



Milwaukee County Retirement Plan Services

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Date: December 28, 2017

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

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

Subject: **Informational Report on the 2014 Supplemental VCP Final Submission**

Background

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 the auditing process will uncover additional VCP reporting obligations and resolutions, and the review was 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.

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 VCP. 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, and Phase 2 subsequently commenced which focused on the mortality table issue as uncovered in Phase 1. Phase 3 was the consulting component with recommendations to help reduce future error risk. Presentations from Baker Tilly on all three audit phases were made to the Pension Board, the County Board's Finance and Audit Committee, and the County Board's Personnel Committee. Please see files #17-154, 17-166, 17-243, 17-321, 17-340, 17-405, 17-532, 17-567, 17-659, and 17-727 for details.

2014 Supplemental VCP

Attached is the final version of the 2014 Supplemental VCP which was filed with the IRS on December 20, 2017. There are 12 new categories of errors, bringing the final number to 26 categories. These are largely representative of the issues identified in the 50 random calculation section of Phase 1 of the Baker Tilly audit, and include errors such as final average salary (FAS) calculations, benefit elections, benefit start dates, benefit qualifications, and offset issues. The attached document is a redlined version of the last submission filed in September of 2017, so that all additions to this document are easily identifiable.

Section 1 of the VCP includes the description of the errors, Section 2 outlines the years in which the error occurred, Section 3 defines the number of participants affected, and Section 4 is the proposed correction methodology to fix the issues. This update now includes a total of 3,136 errors, plus additional FAS issues under Error T which is defined by description and not the number of participants as this correction methodology involves a retroactive ordinance fix that simply codifies administrative practice dating back to 1967.

The largest increase in errors relates to Category B, partial month interest payments on backdrops. RPS previously reported approximately 600 issues in this category, and further research expanded the impacted population to approximately 1,700 in total. These will represent underpayments to the members involved.

The VCP document requests that all remaining overpayments and underpayments involved in the corrective calculations contained in this filing use 5% simple interest. It is unknown currently if the IRS will allow this rate.

Next Steps

The IRS has the completed version of the 2014 Supplemental VCP under review, including the reported errors and proposed correction methodologies. If the IRS approves of the proposed corrections, the IRS will issue a compliance statement that reflects the errors and the steps the plan will take to correct the errors. If the IRS has questions or concerns with the proposed correction methods, we will work with the IRS to come to an agreement on the corrections and a compliance statement will then be issued. If approved by the IRS, there will be approximately 5 retroactive ordinance amendments that will be presented to the County Board to clarify definitions and practice in ordinance, and approximately 3 retroactive rule amendments that will be presented to the Pension Board. These changes are explained in Section 4 of the VCP and are associated with error categories K, P, S, T, W, F, R, and Q.

After the IRS issues the compliance statement, RPS will generally have 150 days to complete the corrections. At this point the VCP process will conclude and RPS can focus on implementing the administrative process control recommendations to reduce future error risk as identified in Phase 3. A timeline and implementation strategy for the Phase 3 process improvements will be developed and 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

Jerry Heer, Director of Audit, Office of the Comptroller

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

Janelle Jensen, Senior Committee Coordinator, Office of the County Clerk