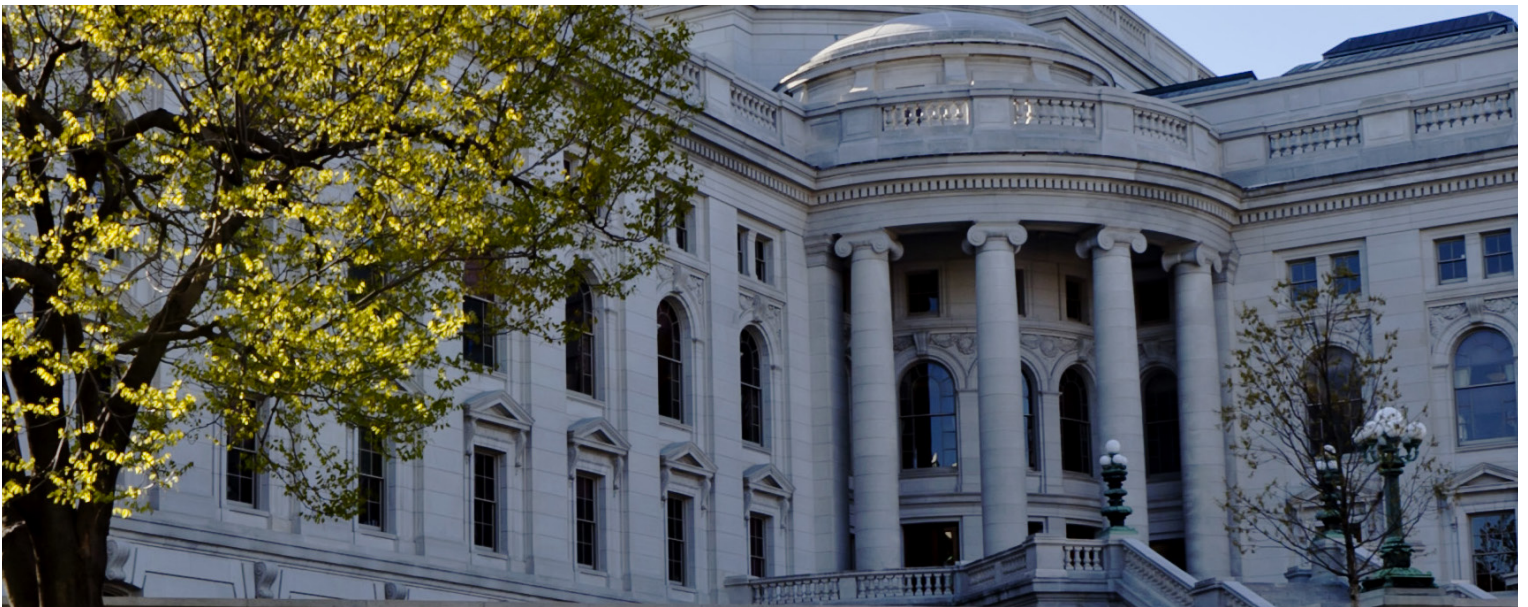




STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-20
November 2024

**Employes' Retirement System of
the City of Milwaukee
Reporting for Participating Employers
Calendar Year 2023**



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Reporting for Participating Employers**

Calendar Year 2023



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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Opinions Published Separately

The schedules and our opinions on them are included in the Retirement System's *Schedules of Employer Allocations and Pension Amounts by Employer*.



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

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November 13, 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 requested by management of the Employees' Retirement System of the City of Milwaukee (Retirement System) and in connection with our audit of the financial statements of the Retirement System, as required by s. 13.94 (1) (x), Wis. Stats., we have completed an audit of the Retirement System's Schedule of Employer Allocations, the Schedule of Pension Amounts by Employer, and the related notes to these schedules as of and for the year ended December 31, 2023. These schedules and our unmodified opinions on them are included in the Retirement System's *Schedules of Employer Allocations and Pension Amounts by Employer*, which can be found on the Retirement System's website.

We also audited the financial statements and related notes of the Retirement System as of and for the year ended December 31, 2023, and provided our unmodified opinion on them, as detailed in report 24-19, which we also published today. The Retirement System's fiduciary net position increased from \$5.5 billion as of December 31, 2022, to \$5.8 billion as of December 31, 2023, or by 4.9 percent.

Accounting standards for pension plans, issued by the Governmental Accounting Standards Board (GASB), require the calculation of a net pension liability or asset, which is represented by the difference between the fiduciary net position reported in the financial statements and the total pension liability calculated by the actuary. The Retirement System reported a net pension liability of \$2.1 billion as of December 31, 2023. This is a \$536.6 million change from the \$1.5 billion net pension liability calculated as of December 31, 2022.

Under accounting standards, each of the employers participating in the Retirement System will be required to report its proportionate share of the net pension liability on their own financial statements if prepared in accordance with generally accepted accounting principles (GAAP). To assist employers participating in the Retirement System in determining the employer's proportionate share of these amounts, management of the Retirement System has prepared a Schedule of Employer Allocations and a Schedule of Pension Amounts by Employer as of and for the year ended December 31, 2023. Additional information related to the accounting standards for pensions is included in report 24-19.

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 5. We reported a material weakness in internal control related to preparation of the schedules.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/ES/ag

Auditor's Report



Legislative Audit Bureau

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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 Annuity and Pension Board, and
Mr. Bernard J. Allen, Executive Director
Employees' Retirement System of the City of Milwaukee

We have audited the Schedule of Employer Allocations and the related notes of the Employees' Retirement System of the City of Milwaukee (Retirement System) as of and for the year ended December 31, 2023. We have also audited the totals for the columns titled Ending Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total Employer Pension Expense in the Schedule of Pension Amounts by Employer and the related notes as of and for the year ended December 31, 2023. We have issued our report thereon dated November 11, 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 schedules and related auditor's opinions have been included in the Retirement System's *Schedules of Employer Allocations and Pension Amounts by Employer* report for 2023.

Report on Internal Control over Financial Reporting

Management of the Retirement System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the schedules, we considered the Retirement System'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 schedules, but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement System'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 Retirement System's schedules 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.

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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. We identified a deficiency in internal control that we consider to be a material weakness. We consider the deficiency included in the accompanying Finding and Response Schedule, as Finding 2023-002, to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the schedules of the Retirement System 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 schedules. 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 have also audited the financial statements and related notes of the Retirement System as of and for the year ended December 31, 2023, 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*. We expressed an unmodified opinion, dated November 11, 2024, on those financial statements. In addition, we issued the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated November 11, 2024, and included in report 24-19, related to the audit of the financial statements.

The Retirement System's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Retirement System's written response to the finding identified in the audit and described in the accompanying Finding and Response Schedule. The Retirement System's response and corrective action plan were not subjected to other auditing procedures applied in the audit of the schedules and, accordingly, we express no opinion on the response or corrective action plan.

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 the Retirement System'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 the Retirement System's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



November 11, 2024

FINDING AND RESPONSE SCHEDULE

Finding 2023-002: Reporting Errors in the Schedule of Pension Amounts by Employer

Background:

The Employees' Retirement System of the City of Milwaukee (Retirement System) was created by Chapter 396 of the Laws of Wisconsin of 1937. The Retirement System is a cost-sharing, multiple-employer, defined-benefit pension plan that provides postretirement financial benefits, as well as disability and death benefits, to members and their beneficiaries. Employers participating in the Retirement System include the City of Milwaukee and certain other entities associated with the City of Milwaukee, such as Milwaukee Public Schools, Milwaukee Metropolitan Sewerage District, and the Wisconsin Center District. Generally accepted accounting principles (GAAP) related to this type of public pension plan require each employer to report in its GAAP-based financial statements its proportionate share of the net pension liability and other pension amounts for the Retirement System.

The activity of the Retirement System is accounted for in three funds:

- the Global Combined Fund, which accounts for the members who have joined the system since the Global Pension Settlement was enacted in 2000 or who were active members prior to this settlement and have since consented to the Global Pension Settlement;
- the Non-consenter Retirement Funds, which accounts for members who have not consented to the Global Pension Settlement; and
- the Employers' Reserve Fund, which accounts for certain contributions made by participating employers and investment earnings on these contributions.

Because the accumulated assets are held in a trust that is dedicated to providing pensions under the plan, the Global Combined Fund and Non-consenter Retirement Funds are considered pension trust funds. The Employers' Reserve Fund is considered a custodial fund, which is a fund that accounts for assets held on behalf of other governments. The amounts deposited by employers are being maintained to fund future employer contribution requirements to the Global Combined Fund upon passage of a formal resolution by the employer directing a transfer. However, the assets held in the Employers' Reserve Fund are not available for the payment of benefits. The City of Milwaukee is currently the only employer that has made deposits into the Employers' Reserve Fund.

As the plan administrator for the Retirement System, Retirement System staff prepare the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer to provide each participating employer with information needed to prepare their own GAAP-based financial statements.

Criteria:

Retirement System staff are responsible for preparing the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer, including the related notes, in accordance with standards issued by the Governmental Accounting Standards Board (GASB), and participating employers rely on the Retirement System to provide accurate amounts.

Accounting standards require calculation of a net pension liability for disclosure in the notes to the financial statements. The net pension liability is calculated as the difference between the total pension liability and the fiduciary net position. The total pension liability is the sum of the amounts needed to pay for the pension benefits earned by each member based on service provided as of the date the actuarial

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valuation is performed. The fiduciary net position represents the assets that have been accumulated and the resources available to pay pension benefits.

In addition, accounting standards require that the differences between projected and actual investment earnings on pension plan investments be aggregated across periods and reported on a net basis, as either a deferred inflow of resources or a deferred outflow of resources. As defined in the accounting standards, an amount of deferred outflows or deferred inflows of resources is calculated each year and then amortized into pension expense over a period of years. Under this accounting method, the outstanding balance at the end of the year will include the unamortized amounts of deferred inflows or outflows of resources from several years.

Condition:

The Schedule of Pension Amounts by Employer includes the collective pension amounts of Ending Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total Employer Pension Expense. In calculating the Ending Net Pension Liability, Retirement System staff erroneously included the fiduciary net position of the Employers' Reserve Fund in the calculation. Further, in preparing the Schedule of Pension Amounts by Employer, Retirement System staff did not report the differences between projected and actual investment earnings on a net basis as either a deferred outflow or a deferred inflow. Instead, Retirement System staff erroneously presented both a deferred outflow of resources and a deferred inflow of resources. The Ending Net Pension Liability was understated by \$85.1 million and the Total Deferred Outflows of Resources and the Total Deferred Inflows of Resources were each overstated by \$395.2 million as a result of these errors.

After we communicated our concerns, Retirement System staff corrected the calculation of the net pension liability and updated the Schedule of Pension Amounts by Employer for these errors.

Context:

We interviewed Retirement System staff related to the determination of amounts reported in the Schedule of Pension Amounts by Employer. We reviewed and considered the applicable accounting standards to assess if the Ending Net Pension Liability and the deferred outflow or deferred inflow of resources resulting from the difference between actual and projected investment earnings were being properly calculated and reported.

Effect:

The Ending Net Pension Liability, the total deferred outflow, and the total deferred inflow of resources for the Retirement System were materially misstated and not prepared in accordance with GASB standards. Misstatements in the Schedule of Pension Amounts by Employer could have resulted in each employer relying on the Schedule to report inaccurate amounts in its own GAAP-based financial statements.

Cause:

Accounting standards requiring the calculation of the net pension liability have been in place for almost ten years. Retirement System staff did not follow these standards and instead continued to follow the accounting processes and decisions made during prior periods.

The Retirement System's actuary separately reported the deferred outflow of resources and the deferred inflow of resources resulting from the difference between actual and projected investment earnings in its actuarial report. Retirement System staff used the actuary's report in preparing the Schedule of Pension Amounts by Employer without consideration of accounting standards requiring that these amounts be reported on a net basis.

☑ Recommendation

We recommend staff of the Employees' Retirement System of the City of Milwaukee:

- *review and update existing accounting processes to ensure the Schedule of Pension Amounts by Employer and related note disclosures are prepared in accordance with accounting standards; and*
- *report to the Joint Legislative Audit Committee by February 14, 2025, on the status of its efforts to implement this recommendation.*

Type of Finding: Material Weakness

Response from the Employees' Retirement System of the City of Milwaukee: The Retirement System agrees with the finding and recommendations.

■ ■ ■ ■

Corrective Action Plan



City of Milwaukee
Employees' Retirement System

Bernard J. Allen
Executive Director

David M. Silber, CFA, CAIA
Chief Investment Officer

Melody Johnson
Deputy Director

Corrective Action Plan

Finding 2023-001

Planned Corrective Action:

ERS staff has updated its financial reporting processes to ensure that data produced by third parties complies with GASB standards. Staff has already corrected the data on our 12/31/2023 Annual Comprehensive Report.

Anticipated Completion Date: Completed on October 25, 2024

Responsible Official:
Dan Gopalan, ERS Chief Financial Officer
daniel.gopalan@cmers.com

Finding 2023-002

Plan Corrective Action:

ERS staff has updated its financial reporting processes to ensure that data produced by third parties complies with GASB standards. Staff has already corrected the data on our 12/31/2023 Schedule of Pension Amounts by Employer.

Anticipated Completion Date: Completed on August 29, 2024

Responsible Official:
Dan Gopalan, ERS Chief Financial Officer
daniel.gopalan@cmers.com