

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: May 24, 2013

To: Supervisor Willie Johnson, Jr., Co-Chair, Committee on Finance, Personnel and Audit
Supervisor David Cullen, Co-Chair, Committee on Finance, Personnel and Audit

From: Jerome J. Heer, Director of Audits

Subject: Status Report – Audit of ERS Pension Benefit Calculations (File No. 12-318)

At its meeting on May 17, 2012, the Committee on Finance and Audit passed a motion to approve and recommend for adoption the recommendations made in our audit report "Excessive Manual Review and Intervention is Required to Ensure Pension Benefit Calculations from Milwaukee County ERS' Automated V-3 System are Accurate."

Attached is the second status report regarding the progress toward implementation of our recommendations. As can be seen in the report, Human Resources management has addressed 12 of the 14 recommendations.

Please note that management's updated response to recommendations 8 and 10 indicate further work remains to correct/resolve apparent discrepancies in V-3 System accounts in which members have selected the Option 7 form of retirement benefit payout, anticipating completion of its efforts by December 31, 2013.

This status report is informational and we will work with management to provide a final status report for the January 2014 committee meeting cycle.



Jerome J. Heer

JJH/PAG/cah

Attachment

cc: Scott Manske, Milwaukee County Comptroller
Finance, Personnel and Audit Committee Members
Chris Abele, County Executive
Kerry Mitchell, Executive Director, Department of Human Resources
Kelly Bablitch, Chief of Staff, County Board Staff
Steve Cady, Research Analyst, County Board Staff
Janelle Jensen, Committee Clerk

STATUS OF IMPLEMENTING DEPARTMENT OF AUDIT REPORT RECOMMENDATIONS

Audit Title: Excessive Manual Review and Intervention is Required to Ensure Pension Benefit Calculations from Milwaukee County ERS' Automated V-3 System are Accurate **File Number:** 12-318

Audit Date: March 2012

Status Report Date: May 2013

Department: Human Resources –
Division of Employee Benefits

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| Number & Recommendation | Deadlines Established | | Deadlines Achieved | | Implementation Status | | Comments |
|--|-----------------------|----|--------------------|----|-----------------------|-------------------------|--|
| | Yes | No | Yes | No | Completed | Further Action Required | |
| | | | | | | | |
| 1. Develop written protocols defining the number of pay periods used to calculate three-year and five-year Final Average Salary figures, respectively, for determining ERS retiree benefits in compliance with s. 201.24, Section II 2.8 of the Milwaukee County Ordinances. We suggest consistent application of the 78 highest consecutive pay periods for three-year FAS and the 130 highest consecutive pay periods for five-year FAS. | | | | | Yes | No | <u>November 2012 Response</u> Auditee: ERS agreed with the recommendation and updated the procedure manuals accordingly. This project was completed in May 2012. A Change Order was requested to make the necessary V3 system modification. |
| 2. Continue monitoring COLA adjustments and document efforts to verify reliable application of appropriate COLAs by the V-3 System. | | | | | Yes | No | <u>November 2012 Response</u> Auditee: Ongoing quality assurance efforts regarding Cost of Living Adjustments (COLA) are in place. A full review of all COLAs is performed monthly. Issues are identified (over/underpayments) and corrective action is taken monthly. As an additional note, the programming issue with COLAs related to backDROPS that was separately identified by ERS was resolved in May 2012. |
| 3. Review and correct all Option 6 cut-off date errors in the V-3 System | | | | | Yes | No | <u>November 2012 Response</u> Auditee: ERS corrected all known option 6 errors. ERS continues to actively self-audit, and will similarly correct any issue identified in the future. |

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| | Yes | No | Yes | No | Completed | Further Action Required | |
| | 4. Work with Corporation Counsel to revise s. 201.24 of the County Ordinances to codify the backDROP cut-off dates. | | | | | Yes | |
| 5. Develop written procedures regarding the procession of Option 6 pension applications, including measures to ensure cut-off dates for Option 6 members with backDROP dates are entered into V-3 appropriately and to ensure remaining benefits are paid to the estates of members who die without a beneficiary before receiving 120 guaranteed payments. | | | | | Yes | No | November 2012 Response Auditee: Written procedures regarding option 6 were implemented in July 2012. These procedures address the execution of remaining payments to the estate of retirees who die prior to receiving the guaranteed number of payments. |

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| | Yes | No | Yes | No | Completed | Further Action Required | |
| | | | | | Yes | No | |
| 6. Create an automatic computer-generated cut-off for Option 6 beneficiary payments once the guaranteed 120 payment requirements have been met. | | | | | | | <p><u>November 2012 Response</u> Auditee: The current system configuration creates a report of Option 6 beneficiary payments that are expiring 2 months in advance of the completion of the 120 day period. This triggers a staff member to send the notice and enter a benefit end date in V-3. ERS remains generally opposed to automating the termination of pension benefits. In lieu of this step, ERS added redundancy to the manual review to ensure benefit end dates are being properly entered. <u>Audit Services Division:</u> We continue to believe that automating this function would be more effective because it would provide a rigid internal control to prevent overpayments as contrasted with the current manual process, which is more susceptible to human error. However, management is responsible for establishing an adequate system of internal control.</p> <p><u>May 2013 Update</u> Auditee: During initial programming the current system configuration was completed as per the specifications developed in conjunction with discussions on how processes were completed. The report is reviewed and a termination of benefit date is entered. A notice is sent to the survivor alerting them to the termination of the benefit.</p> |

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| | Yes | No | Yes | No | Completed | Further Action Required | |
| | 7. Expedite review of all remaining instances of benefits overpayments and underpayments referred by the Department of Audit during the course of this audit and take appropriate corrective action. | | | | | Yes | |
| 8. Conduct a manual review of member accounts in those instances where missing or contradictory information in the V-3 System and/or paper files cast doubt on the accuracy of Option 7 payments. This may require contacting retirees and/or survivors to resolve issues with Option 7 that were not satisfied during this audit. | | | | | No | Yes | <p><u>November 2012 Response</u> Auditee: ERS conducted a manual review, however, due to the age of some of these issues, they are not 100% resolved. ERS will continue this effort and resolve all issues to the extent that it is possible. Audit Services Division: Audit Services will assess ERS' manual review ahead of the next status report</p> <p><u>May 2013 Update</u> Auditee: ERS continues review of Option 7 applications. Information is being pulled from legacy system and files. Once research has been completed, corrections will be made in V3 and all appropriate documentation will be scanned into the system. ERS will have research completed and potential discrepancies resolved by year end.</p> |

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| | Yes | No | Yes | No | Completed | Further Action Required | |
| | 9. Refer the Option 4 (25% Joint and Survivor) case that was processed as Option 7 to Corporation Counsel for a legal review and opinion as to appropriate action, if any. | | | | | Yes | |

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| | Yes | No | Yes | No | Completed | Further Action Required | |
| | 10. Address all data errors in V-3 relating to the Option 7 cases that we have brought to management's attention in the course of this audit. | | | | | No | |

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| | Yes | No | Yes | No | Completed | Further Action Required | |
| | 11. Continue ongoing problem identification and resolution processes, including manual reviews and intervention to V-3 and correct all system data that is incorrect to make sure the system is a true account of each record. | | | | | Yes | |
| 12. Revise ERS procedures manual to include the Peer to Peer Review Process. | | | | | Yes | No | <u>November 2012 Response</u> Auditee: Procedure manuals have been updated to include the peer-to-peer review process. Additionally, the Fiscal office has final review and sign-off of all finals |
| 13. Identify those problems attributable to staff errors and develop additional focused training and reinforcement efforts to improve performance. | | | | | Yes | No | <u>November 2012 Response</u> Auditee: ERS has filled the Retirement Systems Specialist and ERS Assistant Manager roles, and subsequently increased its use of metrics for tracking and identifying staff errors. Some initial training issues have been addressed, but this will continue to be an ongoing effort. Additional staff development and training initiatives are in planning phase for implementation in 2013. |
| 14. Review the Benefit Division's policy on the retention of records and ensure all documents necessary to recreate and verify retirement benefits calculations are retained in the V-3 System. | | | | | Yes | No | <u>November 2012 Response</u> The Benefit Division's policy has been reviewed and distributed. Due to staff turnover, monitoring and re-training will be an ongoing effort. |