



Milwaukee County Retirement Plan Services

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Date: September 13, 2017

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

From: Amy Pechacek, Interim Director of RPS *AP*

Subject: Informational Report Regarding the Status of 2014 Supplemental Voluntary Correction Plan and the Baker Tilly Agreed-Upon Procedures Review Audit Phase 2 & 3 Report

Background and Summary of 2014 Supplemental VCP

In April of 2014, Corporation Counsel and Pension Board counsel submitted a supplemental Voluntary Correction Plan ("VCP") to the Internal Revenue Service ("IRS") regarding additional pension calculation errors and the proposed correction methodology. On January 26, 2017, Pension Board counsel spoke with the IRS agent who handled the 2007 VCP regarding the supplemental filing. On March 1, 2017, the agent confirmed with Pension Board counsel that he would be the agent in charge of oversight for this supplemental filing. The IRS requested an updated status of research into the errors from Retirement Plan Services ("RPS") due on March 31, 2017. With the commencement of the Baker Tilly Agreed-Upon Procedures review in April, Pension Board attorney Steve Huff sent correspondence to the IRS requesting a reporting extension until the audit is concluded as this auditing process will 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.

From February of 2017 through the commencement of the audit, RPS verified updated information to some categories of errors from the 2014 submission. These updates were provided to the County Board in the committee cycles of March, April, May, and most recently in June of 2017. Pension Board counsel updated the 2014 VCP submission with this information, and resubmitted the 2014 Supplemental VCP on June 22, 2017. Any new corrections resulting from the Baker Tilly review will be added to this document through the final filing extension of December of 2017. The updated 2014 Supplemental VCP and corresponding letters from counsel are attached to this report as Exhibit A.

UPDATE: With an additional systemic error issue confirmed from the Phase 1 audit, RPS and Pension Board Counsel, Steve Huff, worked to update the 2014 Supplemental VCP and to submit an updated version to the IRS. The most recent filing is attached as Exhibit 1 to this report and is redlined to highlight the revisions since the prior submission. As of the date of this report, this submission has not been filed but is expected to be forwarded to the IRS no later than September 15, 2017. Once the updated filing has been completed, the Pension Board, County Board, and County Executive will be advised. The material update to this third version of the Supplemental VCP relates to an incorrect mortality error issue spanning from January 1, 2009 through December 31, 2012. During this timeframe,

some RPS staff members had not updated the benefit calculators they were using to reflect the correct mortality table. Accordingly, benefit computation errors occurred when an incorrect mortality table was used to calculate optional forms of benefit that were actuarially equivalent to ERS's normal form of benefit (a straight life annuity). This error is believed to have impacted approximately 360 participants and will result in underpayments to the beneficiaries. Phase 2 of the Baker Tilly Agreed-Upon Procedures review is underway to confirm the exact number of files and individuals impacted. The other update to this VCP filing reflects the proposed correction methodology of an ordinance amendment to address the previously discussed plan acceptance of IRS and Wisconsin Department of Revenue levies.

Baker Tilly Agreed-Upon Procedures Review – Phase 1

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 mapped out the timeline for the audit, which commenced onsite on April 10, 2017. Phase 1 of the audit focused 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 VCPs. This phase also included random sampling to ensure there are no blind spots in identifying the potential universe of problems. Phase 1 concluded in June, with a report from Baker Tilly to be available on and presented at the June 28, 2017 meeting of the Pension Board. The Phase 1 report is attached to this report as Exhibit B.

There are two additional phases of the audit as outlined in the previously submitted scope document. Phase 2 will include expanded research into issues uncovered during Phase 1, via the 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. A final report will be available upon the conclusion of Phase 3 and the auditors will make one final presentation to both the Pension Board and the County Board.

In the short term, RPS will be focused on correcting the identified errors to the proper amounts, which will likely span the next several months. In the long term, RPS is dedicated to continuous improvement and will move forward with implementing new positive administration changes, including those recommended by Baker Tilly. All future phase improvement recommendations and action plans will be shared with the County Board, retirees, employees, and the public as soon as they are available.

UPDATE: Baker Tilly Agreed-Upon Procedures Review – Phase 2 & 3

With information confirmed during Phase 1 of the audit that an incorrect mortality table was used for a portion of retirements spanning from January 1, 2009, through December 31, 2012, Baker Tilly was requested to validate data points from the approximate 767 retirement files occurring in that timeframe to determine which files need a corrective calculation. This test is outlined in the Phase 2 scope letter, attached as Exhibit 2. Throughout August of 2017 the population of the possible impacted retirees was determined by RPS, over 750 files were located and pulled, and the testing is in process currently by Baker Tilly. Phase 2 is scheduled to conclude by the third week of September. The auditors will subsequently prepare the Phase 2 results report and finalize the Phase 3 report, which consists of the process improvement and internal control recommendations for RPS. Baker Tilly will present these reports during the October Board cycle. This will bring the Agreed-Upon Procedures Review audit to a conclusion. The next steps will be to finalize the 2014 Supplemental VCP and obtain a compliance acceptance letter from the IRS, perform calculation corrections, and implement the process recommendations to mitigate future administrative error risk. A timeline and implementation strategy for the Phase 3 process improvements will be forwarded to all stakeholders with regular updates provided.

Thank you.

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
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Kerry Mitchell, Chief Human Resources Officer
Steve Cady, Research & Policy Director, Research Services Division, Office of the Comptroller
Shanin Brown, Committee Coordinator, Office of the County Clerk
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