



Milwaukee County Retirement Plan Services

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VIA EMAIL

November 29, 2024

Senator Eric Wimberger
Co-chairperson, Joint Legislative Audit Committee
104 South State Capitol
Madison, Wisconsin 53702

Representative Robert Wittke
Co-chairperson, Joint Legislative Audit Committee
18 West State Capitol
Madison, Wisconsin 53702

RE: Report 24-7

Dear Joint Legislative Audit Committee Co-Chairs Wimberger and Wittke,

The attachment to this letter serves as an update on the status of Findings 2024-001, 2024-002, 2024-003, 2024-004, 2024-005, and 2024-006, identified by the Legislative Audit Bureau in Audit Report 24-7.

Given that this was our first year being audited by the Legislative Audit Bureau, I want to thank you for the opportunity to comment on our progress. We have a small team so significant changes take time to implement. While the findings are not yet fully addressed, I am pleased to note that we have made significant progress in the last few months, and we remain committed to fully addressing the findings.

Sincerely,

A handwritten signature in blue ink, appearing to read "Erika Bronikowski".

Erika Bronikowski
Director of Retirement Plan Services
Enclosure

Finding 2024-001 Adequacy of the System of Internal Control

The Legislative Audit Bureau (LAB) noted four recommendations for Finding 2024-001 aimed at improving the Retirement Plan Services (RPS) Fiscal team's internal controls in administering the ERS and OBRA pension benefits under the general oversight of the Pension Board. To address this finding our team has further segregated duties, implemented additional review, and reviewed team member access to provide more checks, balances, and approvals. These are documented in policy revisions that have been submitted to the Pension Board for approval. Below are the recommendations from the LAB regarding the finding as well as status details.

Recommendation: Segregate fiscal duties and implement effective monitoring procedures when segregation of duties cannot be accomplished.

Fiscal Office 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 now completes bank reconciliations. Additionally, the Fiscal Analyst does not have administrator access to the RPS accounting system. These updates provide additional segregation of duties within the accounting processes in the RPS Fiscal Office.

Accounting Software Improvements for Added Control. To improve internal accounting controls, RPS has procured and is implementing a new accounting software system that requires approval before payment can be issued. Additionally, certain Milwaukee County Comptroller Office staff will be granted read-only access to the new accounting software system so they may view entries. The agreement was executed in October 2024 and the system is expected to go-live in the first quarter of 2025.

Internal Audit Access to Cash Reconciliation Documentation. Regarding the monitoring of cash reconciliation, it was noted that while the RPS team provides cash reconciliation documentation quarterly, 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 of and continuing to review the statements that are sent directly to them, RPS has implemented an annual process of collecting confirmation from the internal audit team that they continue to receive statements directly from the bank. This process is documented in the Risk Management and Internal Audit policy that was approved by the Pension Board in November 2024.

Post-Payment Review of Payment Files. Regarding the ability of Fiscal Office staff to initiate payments from the bank, a process is currently being developed that provides additional review of payments issued by the bank on a monthly basis. This is pending confirmation that the pension benefit computer system and bank are able to export a payment report for comparison post-payment. RPS will provide a staff member with read-only access to the bank site and each month they will download a copy of the payment files that were uploaded by the Fiscal team in the preceding month. That file will be reviewed against the benefit payment information in the pension benefit computer 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.

Limit Access to Update Direct Deposit Details. Regarding pension benefit computer system access, it was noted that fiscal employee positions were granted access to modify certain information within the pension benefit computer system and that review of that access was not completed regularly. To address this finding, RPS is currently drafting an Information Security Policy that will include written procedures for user access provisioning, deprovisioning, and review within the pension benefit computer 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 benefit computer system to ensure appropriate access controls. As of November 2024, we have developed and implemented a standardized form for provisioning/deprovisioning requests when access needs to be added, removed, or changed. This will be documented in the Information Security Policy. Any identified excessive access will be promptly corrected. Further, as of October 16, 2024, the Fiscal Team's access to the pension benefit computer system has been updated so they cannot edit details on member direct deposit account entries.

Recommendation: Fully document RPS's system of internal control.

Internal Controls Documented in Policy. In November 2024, the Pension Board approved a Risk Management and Internal Audit policy that documents and details RPS's system of internal controls. Included in that policy is annual reporting on compliance with all Board policies and Charters.

Recommendation: Periodically, but at least annually, reassess RPS's system of internal control to identify risks and make adjustments as necessary.

Annual Assessment of Internal Controls Implemented. In November 2024, the Pension Board approved a Risk Management and Internal Audit policy that requires an annual assessment of RPS's system of internal controls. The topic of assessing internal controls has been included in the Pension Board's strategic agenda for 2025.

Recommendation: 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.

Internal Control Assessment Required by Policy. In November 2024, the Pension Board approved a Risk Management and Internal Audit policy that requires an annual assessment of RPS's system of internal controls.

Compliance with this policy will be reported on an annual basis in the annual Compliance Report which has been developed and will be implemented in January 2025 to report on the Pension Board's compliance with its own policies and charters.

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

The Legislative Audit Bureau (LAB) provided three recommendations for Finding 2024-002 which is related to improving the Retirement Plan Services (RPS) team's internal controls for the pension benefit computer system. The pension benefit computer system is used in administering the ERS and OBRA pension benefits under the general oversight of the Pension Board. To address this finding, our team has documented procedures, implemented additional review, and reviewed the appropriateness of current user access. These are documented in policy revisions that will be submitted to the Pension Board. Below are the recommendations from the LAB regarding the finding as well as status details.

Recommendation: Develop written procedures for and implement a periodic review of user role configurations.

Periodic Review Implemented. RPS has implemented an annual review of all role configurations within the pension benefit computer system to ensure appropriate access controls. This will be documented in the Information Security Policy which has been drafted and submitted to the Pension Board for review.

Recommendation: Develop written procedures for the provisioning and deprovisioning of user access.

Process Implemented for Provisioning. A standardized process has been developed for provisioning, changing, and deprovisioning pension benefit computer system access. This will be documented in the Information Security Policy which has been drafted and submitted to the Pension Board for review. As of October 2024, an Access/Termination Request Form was implemented for making provisioning and deprovisioning requests in the pension benefit computer system.

Recommendation: Reassess the process for existing periodic reviews of user access, identify where duties may be appropriately segregated among its staff, and develop written procedures for the user access review process.

Annual Access Review Implemented. RPS has implemented an annual review of user access within the pension benefit computer system to ensure appropriate access controls. This will be documented in the Information Security Policy which has been drafted and submitted to the Pension Board for review. Included in the review is an annual test of all role types to ensure their role and functionality have not changed.

Finding 2024-003 Service Organization Internal Controls

The Legislative Audit Bureau (LAB) noted three recommendations for Finding 2024-003 aimed at improving the Retirement Plan Services (RPS) team's service organization internal controls. Multiple service providers are employed in administering the ERS and OBRA pension benefits under the general oversight of the Pension Board. To address this finding our team has implemented additional review to improve vendor oversight and vendor management. This is also documented in policy revisions that have been submitted to the Pension Board. Below are the recommendations from the LAB regarding the finding as well as status details.

Recommendation: 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.

Review to Include Assessment of Internal Controls. RPS has implemented an annual process that includes retrieving and reviewing the service organization audit report from the custodian bank. This review will be completed and documented annually. The review will include an assessment of the effectiveness of internal controls and is detailed in the Risk Management and Internal Audit policy that was approved by the Pension Board in November 2024. The detailed report review process is currently being drafted and will be finalized in January 2025.

Recommendation: 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.

Review to Include Complementary User Entity Controls. RPS has implemented an annual process that includes retrieving and reviewing the service organization audit report from the custodian bank. This review will be completed and documented annually. The review will include a review of the complementary user entity controls. The review process is detailed in the Risk Management and Internal Audit policy that was approved by the Pension Board in November 2024. The detailed report review process is currently being drafted and will be finalized in January 2025.

Recommendation: Annually document its review of the service organization audit report and the complementary user entity controls.

Annual Process Implemented. RPS has implemented an annual process that includes retrieving and reviewing the service organization audit report obtained from the custodian bank. This review will be completed and documented annually. The review process is detailed in the Risk Management and Internal Audit policy that was approved by the Pension Board in November 2024. The detailed report review process is currently being drafted and will be finalized in January 2025.

Compliance with this policy will be reported on an annual basis in the annual Compliance Report which has been developed and will be implemented in January 2025 to report on the Pension Board's compliance with its own policies and charters.

Finding 2024-004 Employee Contribution Noncompliance

The Legislative Audit Bureau (LAB) noted two recommendations for Finding 2024-004 which was related to employee pension contributions. To address this finding our team has proposed policy changes to ensure compliance with County Ordinance. Below are the recommendations from the LAB regarding the finding as well as status details.

Recommendation: 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.

Ordinance Review Requested. In November 2024, a draft resolution was submitted to the Milwaukee County Board of Supervisors 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.

Additionally, Retirement Plan Services (RPS) has discussed the Ordinance requirement with Milwaukee County's Payroll Department who will calculate contributions accordingly going forward.

Recommendation: 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.

Addressing Prior Contributions. Employee contributions are calculated based on the provisions of the ERS Plan document (which includes the Ordinances) and in accordance with State law. Internal Revenue Service guidance provides for addressing unpaid contributions in a qualified retirement plan in a number of ways. One of these ways provides for amending the Ordinances. In November 2024, a draft resolution was submitted to the Milwaukee County Board of Supervisors that documents the pension contribution calculation methodology and clarifies the treatment of hazard pay for the purpose of pension calculations and pension contribution withholding previously and going forward.

Finding 2024-005 Compliance with the Statement of Investment Policy

The Legislative Audit Bureau (LAB) made three recommendations for Finding 2024-005 which is related to the Pension Board's compliance with its Statement of Investment Policy. To address this finding, recommendations were submitted to the Pension Board's Investment Committee for consideration. These are documented in policy revisions that were approved by the Pension Board in November 2024. Below are the recommendations from the LAB regarding the finding as well as status details.

Recommendation: Determine the reporting needed for each type of investment manager.

Reporting Requirements Reviewed. The Pension Board restated the Statement of Investment Policy at its November 2024 meeting. It has been updated to categorize and detail the various types of investments held in the pension fund; determine the reporting needed for each type of investment manager; and clarify the reporting requirements for each type of investment. It has also been revised to require a review of the Statement of Investment Policy each year.

Recommendation: Update the Statement of Investment Policy to clarify each reporting requirement and with whom each required report should be submitted.

Policy Revised. The Pension Board restated the Statement of Investment Policy at its November 2024 meeting. It has been updated to clarify the reporting requirements for each type of investment and to clarify who receives each type of report.

Recommendation: 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.

Report Compliance with Policy Requirements. The Pension Board restated the Statement of Investment Policy at its November 2024 meeting. It has been updated to categorize and detail the various types of investments held in the pension fund; determine the reporting needed for each type of investment manager; and clarify the reporting requirements for each type of investment. It has also been revised to require a review of the Statement of Investment Policy each year.

Compliance with this revised policy will be reported on an annual basis in the annual Compliance Report which has been developed and will be implemented in January 2025 to report on the Pension Board's compliance with its own policies and charters.

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

The Legislative Audit Bureau (LAB) had one recommendation for addressing Finding 2024-006 which is related to the incorrect creditable service used in the actuarial valuation for a limited population of members. To address this finding, our team has implemented additional review which is documented in policy revisions that have been submitted to the Pension Board. Below is the recommendation from the LAB regarding the finding as well as status details.

***Recommendation:* 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.**

Annual Data Review Process. To prevent this from happening in future valuations, Retirement Plan Services (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 request a final version of the data used for valuation calculations directly from the actuary and then, 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 and is detailed in the Risk Management and Internal Audit policy that was approved by the Pension Board in November 2024.

Compliance with this policy will be reported on an annual basis in the annual Compliance Report which has been developed and will be implemented in January 2025 to report on the Pension Board's compliance with its own policies and charters.