



## Milwaukee County Retirement Plan Services

Amy Pechacek, Interim Director

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Date: April 5, 2017

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

From: Amy Pechacek, Interim Director of RPS

A handwritten signature in blue ink, appearing to read "AP", is written over the "From:" line.

**Subject: Informational Report / Retirement Plan Services Update Memo**

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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**

During the last County Board committee cycle, several members of the 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.

A request for authority to retain a legal opinion on the matter was presented to the Pension Board at the March meeting. While discussing this issue, the Pension Board was receptive to a County program to abate overpayments and interest or amend the Ordinances in a manner consistent with the IRS guidance. The Pension Board expressed a willingness and desire to work collaboratively with the County Board and other stakeholders to achieve the best results for Employee Retirement Services ("ERS") and the members. However, it was the position of the Pension Board that should Milwaukee County, as the plan sponsor, wish to research these issues as a policy directive, then it was more appropriate that the plan sponsor should direct and fund the research rather than the trust. The Pension Board instructed RPS to continue collection activity per usual as required by the IRS guidelines.

Questions have been posed to RPS about the amount and number of individuals in collection. Research into this topic is difficult as the current Vitech system configuration cannot report on overpayments due to a historical lack of data entry into this category. Very preliminary research indicates there are currently 10 people in active recoupment status. The amount of the total recovery for these 10 subjects is approximately \$810,000. The majority of these recoupments are currently being collected via "offsets", a temporary suspension of future payments to cancel out and compensate for the initial overpayment. There is an additional \$120,000 in

overpayments associated with an approximate 40 other people not yet in active recoupment. This group is in varying stages of collection effort, including the majority of cases which are pending legal review prior to commencement of recovery. These figures do not include the recently publicized overpayment of \$140,000 to one particular beneficiary, and a class of unsuccessful overpayment recoupments that is still under research. It is possible that new overpayment recovery obligations will be uncovered during the Baker Tilly review.

### **Baker Tilly Agreed Upon Procedures Review**

Attached as an exhibit to this report is the fully executed Baker Tilly contract, signed March 31, 2017, for the Agreed Upon Procedures audit to determine what other ERS issues may currently exist. RPS and Baker Tilly have mapped out the timeline for the audit, which will begin 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 attached document. Phase 2 will include expanded research into any new issues uncovered by Baker Tilly during Phase 1 (via random sampling or otherwise) and will be used to investigate any new concerns that may arise during routine RPS operations once the audit has commenced. 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.

### **Updated Information on the 2014 Supplemental VCP**

Since the March cycle committee reports, RPS staff continued to research the errors and correction action associated with the 2014 Supplemental VCP. In one area previously reported on, the Cost of Living Adjustment (COLA) errors (item #3 on the 2014 Supplemental VCP Memo), an additional approximate 150 impacted individuals were uncovered to have underpayments which were corrected in 2012. These individuals resulted in an additional approximate \$30,000 of adjustments in underpayments in this category. This brings the total amount of impacted individuals to 350 people versus the previously reported total of approximately 200 impacted individuals. The updated total amount of underpayments is approximately \$480,000, versus the previously reported amount of approximately \$450,000.

The IRS requested an updated status of research into the errors from RPS due on March 31, 2017. With the upcoming commencement of the Baker Tilly Agreed Upon Procedures review, Pension Board Counsel Mr. 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, as well as confirm the information already reported on this document.

### **State Administration Workgroup**

Milwaukee County Board Resolution 17-266 requested that the RPS Director set up a workgroup to prepare a report outlining the steps necessary to begin researching a possible transition to the State of Wisconsin pension system, including what State approvals are necessary and what resources would be needed to complete this

research. This State Administration Workgroup will be co-chaired by Milwaukee County Comptroller Scott Manske and Teig Whaley-Smith, Director Department of Administrative Service. Consistent with the resolution the membership will also include Amy Pechacek (RPS Director), Steven Kreklow (PSB Director), and a non-management front-line employee. Basic due diligence data has been gathered to assist the group in their fact-finding directives. The workgroup will report their findings directly to the County Board when complete.

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  
Scott Manske, Comptroller  
Kerry Mitchell, Chief Human Resources Officer  
Jerry Heer, Director of Audit, Office of the Comptroller  
Steve Cady, Research & Policy Director, Research Services Division, Office of the Comptroller