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From the Director of Audits, Audit Services Division, Office of the Comptroller, as part of the proposed Employees' Retirement System (ERS) governance audit project management team, requesting authorization to execute a Professional Services Contract with Funston Advisory Services in an amount not-to-exceed \$85,000 to perform Phase 1 of an ERS governance audit, by recommending adoption of the following:

AN ENGROSSED RESOLUTION

WHEREAS, in October 2017, Baker Tilly issued a report on the Milwaukee County Employees' Retirement System (ERS), where one of their key findings was that ERS had unclear governance and guidance related to critical functions and roles; and

WHEREAS, the current Administration has failed to effectively and properly administer the pension fund as evidenced by numerous errors; and

WHEREAS, errors by the Administration include nearly every aspect of pension calculations including calculations of cost-of-living adjustments, disability pension payments, backdrops, interest (with interest errors alone impacting 600 retirees), death benefits including payments to multiple beneficiaries, and the wrong beneficiary; and

WHEREAS, the Administration delayed correcting 2008 errors until 2016 resulting in paying millions of dollars of interest at eight percent; and

WHEREAS, pension administrators kept an Internal Revenue Service Voluntary Correction Program (IRS VCP) containing more than 800 pension errors secret for nearly three years; and

WHEREAS, mistakes by the Administration totaled more than \$17 million and the error for one individual resulted in an overpayment of over \$140,000; and

WHEREAS, in spite of errors, mismanagement, and secrecy, the Administration increased the pension manager's salary by five percent prior to her departure in February 2017; and

WHEREAS, the aforementioned 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 (the County) retirees; and

43 WHEREAS, County staff in the Audit Services Division (ASD), Office of the
44 Comptroller, Department of Administrative Services (DAS), Department of Human
45 Resources (DHR), and the Office of Corporation Counsel (OCC) reviewed the Baker
46 Tilly report and agree that additional work is needed in addressing governance
47 challenges within the system; and
48

49 WHEREAS, the ASD conducted research on potential firms to solicit to conduct a
50 governance audit, and Funston Advisory Services (FAS) consistently emerged as a
51 national subject matter on governance reviews; and
52

53 WHEREAS, FAS has an impressive client list, including work with clients which
54 have undergone stress in their pensions and their “one size fits one” approach coupled
55 with their national database puts them in an excellent position to evaluate ERS’s
56 governance model; and
57

58 WHEREAS, FAS would work with fiduciary and sponsor boards and managers to
59 understand the key issues affecting ERS governments; and
60

61 WHEREAS, at the request of the Director of Audits, ASD, FAS provided potential
62 areas of focus for a phased review of ERS governance, including:
63

- 64 • Legal and Regulatory Framework
- 65 • Governance Framework
- 66 • Enterprise Strategies and Policies
- 67 • Enterprise Risks
- 68 • Investment Operations
- 69 • Pension and Insurance Operations
- 70 • Any other areas identified by stakeholders

71 ; and
72

73
74 WHEREAS, the ASD will manage the contract in conjunction with a project
75 management team consisting of DAS, DHR, and OCC, who will work to prioritize key
76 project focus areas for the review; and
77

78 WHEREAS, the ASD and the project management team respectfully request
79 authorization to enter into a contract, not-to-exceed \$85,000, with FAS to perform
80 Phase 1 of an ERS governance audit; and
81

82 WHEREAS, the Phase 1 report will be provided to both the Milwaukee County
83 Pension Board and the Milwaukee County Board of Supervisors, and a decision about
84 proceeding with any subsequent review phase will be made in consultation with those
85 Boards; and
86

87 WHEREAS, the Committee on Finance and Audit, at its meeting of March 15,
88 2018, recommended adoption of File No. 18-229 (vote 4-0); now, therefore,

89
90 BE IT RESOLVED, the Milwaukee County Board of Supervisors authorizes the
91 Director of Audits, Audit Services Division, Office of the Comptroller, to enter into a
92 contract with Funston Advisory Services in an amount not-to-exceed \$85,000, to
93 perform an Employees' Retirement System governance audit.

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jmj
03/22/18

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