

**EMPLOYEES' RETIREMENT SYSTEM
OF THE COUNTY OF MILWAUKEE**

Milwaukee, Wisconsin

REPORT ON AGREED-UPON PROCEDURES

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Members of the Pension Audit Committee
Employees' Retirement System of the County of Milwaukee
Milwaukee, Wisconsin

We have performed the procedures enumerated on page 2, which were agreed to by the Pension Board Chairman, Director of Audit, Interim Director of Retirement Plan Services, and County Corporation Counsel of Milwaukee County (County) (collectively, the specified parties), on identified retirement benefits paid to members as provided to us by management of the Employees' Retirement System of the County of Milwaukee (ERS). ERS's management is responsible for the creation and oversight of procedures to be performed on the identified retirement benefits paid to members. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

More detail of the procedures we applied and our findings are described on page 2 and in Exhibit A.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review of financial statements or any part thereof, the objective of which would be the expression of an opinion or conclusion, respectively, on the financial statements or a part thereof. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Members of the Pension Audit Committee Employees' Retirement System of the County of Milwaukee, management of ERS and the above noted specified parties and is not intended to be and should not be used by anyone other than those parties indicated.

BAKER TILLY VIRCHOW KRAUSE, LLP



Milwaukee, Wisconsin
June 27, 2017

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES As of June 27, 2017

The following list describes procedures performed as agreed upon by the specified parties in our engagement letter dated March 28, 2017.

1. Confirm inputs used to calculate disability payments for 228 individuals, specifically confirming disability offsets including workers compensation, comparing payments to individual earnings outside of the pension limit, and confirming the conversion of payments to a normal retirement amount once a retiree reaches the age of 62, if applicable.
2. Confirm 311 survivor benefits under sections 6.1, 6.4, and 7.1 within Chapter 201, specifically inspecting files for the proper paperwork required to continue receiving the benefit, including whether the receipt of a Protective Survivorship Option (PSO) is being submitted.
3. Confirm whether two individuals, provided by management, are within the appropriate U.S. Code 415 limitations.
4. Confirm inputs used to calculate retirement benefits for 10 individuals who previously retired and were subsequently rehired by the County.
5. Compare the individuals selected for procedures in 1 through 4 above against the individuals/type of errors submitted under the 2008 and 2014 Voluntary Compliance Program (VCP).
6. Confirm inputs used to calculate retirement payments for 50 individuals randomly selected out of a population listing to be provided by Retirement Plan Services (RPS).

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

Accidental and Ordinary Disability Payments

Procedures:

The following procedures were performed on accidental and ordinary disability payments:

- > A listing of 291 members who are currently receiving a disability payment, or have received a disability payment, from 1990 through March 2017 was received from Retirement Plan Services (RPS). The listing included both Ordinary Disability Retirement (ODR) and Accidental Disability Retirement (ADR) payments. Pursuant to the engagement letter, procedures on a total of 228 members were in scope for these procedures. As a result, the specified parties determined 100% of the 139 ADRs would be part of the procedure population. The additional 89 (for a total 228) would be selected out of the remaining 152 ODR members on the listing.
- > As stated in the governing documents, a total of 15 years of creditable service is required to apply for ordinary disability. To further determine which of the 152 ODRs would be part of the procedures, the specified parties concluded those individuals whose service credits (SCs) at the time of retirement were 16 years or less were deemed to be higher risk and included within the procedures performed. A total of 36 recipients fell underneath this criteria. The remaining 116 ODR's were considered lower risk by the specified parties and under their direction, 53 ODR recipients were randomly selected for inclusion in this population.
- > For the 139 ADR retirees, the following procedures were performed:
 1. Workers compensation (WC) offsets of ADR payments were confirmed by comparing workers compensation information including dates covered, type of payment, cause of claim, and amount of award in the Risk Master and Aegis systems (collectively, the claims systems) to the disability pension payment dates and amounts listed in the V3 system.
 2. Recalculated for reasonableness the actual V3 disability benefit to 60% or 75%, depending on the member's union code, of the member's Final Average Salary (FAS), to confirm the benefit met the applicable minimum threshold, as stated in Sections 5.3 and 5.31 in the ordinance, at time of retirement. The reasonableness calculation was performed by taking FAS out of the V3 system times 60% or 75%, whichever was appropriate depending on the member's union code.
 3. Per Rule 1010 in Appendix B of the ordinance, files were inspected for the earned income statements, tax returns, and/or W-2 forms received annually from members to confirm individual earnings received, in addition to ADR pension payments, did not exceed the applicable limits as defined in Section 10.2 of the ordinance.
 4. If applicable, confirmed the conversion of disability pension payments under Section 5.31 of the ordinance to a normal pension retirement amount once the retiree reached age 62 for certain union codes.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

- > For the 36 ODR retirees deemed to be higher risk (those whose service credits were equal to or less than 16 at the time of disability commencement), the following procedures were performed:
 1. WC offsets of ODR payments were confirmed by comparing workers compensation information including dates covered, type of payment, cause of claim, and amount of award in the claims systems to the disability pension payment dates and amounts listed in the V3 system.
 2. Recalculated the member's service credits at retirement using the RPS calendar days in/calendar days out service credit chart as well as partial year service credit calculations based on payroll information, confirming that the members' service credits exceed the minimum 15 service credits required for an ODR pension.
- > For the 53 randomly selected ODR recipients deemed to be lower risk, the following procedures were performed:
 3. WC offsets of ODR payments were confirmed by comparing workers compensation information including dates covered, type of payment, cause of claim, and amount of award in the claims systems to the disability pension payment dates and amounts listed in the V3 system.
 4. Determined the reasonableness of the member's service credits by recalculating the calendar days in/calendar days out service credit values in the year of enrollment and year of termination, and full years in the interim, confirming that the service credits calculated exceed the minimum 15 service credits required for an ODR pension. Service credits over 15 were acceptable and further review was not requested by the specified parties.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

Findings

- > The following table provides a high level summary of findings for this category. Detailed findings related to specific procedures performed over the same population are in the underlying tables. Our procedure sample represents 100% and 59% of the ADR and ODR population, respectively, with retirements dating back to 1990 and through March 2017.

Determination ¹	Number of Files	Notes / Estimated Dollar Impact ²	% of Total
Definitively incorrect	1 ADR	Approximately \$1,700 underpayment to retiree	.4%
Definitively correct	5 ODRs		2.2%
Likely incorrect	7 ADRs <u>12 ODRs</u> 19 total	<ul style="list-style-type: none"> - Not enough information is available to confirm the exact ADR dollar impact; however, potential exposure on an individual basis ranged from approximately \$0 to \$160,000 overpayment to retirees - Potential estimated cumulative net ADR impact to ERS may be from \$0 to \$390,000 overpayment to retirees - Cannot quantify dollar impact of ODR variances as a result of SC variances 	8.3%
Likely correct	3 ADR		1.3%
Unknown/Unverifiable	128 ADRs <u>72 ODRs</u> 200 total	<ul style="list-style-type: none"> - 168 instances where the file was missing one or more documents or system information necessary to confirm payments were appropriate - 32 instances of missing entire physical RPS file 	87.8%
TOTAL FILES	228		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The maximum exposure was determined as the WC payout, of which up to 100% could have been subject to the offset provisions in Section 11.9 of the ordinance. The estimated figures do not take into consideration Cost of Living Adjustments (COLAs), interest, fees and other costs, backdrop adjustments, and changes due to ordinance, rules and policy interpretations.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

More specific findings related to the procedures performed over the ADR files are as follows:

- > General findings regarding missing documentation within the 139 ADR files inspected:

Number of Instances	Descriptions
4	Entire RPS physical file was not available. Of those files not available, 1 is currently receiving a benefit and 3 may or may not be receiving a benefit
10	Missing disability application for ADR
30	Missing retirement application which shows option elected and date retirement is effective

- > Findings related to the WC offset of the 135 ADR files inspected (Procedure 1):

Determination ¹	Number of Files	Estimated Dollar Impact ²	% of Total
Definitively incorrect	1	Approximately \$1,700 underpayment to retiree	0.7%
Definitively correct	5		3.7%
Likely incorrect	7	<ul style="list-style-type: none"> - Not enough information is available to confirm exact ADR dollar impact; however, potential exposure on an individual basis ranged from approximately \$0 to \$160,000 overpayment to retirees - Potential estimated cumulative net ADR impact to ERS may be from \$0 to \$390,000 overpayment to retirees 	5.2%
Likely correct	20		14.8%
Unknown/Unverifiable	102		75.6%
TOTAL FILES	135		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The maximum exposure was determined as the WC payout, of which up to 100% could have been subject to the offset provisions in Section 11.9 of the ordinance. The estimated figures do not take into consideration COLAs, interest, fees and other costs, backdrop adjustments, and changes due to ordinance, rules and policy interpretations.

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AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

The aforementioned findings of the 135 files inspected reference offsets that could not be confirmed as being applied against the disability payments. A primary reason for these findings is the fact that 38 files were retirements prior to July 31, 2000, which is when RPS began disbursing pensions internally in the DefBen system. As a result, no disbursement information was available in V3 or DefBen. Likewise, 26 files had recipients with retirement dates between July 31, 2000 and January 1, 2009. These retirees did not have payment detail in V3 related to their disbursement (only the total payment amount is given). These 38 and 26 files are included within the 102 Unknown/Unverifiable total in the table above.

- > Findings related to reasonableness of benefit amounts compared to the minimum threshold for the same 135 ADR files inspected (Procedure 2):

Number of Files	Descriptions
16	Reasonableness of monthly benefit amount was indeterminable due to insufficient information
119	Reasonableness of monthly benefit payment met the 60% or 75% (depending on the union code) of FAS threshold
135	TOTAL FILES

- > Findings related to whether the required outside earned income statements were received on the same 135 ADR files inspected (Procedure 3):

Number of Files	Descriptions
32	Included all required earned income information for each year after disability payments began (earned income statements, tax returns, W-2 forms)
94	Missing one or more years of required earned income information (earned income statements, tax returns, W-2 forms)
9	No earned income information required at the date these procedures were performed due to the retirement commencing in 2015 or 2016. No information is requested by RPS in the year of retirement and 2016 is not required until June 1, 2017 (date after these procedures were performed)
135	TOTAL FILES

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

- > Findings related to whether the outside earned income exceeds the applicable limits for the 126 ADR files noted previously with an earned income statement submitted (Procedure 3):

Number of Files	Descriptions
92	All years with earned income statement submitted were within the earned income limit
15	One or more years potentially exceed the earned income limit based on the reasonableness procedures performed. No RPS calculation was noted within the retiree's file showing the limit was or was not breached
19	Reasonableness calculation could not be completed due to: <ul style="list-style-type: none">- 15 received earned income documentation, however, the W-2 was not provided by the member to denote the retiree income versus the income of the retiree's spouse where earned income was combined on tax returns- 4 were missing documentation such as enrollment form and/or union code in order to validate limits
126	TOTAL FILES

- > For certain non-represented officers or employees, ADR disability benefit calculations should convert to a normal retirement benefit calculation at age 62. One of the 135 ADR disability recipients with procedures performed was noted as a non-represented employee. This employee was not 62 at the time these procedures were performed, therefore, the conversion requirement did not yet apply to this individual. (Procedure 4). The aforementioned finding is based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

More specific findings related to the procedures performed over the ODR files are as follows:

- > General findings regarding missing documentation within the 89 files inspected:

Number of Instances	Descriptions
28 (16 and 12 from the high risk and low risk population, respectively)	Entire RPS physical file is not available. Of those files not available, 12 are currently receiving benefits and 16 may or may not be receiving a benefit
7	Missing disability application for ODR
9	Missing retirement application which shows option elected and date retirement is effective

- > Findings related to the WC offset of the 61 ODR files inspected (Procedures 5 and 7):

Determination ¹	Number of Files	Estimated Dollar Impact	% of Total
Definitively correct	57		93.4%
Unknown/Unverifiable	4		6.6%
TOTAL FILES	61		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

- > Findings related to SCs for the same 61 ODR files inspected (Procedures 6 and 8):

Number of Files	Descriptions
61	Minimum of 15 years of SCs were met in order to qualify for ODR disability payment. All 20 retirees with available files in the higher risk population met the minimum years
54	In all cases, the minimum of 15 years of SCs were met in order to qualify for ODR disability payment, however, SC differences were noted between the reasonableness calculations performed during the procedures and V3

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

Survivor Benefits

Procedures

The following procedures were performed on survivor benefits:

- > A listing of 311 members having a date of death and date of termination within two weeks of each other in the V3 system was received from RPS. Typically the date of death and date of termination are either the same date or within a one day lag, so this report would theoretically capture the entire survivor population.
- > Files of individuals were inspected, noting certain inputs that factor into the survivor benefits, as defined under Sections 6.1, 6.4, and 7.1 of the ordinance.
- > In order to determine which section of the ordinance applied to each individual, inputs were first confirmed including union code/employee class, dates of enrollment, dates of birth, dates of death, and years of service or service credits. After these initial procedures were performed, it was noted nine files were actually normal retirement pensions and another two were ODR pensions, both of which were types outside the scope of this procedure. An additional six files were noted as OBRA members and were appropriately not paid survivor benefits under Section 6.1, 6.4, and 7.1 of the ordinance. The procedures laid out below were applied to the remaining 294 individuals in the population.
- > Once the type of survivor benefit was determined, confirmation of additional inputs and inspection of proper paperwork commenced to validate a benefit, the following procedures were performed as outlined by the specified parties:
 1. For benefits paid under Section 6.1, inputs including dates of death, dates of marriage with surviving spouse and dates of birth of surviving spouse and children, if applicable, were confirmed. Furthermore, given this benefit is for the accidental death of a deputy sheriff while on active duty, the workers compensation offset provisions under Section 11.9 of the ordinance, were also confirmed.
 2. For benefits paid under Section 6.4, inputs including dates of death, dates of marriage with surviving spouse and dates of birth of surviving spouse and children, if applicable, were confirmed. Files were inspected to confirm whether social security letters were obtained and retained in the file in order to determine any spouse or child survivor benefit offset. If a child was a full time student, aged 18 through 22, files were inspected to confirm whether student verification was obtained and retained in the file and if payments ceased upon reaching age 22.
 3. For benefits paid under Section 7.1, inputs including dates of death and dates of marriage with surviving spouse were confirmed. Files were inspected for PSO forms and inputs confirmed that would factor into a normal retirement pension calculation, including union code, service credits, dates of enrollment and termination or death, retirement option, FAS, bonus incentive percentages, dates of birth for beneficiary and related actuarial factors.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

Findings

- > The following table provides a high level summary of findings for this category. Detailed findings related to specific procedures performed over the same population are in the underlying tables. Our procedure sample represents 100% of the survivor population, dating back to deaths from 1970 through March 2017.

Determination ¹	Number of Files	Notes / Estimated Dollar Impact ²	% of Total
Definitively incorrect	2	The estimated potential exposure on an individual basis ranged from an approximately \$10 to \$300 underpayment for one individual and an approximately \$132,000 overpayment for another individual	.7%
Definitively correct	14		4.8%
Unknown/Unverifiable	247	- 73 instances where the RPS physical file was missing one or more documents or system information necessary to confirm payments were appropriate - 174 instances of missing physical RPS files	84.0%
Procedures not completed	31	7.1 survivor benefits	10.5%
TOTAL FILES	294		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The maximum exposure was derived for the first individual by taking the COLA adjustment based on the individual's base pay times the number of years since retirement. The maximum exposure for the second individual was estimated as the WC payout, of which up to 100% could have been subject to the offset provisions in Section 11.9 of the ordinance. The estimated figures do not take into consideration COLAs, interest, fees and other costs, backdrop adjustments, and changes due to ordinance, rules and policy interpretations.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

More specific findings related to the procedures performed over the survivor benefit files are as follows:

- > The 294 members were determined to fall into the following categories:

Number of Files	Benefit Type	% of Total
2	Section 6.1 Survivor Benefits	.7%
50	Section 6.4 Survivor Benefits	17.0%
31	Section 7.1 Survivor Benefits – procedures not completed	10.5%
174	RPS physical files not available, thus information cannot be validated	59.2%
23	Files where individual qualified for or was paid lump sum benefit under Section 6.3 of ordinance - further procedures were not performed as either these files didn't fall under the 6.1, 6.4, and 7.1 survivor benefits scope of this procedure as described above or need legal guidance to move forward	7.8%
14	Files need either additional information/documentation that was missing or legal counsel guidance in order to categorize them and determine appropriate benefit	4.8%
294	TOTAL FILES	100.0%

- > General findings regarding missing documentation in the 52 physical RPS files available to be inspected under 6.1 and 6.4 survivor benefits (note this excludes the 14 files noted above that need additional documents or information in order to determine which of the survivor benefits applies to the member):

Number of Instances	Descriptions
7	Missing birth certificate or marriage certificate to confirm spouse / children
35	Missing a Social Security offset letter
33	Missing student verification documents
12	Missing support for an accurate SC or FAS calculation in V3
4	Missing enrollment form

- > Due to data conversion issues during V3 implementation, approximately 25 instances were noted where the type of benefit being paid per the V3 system (i.e. 6.4 death benefit) was not actually the type of benefit disbursement the retiree was entitled to and receiving (i.e. 7.1 death benefit).

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AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

> Findings related to the two 6.1 survivor benefits were as follows (Procedure 1):

Determination 1	Number of Files	Notes / Estimated Dollar Impact ²	% of Total
Definitively incorrect	1	All inputs were confirmed correct; however, the WC offset was not applied. The estimated variance is approximately a \$132,000 overpayment to the individual	50.0%
Unknown/Unverifiable	1	WC offset was appropriately applied and all inputs were confirmed to be correct except for the FAS input, which could not be confirmed due to lack of FAS information in V3	50.0%
TOTAL FILES	2		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The maximum exposure was determined as the WC payout, of which up to 100% could have been subject to the offset provisions in Section 11.9 of the ordinance. The estimate does not take into consideration COLAs, interest, fees and other costs, backdrop adjustments and changes due to ordinance, rules and policy interpretations.

> Findings related to the 50 6.4 survivor benefits were as follows (Procedure 2):

Determination ¹	Number of Files	Notes / Estimated Dollar Impact ²	% of Total
Definitively correct	2		4.0%
Definitively incorrect	1	The estimated cumulative potential exposure ranged from an approximately \$10 to \$300 underpayment as a result of COLA increases being missed for some years dating back to death in 1989	2.0%
Unknown/Unverifiable	47	47 instances where the RPS physical file was missing one or more documents or system information necessary to confirm payments were appropriate	94.0%
TOTAL FILES	50		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The maximum exposure was derived by taking the COLA adjustment based on the individual's base pay times the number of years since retirement. The estimate does not take into consideration interest, fees and other costs, backdrop adjustments and changes due to ordinance, rules and policy interpretations.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

U.S. Code 415 Limitations

Procedures

The following procedures were performed related to the U.S. Code 415 Limitations:

- > Pursuant to the engagement letter, a total of 16 individuals originally fell in scope for these procedures. After a listing from RPS was obtained, it was determined by the specified parties, 14 of the individuals related to retirement benefits beginning prior to 2006; the year ERS's current actuary, Conduent HR Consulting, LLC (Conduent) formally known as Buck Consultants, performed 415 limitation calculations. RPS received legal guidance on how to address calculations prior to Conduent, therefore, the 14 individuals were excluded from the procedures performed.
- > For the remaining two individuals, Conduent's 415 limitation calculation for the applicable year of retirement was obtained, as well as the individuals' base monthly pension payment. The recalculation of the monthly base pay used in the Conduent calculation spreadsheet was not part of the procedures to be performed.
- > The monthly pension payment was compared to the U.S. Code 415 limit for the applicable year of retirement.
- > The recalculated base pension benefit amount was rolled-forward from retirement to the May 2017 monthly pension benefit per the V3 system. The COLA was taken into consideration and compared to the May 2017 pension benefit paid from the V3 system to determine if there were any differences in the payment amount.

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

Findings

- > The following table provides a high level summary of findings for this category. Detailed findings related to specific procedures performed over the same population are in the underlying information. Our procedure sample represents 100% of the population, dating back to 2006 retirees through March 2017.

Determination ¹	Number of Files	Estimated Dollar Impact ²	% of Total
Likely incorrect	1	- Individual overpayment is approximately \$11 per month - Estimated cumulative net impact to ERS is approximately a \$390 overpayment	50.0%
Likely correct	1		50.0%
TOTAL FILES	2		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The estimated figures were derived by taking each monthly over/under payment multiplied by the number of retirement months for each individual. The estimate does not take into consideration COLAs, interest, fees and other costs, backdrop adjustments and changes due to ordinance, rules and policy interpretations.

- > Neither individual's base payment breached the applicable U.S. Code 415 limit at their date of retirement.
- > One of the two individuals had incorrect COLA increases applied to the monthly pension payments subsequent to the retirement year. This results in the current monthly pay being incorrect as noted in the table above.

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AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

Re-retirement Payments

Procedures

The following procedures were performed on re-retirement pension payments:

- > A listing of individuals with two retirement dates was obtained from RPS. The population of 12 individuals included two retirees the specified parties determined were not in the original scope of the agreed upon procedures. These individuals only had one true retirement, thus the procedures described next were ceased on those individuals.
 1. For the 10 individuals who retired and were re-hired by the County, a recalculation of their first retirement pension payment was performed, noting certain inputs including their selected beneficiary, the benefit type, retirement status, service credits, final average salary, U.S. Code 415 limits, multiplier, and the actuarial factor based on age.
 2. For the same 10 individuals, a recalculation of their second retirement pension payment was performed, noting the aforementioned inputs in addition to whether the second retirement calculations were computed consistently according to RPS's policy.
 3. The County relies on a backdrop calculation spreadsheet developed by an independent third party consultant. Under direction from the specified parties, the inputs of the data used in the backdrop spreadsheet were agreed to the retiree's file for accuracy. An independent reasonableness calculation of the backdrop benefit was performed based on the monthly base benefit and an 8-9% interest rate depending on backdrop years, as provided by the specified parties.
 4. The final procedure was to confirm no pension payment was made while an employee was earning regular wages and additional pensionable service credits during their re-employment.

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AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

Findings

- > The following table provides a high level summary of findings for this category. Detailed findings related to specific procedures performed over the same population are in the underlying tables. Our procedure sample represents 100% of the re-retirement population, dating back to terminations in 1999 and second retirements occurring up through early 2017.

Determination ¹	Number of Files	Estimated Dollar Impact ²	% of Total
Likely incorrect	8	First Retirement: <ul style="list-style-type: none"> - Individual base pay underpayments ranged from approximately \$.06 to \$30 per month, with an additional one noted at approximately \$350 for one month. One individual base pay overpayment was noted at approximately \$2 for one month - Related to the base pay variances, the estimated cumulative net impact to ERS is approximately a \$1,800 underpayment to retirees Second Retirement: <ul style="list-style-type: none"> - Individual base pay overpayments ranged from approximately \$1 to \$19 per month and underpayments ranged from \$1 to \$23 per month. - Related to the base pay variances, the estimated cumulative net impact to ERS is approximately a \$200 overpayment to retirees 	80.0%
Likely correct	2		20.0%
TOTAL FILES	10		100.0%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The estimated figures were derived by taking each monthly over/under payment multiplied by the number of retirement months for each individual. The estimate does not take into consideration COLAs, interest, fees and other costs, backdrop adjustments and changes due to ordinance, rules and policy interpretations.

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AGREED-UPON PROCEDURES Exhibit A – Procedures and Findings

More specific findings related to the procedures performed over the re-retirement files are as follows:

- > General findings regarding missing documentation within the 10 files inspected:

First Retirement Instances	Second Retirement Instances	Descriptions
0	2	No retirement application form, thus V3 date was relied upon and retirement options elected by the member couldn't be validated
1	3	No enrollment form, thus V3 enrollment date was relied upon
3	3	No form to support the termination date, thus V3 termination date was relied upon

- > Recalculation variances noted out of the same 10 calculations (Procedures 1 and 2):

First Retirement Number of Files	Second Retirement Number of Files	Variances
6	6	Base benefit payment
4	5	COLA amount
2	0	FAS
2	2	SC
2	3	Actuarial factor used

- > One of the six variances noted in the retirement calculation was the result of no bonus being applied to a member's pension calculation upon their first retirement as stated in Section 5.15 of the ordinance; however, it was discovered by RPS staff and applied upon the second retirement.
- > It was noted during the procedures and discussion with RPS staff that DC48 retirees with furlough hours in 2009 and later are in process of having monthly base pay calculations recomputed after winning litigation over whether furlough time was pensionable service. It was noted there were five DC48 retirees in our population that terminated or backdropped in 2009 or later and would potentially be subject to their FAS changing. This would impact the results noted in the summary of findings.
- > Files with noted changes from first retirement to second retirement (Procedure 2):

Number of Files	Changes
10	Updated FAS was used
10	Updated SCs were used
10	New age of member was used
10	Updated U.S. Code 415 limit was considered in second calculation
0	Retirement status changed (early, normal, deferred, etc.)
0	Benefit option changed (Maximum, 100%J&S, etc.)
4	Beneficiaries changed (see bullet point below)

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- > As noted in the preceding table, four of the 10 individuals inspected had a change in beneficiaries from the first retirement application to the second, which is not allowed according to current ERS policy; however, Section 11.2 of the ordinance is vague on how re-retirements should be handled in terms of not only beneficiaries but also other inputs of a benefit calculation.
- > One member who came back to work chose to continue receiving pension payments in lieu of earning additional service credits for active employment; however, the member changed their mind and wanted to earn service credits towards their re-retirement. The ordinance and rules are not clear on how to calculate the partial service credits in the year of re-enrollment, whether it be through a calendar days in/calendar days out schedule or the hours worked method. The two methods result in slightly different partial service credits and the calendar days in/calendar days out method was used to calculate the pension; however there is no stated ERS policy. There is lack of clarity from ordinance and no clear policy on how to address service credits in these circumstances.
- > Five of the 10 individuals had backdrops in their calculations; however, two of the five were only elected by the members at their second retirement date and not at the first retirement. Based on Section 5.16 (1) of the ordinance, RPS did not pay the backdrop upon re-retirement since it was not elected at the first retirement. Of the three remaining individuals with a backdrop, it was noted that one was calculated using an incorrect termination date. The backdrop was calculated based on the time period from the backdrop date to the last day of the month preceding the retiree's termination date instead of the actual termination date, resulting in a shorter backdrop period than would otherwise be calculated if the date of termination was used. Many of these backdrops were corrected in the VCP filing when a separate and unrelated issue was being corrected; however, there are certain backdrop calculations that were not part of the VCP filing that also used the improper termination date. Based on the inputs used at the time of retirement and an 8-9% accumulating interest rate, all three backdrop reasonableness calculations performed were within 3% of the actual backdrop paid to the member. However, where a variance is noted in a monthly base pay, the backdrop (if applicable) would have been incorrectly calculated. (Procedure 3)
- > No members in our population were paid pension payments while actively employed by County and receiving additional years of service credit towards their retirement. However, it was noted the two individual's determined to be outside the scope of these procedures were in fact paid pension payments after being laid off. However, pursuant to a lawsuit they won, they were possibly awarded backpay for their missed wages in between their layoff/retirement date and rehire date. The backpay would potentially cover the same timeframe as the pension payments made. (Procedure 4)
- > Section 11.2 of the ordinance states *"If the member received pension payments prior to his normal retirement date, the amount of his re-determined pension shall be reduced by the actuarial equivalent of these payments."* Of the 10 pensions recalculated, the re-retirement pension payments were not reduced by any pension payments paid during first retirement, which would impact the summary of findings.

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Comparison to VCP Filings

While elements of the agreed-upon procedures performed enumerated on page 2 are outstanding, under the direction of the specified parties, the procedures related to this category have been postponed to Phase 2, if needed.

50 Pension Payments

Procedures

The following procedures were performed on pension payments:

- > A listing of the March 2017 pension benefit payment register was received from RPS consisting of 8,155 retirees. Under the direction of the specified parties, a random sample of 50 was selected. Sixteen of the initial selections fell within one of the VCP testing groups; therefore, another random sample was selected until no members were part of one of the other procedures under these agreed-upon procedures or a VCP. Eight of the initial selections were pre-DefBen retirements and thus a substantial amount of information was not available to validate the calculations. Under the direction by the specified parties, another random replacement sample of eight was selected. One of the initial selections was an OBRA member, which was not in the scope of this engagement. Therefore, under direction by the specified parties, another random selection was made.
 1. Monthly base pension payments were recalculated, confirming certain inputs to the calculation, including the benefit type, retirement status, service credits, final average salary, multiplier and actuarial factor based on age.
 2. Under direction from the specified parties, for the 16 payments where a backdrop calculation was elected by the retiree, the inputs of the data used in the backdrop spreadsheet created by an independent third party consultant were agreed to the retiree's file for accuracy. An independent reasonableness calculation on five, at the direction of the specified parties, of the backdrop benefits was performed based on the monthly base benefit and an 8-9% interest rate depending on backdrop years, consistent with the aforementioned re-retirement calculation procedure.

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Findings

The following table provides a high level summary of findings for this category. Detailed findings related to specific procedures performed over the same population are in the underlying tables. Our procedure sample represents .6% of the total March 2017 retiree disbursements, which includes retirements dating back to 1955 and through March 2017.

Determination ¹	Number of Files	Estimated Dollar Impact ²	% of Total
Likely incorrect	27	<ul style="list-style-type: none"> - Individual base pay overpayments ranged from approximately \$.32 to \$50 per month, with an additional one noted at \$160. Individual base pay underpayments ranged from approximately \$.43 to \$60 per month, with an additional one noted at \$150 - 23 base pay, including 18 with COLA and 2 with backdrop termination date - 1 COLA only - 3 backdrop termination date only 	54.0%
Likely correct	23	<ul style="list-style-type: none"> - Related to the base pay variances, the estimated cumulative net impact to ERS is approximately a \$2,800 overpayment to retirees - The estimated monthly COLA variance is approximately \$1.50 dating back to a 1995 retirement - The termination date only backdrop variance is included in the 5 backdrop variances detailed in Procedure 2 below 	46.0%
TOTAL FILES	50		100%

¹ Determinations are based on information available at the time of the procedures. Ordinance interpretation and additional information, if available, could have an impact on the results.

² A quantitative comprehensive analysis was not part of the agreed-upon procedures. The estimated figures were derived by taking each monthly over/under payment multiplied by the number of retirement months for each individual. 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.

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More specific findings related to the procedures performed over the 50 pension files are as follows:

- > General findings regarding missing documentation within the 50 files inspected:

Number of Instances	Descriptions
2	No retirement application form, thus V3 date was relied upon and retirement options elected by the member couldn't be validated
3	No enrollment form, thus V3 enrollment date was relied upon
18	No birth certificate to support the date of birth, which is a current RPS best practice policy. Therefore, V3 termination date was relied upon
1	No support for any Comprehensive Employment and Training Act (CETA) or Emergency Employment Act (EEA) SCs, as defined in Rule 307 of ordinance, were available
1	No support or authorization for SC buybacks in a member's file
1	No backdrop form was available, thus V3 backdrop date was relied upon for calculation

- > Monthly base pay recalculation variances noted out of the same 50 calculations Procedure 1):

Number of Instances	Variances
23	Base benefit payment: - 8 had a SC variance - 1 had a FAS variance - 4 had an actuarial factor variance - 9 had more than 1 variance - 1 had no input variances but V3 calculation was different (possibly manually put in)
19	COLA amount - all but 2 of the variances were a result of the base pay variance - 5 of the 23 variances in base benefit pay were lump sum payouts; therefore, COLA is not applicable
5	FAS
16	SC
15	Actuarial factor doesn't agree to V3 factor

- > Actuarial factors within the V3 system are not necessarily correct and also aren't necessarily the factor being used in a retiree's monthly base pay. For that reason, actuarial factors used in original calculations were difficult to confirm in some cases due to manual calculation sheets missing from member files, but if no other inputs were incorrect, it would imply the factor used in the calculation was incorrect. Furthermore, member ages were rounded up in the DefBen system in order to determine the appropriate factor to be used; however, in V3 the ages are programmed to truncate, consistent with the actuary's method. The ordinances and rules are not specific as to the appropriate method and either method could result in a slightly different factor.

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- > RPS calculates early retirement reductions based on the amount of full months the member is short of normal retirement. Per Section 5.2, it states "*the monthly amount shall be reduced by five-twelfths of one percent for each month in the period between the date as of which the pension begins and his normal retirement date.*" It doesn't mention whether or not partial months should be considered. Partial months would result in a different reduction factor and ultimately a different base pay amount.
- > Methods of calculating partial service credits have not been applied consistently by RPS over the years. At a high level, there is the calendar in/calendar out method and hours method; however, there is lack of specificity in guidance on which method should be applied when and how to handle nuances such as absence without pay (AWOP), suspension, termination and rehire in the same year, etc... To further complicate the calculation of partial service credits, the hours method of calculating service credits requires the use a different hours denominator in certain situations, such as when AWOP exists or when 2,160 instead of 2,080 hours must be used for a 27 payroll period year. These situations create complexities in V3 programming in terms of calculating the appropriate service credits, resulting in many variances as noted in the table preceding.
- > One instance of part-time member was included in the population. Rules 601 and 603 are not clear on how to calculate FAS for part time employees; therefore, interpretation of the guidance can lead to varying calculations.
- > If a member backdrops, it is unclear per Section 5.15 (2) as to how the retention incentive bonus should be calculated, if applicable to the retiree. This section states "*the member shall have their final average salary increased by a bonus of seven and five-tenths (7.5) percent for each year of pension service credit earned after January 1, 2001. The maximum bonus that shall be added to an eligible member's final average salary shall not be more than twenty-five (25) percent.*" RPS policy is to include the service between the backdrop date and retirement date when determining the bonus percentage that should be given to members with backdrop; however, the ordinance does not specifically state that service earned after the backdrop date is un pensionable, and therefore not factored into the bonus calculation.
- > It was noted during the procedures and discussion with RPS staff that DC48 retirees with furlough hours in 2009 and later are in process of having monthly base pay calculations recomputed after winning litigation over whether furlough time was pensionable service. There were nine DC48 retirees in our population that terminated or backdropped in 2009 or later and would potentially be subject to their FAS changing. This would impact the results noted in the summary of findings.

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- > Results relating to the procedures performed on the 16 retirees with backdrops (Procedure 2):

Number of Instances	Variances ¹
5	Variances due to incorrect termination date being used. The estimated variance is approximately \$50 to \$2,300 underpayment per retiree, totaling approximately \$4,900
7	Variances due to monthly base pay variance noted in Procedure 1 above, 2 of which also are in error due to the incorrect termination date noted above

¹ 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.

- > As noted in the table above, during the validation of the backdrop inputs, there were several instances where the backdrop was calculated based on the time period from the backdrop date to the last day of the month preceding the retiree's termination date instead of the actual termination date, resulting in a shorter backdrop period than would otherwise be calculated if the date of termination was used. Many of these backdrops were corrected in the VCP filing when a separate and unrelated issue was being corrected; however, there are certain backdrop calculations that were not part of the VCP filing that also used the improper termination date. At the direction of the specified parties, backdrop amounts per the independent third party backdrop spreadsheet were recalculated for reasonableness, based on the inputs used at the time of retirement and an 8-9% accumulating interest rate, all five backdrop reasonableness calculations performed were within 3% of the actual backdrop paid to the member; however, where a variance is noted in a monthly base pay, the backdrop (if applicable) would have been incorrectly calculated.