

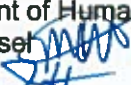



**COUNTY OF MILWAUKEE**  
**Inter-Office Communication**

**Date:** February 16, 2018

**To:** Supervisor Theodore Lipscomb, Sr., Chair, Milwaukee County Board of Supervisors  
Norb Gedemer, Pension Board Chair

**From:** Teig Whaley-Smith, Director, Department of Administrative Services   
Kerry Mitchell, Director, Department of Human Resources   
Margaret Daun, Corporation Counsel   
Jerome J. Heer, Director of Audits 

**Subject:** Milwaukee County Employee's Retirement System Governance Audit

In October 2017, Baker Tilly issued a report ("Phase III") on the Milwaukee County Employees' Retirement System (ERS). The consulting report was prepared in the wake of the filing of several Voluntary Correction Programs with the Internal Revenue Service and significant breakdowns in the payment of pensions to Milwaukee County retirees. One of the key findings of the report was that ERS had unclear governance and guidance related to critical functions and rules, as well as roles and responsibilities of various departments and service providers that serve the pension fund and the pension board.

We have reviewed the report by Baker Tilly in the context of our own experiences with the ERS and conclude that additional work is needed in addressing governance challenges within the system. This conclusion is not an indication that any one part of ERS governance is not functioning well. Rather, the system of shared responsibility has often led to confusion about decision making in the County's complex pension plan. A governance audit will help assure Milwaukee County, and all parties involved in the system, that decisions are made in a clear and effective manner. Enhanced governance will reduce the likelihood of future errors and increase accountability when errors do occur. The County Executive agrees with the need for this review and we are writing to seek your support as well. We are cognizant of the investment that has been made in past and ongoing professional services related to the ERS and we believe that this project is necessary to build on those efforts.

The Audit Services Division conducted research on potential firms to solicit to conduct a governance audit of funds such as Milwaukee County ERS. Only one firm consistently emerged as a national subject matter expert on this topic. That firm, Funston Advisory Services (FAS), has an impressive client list including work with clients which have undergone stress in their pensions. The FAS "one size fits one" approach should allow a tailored result that, while rooted in national best practices and their national database, meets any needs unique to Milwaukee County. To that end, FAS would work with fiduciary and sponsor boards and managers to prioritize the audit and focus on areas of most significant need.

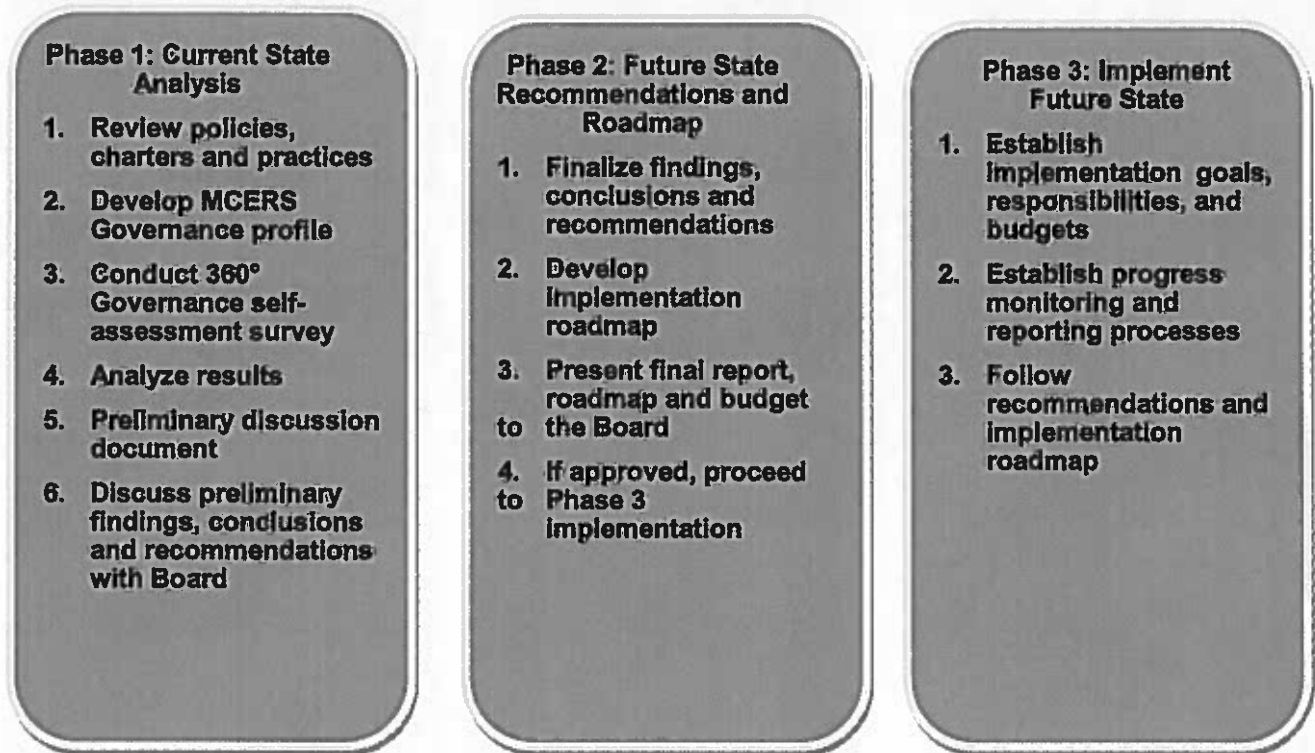
The attached resolution and fiscal note authorize the project management team (DAS, DHR, Audit, and Corporation Counsel) to enter into Phase 1 of a contract with FAS for a not-to-exceed amount of \$85,000.

The project scope may include the following items which will be prioritized by the project management team with input from stakeholders:

1. Legal and Regulatory Framework
2. Governance Framework
3. Enterprise Strategies and Policies
4. Enterprise Risks

5. Investment Operations
6. Pension and Insurance Operations
7. Any Other Areas Identified by Stakeholders

Based on the success of Phase 1, the County may commit to one or two other phases as described below:



The Phase 1 report will be provided to both the Pension Board and the Board of Supervisors. A decision about proceeding with any subsequent Phase will be made in consultation with those Boards.

It is important to note that the work will be conducted in full awareness of the potential for fundamental change in the structure of ERS as result of interest in alternatives to the current plan (e.g. some form of agreement with the Wisconsin Retirement System). Enhancing the effectiveness of ERS governance would actually make a transition smoother and provide better management of "legacy" pension benefits. If fundamental changes are not made, the ERS would be strengthened in any event.

- cc: Scott B. Manske, CPA, Milwaukee County Comptroller  
 Chris Abele, Milwaukee County Executive  
 Raisa Koltun, Chief of Staff, County Executive's Office  
 Amy Pechacek, Director, Department of Risk Management  
 Kelly Bablitch, Chief of Staff, County Board Staff  
 Steve Cady, Research & Policy Director, Office of the Comptroller  
 Janelle Jensen, Legislative Services Division Manager, County Clerk's Office