



Milwaukee County Retirement Plan Services

Amy Pechacek, Interim Director

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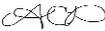
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Date: May 8th, 2017

To: Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors

From: Amy Pechacek, Interim Director of RPS 

Subject: Informational Report / Retirement Plan Services Update Memo

This memo serves as an effort to keep all parties informed on developments with Retirement Plan Services ("RPS") since the prior committee cycle.

Collection Abeyance / Overpayment Direction to RPS

In the March committee cycle, several members of the County Board expressed an interest in researching the legality of issuing an abeyance on collection activities for any new overpayments. The research would include the plausibility of the Pension Board and RPS temporarily ceasing the commencement of new collection efforts and to abate the accrual of interest on such overpayments in light of IRS regulations until the following occurred a) the Baker Tilly review is completed and presented to the County Board; b) the County Board has the opportunity to consider policy options related to overpayment forgiveness; and c) a fiscal analysis of policy options related to overpayment forgiveness has been concluded and presented to the County Board.

In the April committee cycle, the Board requested an opinion from Corporation Counsel regarding whether it is advisable for the Board to direct the abeyance of new recoupment efforts until the Baker Tilly review and fiscal analyses of various overpayment policy options can be assessed. Corporation Counsel retained outside counsel to assist on this matter, who will present the opinion at the May Finance and Audit Committee meeting.

Baker Tilly Agreed-Upon Procedures Review

The fully executed Baker Tilly contract was signed March 31, 2017, for the Agreed-Upon Procedures audit to determine what other Employee Retirement Services ("ERS") issues may currently exist. RPS and Baker Tilly have mapped out the timeline for the audit, which commenced onsite on April 10, 2017. Phase 1 of the audit focuses on the areas of greatest concern as identified by RPS staff, the Audit Division of the Comptroller's Office, the Office of Corporation Counsel and outside counsel, and based on previously uncovered issues as identified through prior errors and the Voluntary Correction Plans ("VCP"). This phase also includes random sampling to ensure there are no blind spots in identifying the potential universe of problems. Phase 1 is scheduled to conclude in early June, with a report from Baker Tilly to follow soon after. There are two additional phases of the audit as outlined in the previously submitted scope document. Phase 2 will include expanded research into

corrections and errors on the 2007/2008 VCP and the 2014 Supplemental VCP and any new issues uncovered by Baker Tilly during Phase 1 (via random sampling or otherwise). Lastly, Phase 3 consists of the consulting aspects and document process improvement recommendations from Baker Tilly to assist RPS in more efficient and accurate operations moving forward. Phase 3 is set to conclude in August.

The Baker Tilly team reports to RPS on most days around 7:00 am and works through approximately 6:00 pm. There are typically between two to seven auditors working on the various populations of the audit scope. To date, the audit timeline appears to be on track, although documentation challenges have presented with respect to locating source data information, especially on older files. Representatives from the Audit Division of the Comptroller's Office, Corporation Counsel, RPS, and the Baker Tilly team have been holding check-in meetings to facilitate logistics, answer access questions, and assist in project needs. Although the audit is still underway, there will likely be significant conclusions confirmed in the area of calculation and process issues, documentation barriers, and governance concerns.

Updated Information on the 2014 Supplemental VCP

Since the March cycle committee reports and up until the commencement of the Baker Tilly review, RPS staff continued to research the errors and correction action associated with the 2014 Supplemental VCP. For item 1e of the 2014 Supplemental VCP, Incorrect Retirement Option, a correction has been made that involves a beneficiary who was originally paid a joint and survivor annuity at 50% when the deceased member elected a joint and survivor benefit at 100%. This error had been uncovered in the 2012 ERS audit performed by the Audit Division of the Comptroller's Office ("Excessive Manual Review and Intervention is Required to Ensure Pension Benefit Calculations from Milwaukee County ERS' Automated V-3 System are Accurate") and had been represented by the prior RPS director as corrected. In researching information for the VCP, it was determined that the error was not corrected as previously represented. Accordingly, RPS worked to determine the current calculations to correct this error, notify the beneficiary, and make the damaged party whole. The underpayment error of \$117,556 as identified in the 2012 audit and on the VCP filing, is now currently calculated at \$346,189.94, of which \$157,581.46 is interest. The interest calculations are in accordance with the IRS guidelines.

The IRS requested an updated status of research into the errors from RPS due on March 31, 2017. With the recent commencement of the Baker Tilly Agreed-Upon Procedures review, Pension Board Counsel Steve Huff sent correspondence to the IRS requesting a reporting extension until the audit is concluded as this auditing process will likely uncover additional VCP reporting obligations and resolutions, and the review is needed to confirm and further define the information already contained on the VCP. The IRS agreed to provide an extension on status reporting for the 2014 Supplemental VCP to December of 2017.

State Administration Workgroup

Activity on Supervisor Wasserman's resolution to convene a workgroup to explore the State administration option is underway. Comptroller Manske and Department of Administrative Services Director Teig Whaley-Smith are co-chairs of the group, and a draft charter was developed. Additional members include Performance, Strategy, and Budget Director Steve Kreklow, Corporation Counsel Margaret Daun, Interim RPS Director Amy Pechacek, Budget and Management Coordinator CJ Pahl, and Senior Executive Assistant Jodi Mapp from the Behavioral Health Division, who is a non-management employee representative. Baseline data has been

gathered to assist the group in their fact finding directives. The group will report regular updates to the Board until the conclusion of their project.

This concludes the RPS update for this cycle.

Cc: Supervisor Peggy A. West, Chairwoman, Finance and Audit Committee
Supervisor James Schmitt, Chairman, Personnel Committee
Chris Abele, County Executive
Finance and Audit Committee
Personnel Committee
Kelly Bablitch, Chief of Staff, County Board
Raisa Koltun, Chief of Staff, Office of the County Executive
Teig Whaley-Smith, Director, Department of Administrative Services
Kerry Mitchell, Chief Human Resources Officer
Scott Manske, Comptroller
Jerry Heer, Director of Audit, Office of the Comptroller
Steve Cady, Research & Policy Director, Research Services Division, Office of the Comptroller