

Members of the Pension Board
Employees' Retirement System of the County of Milwaukee
June 28, 2017

This document is intended to represent an Executive Summary to be read in conjunction with the Independent Accountants' Report on Applying Agreed-Upon Procedures (AUP) issued by Baker Tilly Virchow Krause, LLP (Baker Tilly) to the Members of the Pension Audit Committee of the Employees' Retirement System of the County of Milwaukee (ERS).

Baker Tilly has been retained to perform certain procedures relating to the ERS specifically focused on retirement benefits paid to members as identified and agreed to by the specified parties detailed in the engagement letter covering these procedures. This overall engagement is intended to consist of three separate component parts as follows:

1. Agreed-Upon Procedures Phase 1 - Delivery June 28, 2017
2. Agreed-Upon Procedures Phase 2 - Delivery and procedures TBD
 - > procedures related to the 2008 and 2014 Voluntary Compliance Program filings
 - > procedures that were not completed in Phase 1
3. Recommendations and observations report Phase 3 – Delivery TBD
 - > documents and assesses key ERS processes and related controls
 - > recommendations and observations for improvement opportunities and process enhancements

Phase 1

Four areas targeted due to risk of potential error representing substantially all of the retiree payments in these categories. These categories represent a small percentage of the overall retirement payments.

- > Accidental and Ordinary Disability payments
- > Survivor benefits
- > U.S. Code 415 limitations
- > Re-retirement payments

Random sample from entire benefit population

- > Recalculation of retirement payments for 50 random retirees

Scope

- > Expansive timeframe - retirements dating back to 1955 through March 2017
- > Encompassed several systems used internally by Retirement Plan Services and Milwaukee County

Challenges

- > Documentation and supporting calculations
 - does not necessarily indicate the related calculation is incorrect, inaccurate, or improper
 - could be possible to find appropriate documents should a decision be made to extend procedures further
- > Conversion of data and data availability through various systems over time
- > Variation and lack of specificity in governing ordinances and rules
 - in no case did Baker Tilly make independent interpretations related to this issue

Finally, any quantifiable results discussed during our findings have not been adjusted for time value of money (interest), penalty or for any other administrative related adjustments that might accompany corrective action.

SUMMARY COMMENTS AND FINDINGS

The following section of this Executive Summary encapsulates the scope of each identified category for Phase 1 procedures including a high level summary of the results by category.

Procedure	Summary
<p>Accidental & Ordinary Disability payments Population: 291 members from 1990 - 2017 Sample: 228 members from 1990 – 2017 Coverage: 78.4%</p>	<p>Approximately 88%, or 200, of the sample had either a missing file or was lacking some sort of documentation or system information in order to determine appropriateness of the benefit (e.g. disability or retirement application, earned income statement). This lack of support does not infer that calculations are incorrect. There were eight files that were deemed to be either likely or definitively correct. There was one file deemed to be definitively incorrect, resulting in an estimated cumulative underpayment to the retiree of approximately \$1,700. Another 19 files were deemed likely incorrect, with the potential for a cumulative maximum exposure to the County of up to \$390,000. See page 3 of the AUP report for further details.</p>
<p>Survivor Benefits Population and Sample: 294 members from 1970 - 2017 Coverage: 100.0%</p>	<p>Approximately 84%, or 247, of the sample had either a missing file or was lacking some sort of documentation or system information in order to determine appropriateness of the benefit (e.g. social security offset letters, student verification documents). This lack of support does not infer that calculations are incorrect. There were approximately 5% of, or 14, files that were deemed to be definitively correct. There were 2 files deemed to be definitively incorrect, resulting in an estimated cumulative underpayment to a single retiree of approximately \$10 to \$300, and an estimated cumulative overpayment to another retiree of approximately \$132,000, as previously identified by RPS. See page 10 of the AUP report for further details.</p>
<p>U.S. Code 415 limitations Population and Sample: 2 members from 2006 - 2017 Coverage: 100.0%</p>	<p>Neither individual in this test breached the U.S. Code 415 limit based on the Conduent 415 limitation calculation spreadsheet; however, one of the two individual's cost of living adjustment (COLA) was not applied correctly, resulting in an estimated cumulative variance of approximately a \$390 overpayment. See page 14 of the AUP report for further details.</p>
<p>Re-retirement payments Population and Sample: 10 members from 1999 - 2017 Coverage: 100.0%</p>	<p>Many of the challenges noted previously were evident in this sample of recalculations, including lack of supporting documentation, inadequate information from systems, and governance clarity. Nonetheless, all 10 samples were able to be calculated based on available information. Six monthly base pay variances were noted with the first retirement and six were noted with the second retirement, resulting in a total of eight files having a variance on either the first, second, or both retirement base pay calculations. The estimated cumulative net impact was an approximate \$1,800 underpayment to retirees during first retirements and an estimated cumulative net impact of approximately \$200 overpayments to retirees during second retirements. See page 16 of the AUP report for further details.</p>
<p>Random 50 Retiree payments Population: 8,155 members from 1955 – 2017 Sample: 50 members from 1979 – 2017 Coverage: 0.6%</p>	<p>Again, many of the challenges noted previously were evident in this sample of recalculations, including lack of supporting documentation, inadequate information from systems, and governance clarity. Approximately 54% of files were determined to be likely incorrect based on procedures performed. While individual overpayments ranged from \$.32 to approximately \$160 per month and individual underpayments ranged from \$.43 to approximately \$150 per month, the estimated cumulative net impact was an approximate \$2,800 overpayment to retirees. Backdrop variances due to incorrect termination dates being used is an estimated cumulative underpayment of approximately \$4,900. See page 20 of the AUP report for further details.</p>

A quantitative comprehensive analysis was not part of the agreed-upon procedures. The estimate does not take into consideration COLAs, interest, fees and other costs, backdrop adjustments on the monthly base pay variances and changes due to ordinance, rules and policy interpretations.