholding. The draft resolution includes Milwaukee County Ordinance amendments which may be adopted by the Milwaukee County Board of Supervisors. If adopted, the revised ordinance sections will align with the current treatment of hazard pay.

Resolutions containing ordinance amendments that are submitted to the Milwaukee County Board of Supervisors are required to be reviewed by the Milwaukee County Comptroller's Office. Given that their review is already underway, I am optimistic that the resolution with proposed ordinance amendments can be submitted to the County Board of Supervisors for consideration at an upcoming meeting.

The remaining County Board of Supervisors meetings this year are scheduled for July 31, 2024 (deadline for submissions already passed), September 19, 2024, October 1, 2024 (budget hearings), October 28, 2024 (budget hearings), November 7, 2024 (budget hearings), November 14, 2024 (budget hearings), and December 19, 2024. I aim to submit this resolution during the September 19, 2024, meeting cycle; however, it is possible the review by the Comptroller's Office may not be completed by that date. As such, there may not be a status update for this Corrective Action Plan until after the December 19th meeting of the Milwaukee County Board of Supervisors.

A status report will be provided to the Joint Legislative Audit Committee by December 1, 2024.

Anticipated Completion Date: December 20, 2024

Person responsible for corrective action:

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Finding 2024-005: Compliance with the *Statement of Investment Policy*

Background:

Retirement Plan Services (RPS), which is a unit within Milwaukee County's Department of Human Resources, is responsible for administering the Employees' Retirement System of the County of Milwaukee (ERS) with oversight by the Pension Board. The Pension Board is responsible for managing the investments of the ERS to maximize returns with an appropriate level of risk. The Pension Board contracted with an Investment Consultant to assist it with the oversight and management of the investment program and hire external investment managers to invest the ERS assets. The Pension Board worked with its Investment Consultant to develop policies, objectives, and guidelines, which are included in the *Statement of Investment Policy*, and aid in the ongoing management and evaluation of the Pension Fund's investment program.

Criteria:

The *Statement of Investment Policy*, which was updated in May 2023, includes various requirements related to reporting by the external investment managers to the Pension Board, the Investment Consultant, or RPS staff, including:

- quarterly written reports detailing investment information, including performance and investment fees;
- quarterly investment manager certifications on compliance with the investment guidelines;
- prompt reporting to notify the Pension Board of any violation of the investment guidelines;
- acknowledgement of receipt of the investment policy and an agreement that the investment firm can abide by the Policy;
- reporting from certain applicable investment managers on brokerage transactions and costs by January 15 and July 15 of each year; and
- reporting from certain applicable investment managers related to proxy voting by January 15 of each year. This reporting is to include an acknowledgement that the investment manager is responsible for voting proxies in the best interests of plan participants, providing a copy of the investment manager's proxy voting procedures and guidelines, and providing a list of how the investment manager voted on all proxy issues during the prior 12 months.

Condition:

We found that all investment managers provided performance-related and other reporting on a quarterly basis that generally met the requirements noted in the *Statement of Investment Policy*. We also found that the Investment Consultant prepared a monthly report to the Pension Board that provided similar information on performance and changes in the investment managers that would assist the Pension Board in meeting its fiduciary responsibilities.

However, we found that investment managers did not meet some of the other reporting requirements noted in the *Statement of Investment Policy*. We found that only 3 of the 23 investment managers met the requirement to report quarterly to the Board on compliance with the investment guidelines. Of the three investment managers that did complete the reporting, we found one reported that it did not comply with the investment guidelines during the first quarter of calendar year 2023. When we inquired about this, the Investment Consultant indicated it was an error in reporting by the investment manager. However, the

documentation provided to support this was an email from the investment manager dated in June 2024 after we inquired regarding the potential noncompliance. This indicates the Investment Consultant may not have known or taken action on the reported noncompliance until we inquired about it.

Following an update to the policy in May 2023, neither RPS nor the Investment Consultant obtained from the investment managers an acknowledgement of receipt of the *Statement of Investment Policy* and an agreement that the investment manager will comply with the policy.

Further, we found that only two of three investment managers with responsibilities to report on brokerage transactions and costs had done so in July 2023.

In addition, two investment managers had responsibilities to complete the reporting related to proxy voting. Although we found the reporting was completed, not all reporting was completed timely. The acknowledgement of the investment manager responsibility to vote in the best interest of the pension plan was obtained only after we made our request to the Investment Consultant for the documents.

Finally, we found that although the reporting requirements were largely to be made to the Pension Board, the reporting instead was made to the Investment Consultant. According to the Investment Consultant, it did not consistently report to the Board all information it received.

Context:

As of December 31, 2023, the ERS held \$1.6 billion in investments, consisting of public equities, fixed income, hedge funds, infrastructure and real estate funds, and private equity funds. We reviewed the *Statement of Investment Policy* to gain an understanding of the monitoring of investment managers and the various reporting requirements. We inquired of the Investment Consultant on its procedures for oversight of the investment managers. We requested various reports that investment managers are required to complete in accordance with the *Statement of Investment Policy*, and we discussed the results of our review with RPS staff and the Investment Consultant.

Effect:

Without consistent compliance with all reporting requirements, the Pension Board, the Investment Consultant, and RPS staff may not have all information necessary when making decisions regarding the investments of the ERS.

Cause:

The Investment Consultant noted that some of the reporting requirements may be outdated and need updating in the *Statement of Investment Policy*. Further, the Investment Consultant indicated that the requirements for certain investment reporting, such as the quarterly reporting on compliance with the investment guidelines, only applied to active investment managers. However, this was not clearly indicated in the *Statement of Investment Policy*.

The Investment Consultant indicated that the requirement to obtain from investment professionals an acknowledgement of receipt of the *Statement of Investment Policy* and an agreement that the investment firm can comply with the policy was not intended to be obtained from each investment manager but rather was intended to be signed only by the Investment Consultant. However, the *Statement of Investment Policy Addendum A* defines investment professional to include the investment managers and not the Investment Consultant.

The Investment Consultant indicated that, due to complexities with trade data in the bond markets, it does not collect brokerage data for fixed income managers. However, as noted, the *Statement of Investment Policy* requires there to be reporting on brokerage transactions and costs by January 15 and July 15 of each year.

Finally, although the Investment Consultant indicated the missing reporting on proxy voting was completed by the investment managers, the Investment Consultant did not have procedures in place to ensure it obtained the proxy acknowledgements from investment managers. The Investment Consultant did not obtain the acknowledgements until we requested them.

Recommendation

We recommend Retirement Plan Services staff work with the Pension Board to:

- *determine the reporting needed for each type of investment manager;*
- *update the Statement of Investment Policy to clarify each reporting requirement and with whom each required report should be submitted;*
- *implement additional oversight procedures to ensure the Investment Consultant receives and provides to the Board all required reports completed by the investment managers, as required by the Statement of Investment Policy; and*
- *report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.*

Type of Finding: Non-Reportable, Noncompliance

Response from Retirement Plan Services: RPS agrees with the finding and recommendations.



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Corrective Action Plan

Finding 2024-005: Compliance with the *Statement of Investment Policy*

Planned Corrective Action:

In response to the findings regarding compliance with the Statement of Investment Policy (IPS) for the Employees' Retirement System of the County of Milwaukee (ERS), Retirement Plan Services (RPS) will implement a corrective action plan as detailed in this document. This plan aims to address deficiencies in reporting by external investment managers and improve overall adherence to IPS requirements to enhance transparency and decision-making in the Board's responsibility for managing investments.

The audit findings are largely related to reporting about investments which is required by the IPS as well as the Investment Committee Charter and Pension Board Charter. Each of these documents are established, updated, and owned by the Pension Board. As such, RPS cannot update them; however, RPS can recommend that the Pension Board and its Investment Committee consider certain updates.

Given the limited role RPS has in approving the IPS, Pension Board Charter, and Investment Committee Charter, RPS will make recommendations to address audit findings. RPS will recommend to the Investment Committee Chairperson and the Pension Board Chairperson that the Investment Committee review and consider restatement of the Pension Board Charter, Investment Committee Charter, and IPS as detailed below.

Considerations for Updates to the IPS

RPS will recommend to the Investment Committee Chairperson and the Board Chairperson that the Investment Committee review and consider restatement of the IPS. As part of that review, RPS will recommend that the IPS should categorize and detail the various types of investments held in the pension fund (public equities, fixed income, hedge funds, infrastructure, real estate, private equity); determine the reporting needed for each type of investment manager; and clarify each of the reporting requirements for each type of investment.

Currently, the IPS is reviewed every one to two years, and as needed after asset allocation studies are completed. RPS will recommend to the Board that a review of the IPS should be completed every year.

Considerations for Updates to the Pension Board Charter

RPS will recommend to the Investment Committee Chairperson and the Board Chairperson that the Pension Board review and consider updating the Pension Board Charter to implement additional oversight procedures to ensure the Investment Consultant receives and provides to the Board all required reports completed by the investment managers, as required by the IPS. That recommendation

will include a mandated annual review by the Investment Committee of the Investment Consultant's performance and compliance with reporting compared to the IPS.

Considerations for Updates to the Investment Committee Charter

RPS will recommend to the Investment Committee Chairperson and the Board Chairperson that the Pension Board review and consider updating the Investment Committee Charter to clarify oversight procedures to ensure the Investment Consultant receives and provides to the Board all required reports completed by the investment managers, as required by the IPS. The Investment Committee Charter currently includes a requirement for a written annual review of the Investment Consultant's performance. Reporting on Investment Consultant compliance with the IPS, Pension Board Charter, and Investment Committee Charter will be added to the Committee's schedule of annual tasks going forward.

The recommendations detailed in this document will be submitted to the Chair of the Pension Board and the Chair of the Investment Committee by August 1, 2024, for their consideration. Currently the Investment Committee is scheduled to meet on September 10, 2024, and November 12, 2024. The Pension Board is scheduled to meet on September 25, 2024, November 20, 2024, and December 18, 2024.

The Pension Board Chairperson and Investment Committee Chairperson may include this item on an upcoming meeting agenda and may take action in response to RPS's recommendations.

As such, I will report on the status of this Corrective Action Plan after the November 20th meeting of the Pension Board.

A status report will be provided to the Joint Legislative Audit Committee by December 1, 2024.

Anticipated Completion Date: November 20, 2024

Person responsible for corrective action:

Erika Bronikowski, Director

Milwaukee County Retirement Plan Services, Department of Human Resources

Erika.Bronikowski@milwaukeecountywi.gov



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703Main: (608) 266-2818
Hotline: 1-877-FRAUD-17www.legis.wisconsin.gov/lab
AskLAB@legis.wisconsin.gov

July 18, 2024

Ms. Liz Sumner, Comptroller
Milwaukee County Office of the Comptroller
901 North 9th Street, Room 301
Milwaukee, Wisconsin 53233

Dear Ms. Sumner:

Under 2023 Wisconsin Act 12, the nonpartisan Legislative Audit Bureau is now responsible for conducting an annual financial audit of the Employees' Retirement System of Milwaukee County (ERS), which is administered by Retirement Plan Services. Prior to the enactment of Act 12, the annual financial audit was performed by a private firm under a contract negotiated and overseen by the Milwaukee County Office of the Comptroller.

While conducting the audit of the ERS for calendar year 2023, we found that the Milwaukee County Office of the Comptroller was in noncompliance with Wisconsin Statutes and Milwaukee County Ordinances. We discussed this matter with staff in the Milwaukee County Office of the Comptroller in fall 2023 and with you in July 2024. Our finding of noncompliance is described in the following paragraphs.

2011 Wisconsin Act 62 required Milwaukee County to elect a comptroller and assigned certain duties and responsibilities to that position. Section 59.255 (2), Wis. Stats., and Milwaukee County Ordinance 34.09, each require that the Milwaukee County Comptroller perform all audit functions in accordance with *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The Milwaukee County Office of the Comptroller entered into a contract for audit services in January 2021 that required the audits, including the annual audit of the ERS, be conducted in accordance with *Government Auditing Standards*.

Audits conducted in accordance with *Government Auditing Standards* incorporate all provisions of auditing standards generally accepted in the United States of America. However, *Government Auditing Standards* have additional ethical principles, general standards, and reporting obligations regarding such matters as internal control, waste and abuse, and compliance.

We reviewed available prior ERS financial audit reports to identify whether the audits were conducted under *Government Auditing Standards*. Given the absence of any language in the audit opinions indicating the audits were conducted in accordance with *Government Auditing Standards*, and given the absence of any references in the audit opinions to other reporting required by *Government Auditing Standards*, we cannot conclude that the financial audits of the ERS conducted under contract and overseen by the Milwaukee County Office of the Comptroller were conducted in accordance with *Government Auditing Standards*.

The audit opinions for the overall audit of Milwaukee County's Annual Comprehensive Financial Reports do indicate that the overall audits were performed under *Government Auditing Standards*. Although such disclosure in the audit opinion is a requirement for audits performed under *Government Auditing Standards*, the financial audits performed of the ERS contained separate audit opinions that did not indicate the audits of the ERS were performed under *Government Auditing Standards*. As a result,

Ms. Liz Sumner, Comptroller

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July 18, 2024

Milwaukee County officials, plan participants, and citizens did not have the assurance that the standards prescribed by Wisconsin Statutes and Milwaukee County Ordinances were followed in conducting the financial audit or in completing the required reporting related to internal control.

We found that the review process used by the Milwaukee County Office of the Comptroller to oversee the audit services provided under contract was insufficient to ensure that the ERS financial audits were performed in accordance with all contract requirements, which were in place to achieve required compliance with Wisconsin Statutes and Milwaukee County Ordinances.

Under the requirements of Act 12, the Legislative Audit Bureau is now independently responsible for conducting the annual ERS financial audit, which it will consistently perform under *Government Auditing Standards*. However, we recommend that the Milwaukee County Office of the Comptroller:

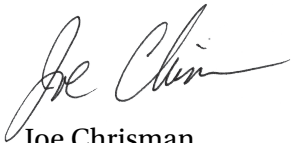
- develop and implement written procedures sufficient to ensure it complies with the requirements of Wisconsin Statutes and Milwaukee County Ordinances and conducts its work in accordance with Government Auditing Standards;
- develop and implement written procedures sufficient to ensure it performs adequate monitoring and enforcement of all written requirements of the contracts for audit services it oversees; and
- report to the Joint Legislative Audit Committee by December 1, 2024, on the status of its efforts to implement these recommendations.

Please prepare a written response to this finding and provide it to us by 12:00 p.m. (noon) on July 22, 2024. Your response, which should be emailed to LABinfo@legis.wisconsin.gov, should be provided to the Bureau on your letterhead, be signed by you as the Milwaukee County Comptroller, and include the following items: a statement that you agree or disagree with the finding, any additional context you may wish to provide related to the finding, and your plans to address the finding and implement the recommendations. If you disagree with the finding, please state the specific reasons in your written response.

This finding and your response will be included in our report on the annual financial audit of ERS for calendar year 2023. Until such time as we release our report, this letter and its contents are and must remain confidential under Wisconsin Statutes.

Please contact me at (608) 266-2818 if you have any questions.

Sincerely,



Joe Chrisman
State Auditor

JC/ag



MILWAUKEE COUNTY

Liz Sumner • Comptroller

July 23, 2024

Mr. Joe Chrisman, State Auditor
State of Wisconsin Legislative Audit Bureau
22 East Mifflin Street, Room 301
Madison, Wisconsin 53703

Dear Mr. Chrisman,

This letter is in response to your correspondence dated July 18, 2024, that provides recommendations to strengthen the Milwaukee County Comptroller's Office compliance with requirements of Wisconsin Statutes and Milwaukee County Ordinances associated with Government Auditing Standards, and to enhance the monitoring and enforcement of all written requirements of the contracts for audit services that my office oversees.

I agree with the findings and I've instructed the appropriate management within my Audit Services Division to incorporate the necessary written procedures into its Policies & Procedures Manual, a document that contains extensive guidance with respect to conducting its work in accordance with Government Auditing Standards. *

The additional written procedures will be followed in the administration of the Countywide Audit contract for audit services overseen by the Division to ensure the type of oversight described in your letter does not occur again. I'll be certain to report the status of our efforts in this area to the Joint Legislative Audit Committee by December 1, 2024.

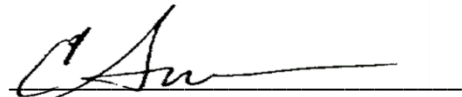
I'd like to add a comment relating to the context of the finding of noncompliance. It should be noted that while the external CPA firm that conducted the annual ERS financial audits did not include the appropriate language in its opinion letters, we confirmed with the firm's engagement partner that the audit work they performed was conducted in compliance with Government Auditing Standards.

*Please note, that in addition to its very robust policies and procedures, which are designed to follow Generally Accepted Government Auditing Standards, the Audit Services Division has passed its peer reviews for over 30 years (see chart, below).

Peer Review Date	Period Covered	Standards	Conducted by
01/04/1991	07/01/1989 - 11/30/1990	GAGAS	ALGA
04/15/1994	01/01/1991 - 12/31/1993	GAGAS	ALGA
09/03/1998	01/01/1994 - 12/31/1997	GAGAS	ALGA
08/02/2007	01/01/2004 - 12/31/2006	GAGAS	ALGA
08/26/2010	01/01/2007 - 06/30/2010	GAGAS	ALGA
03/14/2014	07/01/2010 - 06/30/2013	GAGAS	ALGA
03/23/2017	07/01/2013 - 06/30/2016	GAGAS	ALGA
11/18/2021	07/01/2016 - 06/30/2019	GAGAS	ALGA
05/17/2023	07/01/2019 - 06/30/2022	GAGAS	ALGA

Thank you for the recommendations to improve the administration of our contracts for audit services.

Best regards,



Liz Sumner
Milwaukee County Comptroller