BAKER TILLY

Baker Tilly Virchow Krause, LLP
777 E Wisconsin Ave, 32nd Floor
Milwaukee, WI 53202-5313
tel 414 777 5500
fax 414 777 5555
bakertilly.com

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

Dear Members of the Pension Audit Committee:

In planning and performing our audit of the financial statements of Employees' Retirement System of the County of Milwaukee (the Plan) as of and for the year ended December 31, 2014 in accordance with auditing standards generally accepted in the United States of America, we considered the Plan's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected, or corrected by the entity's internal control on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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We believe that the following deficiency constitutes a material weakness.

AU-C 265 makes it clear that the definition of a material weakness in internal control includes consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the preparation of a complete set of year end financial statements (including footnotes) with a very high level of accuracy. The standard requires that the level of accuracy be such that there is only a remote likelihood that the auditor will discover a material change to the statements or footnotes. If the auditor discovers a material change to the statements, by definition, the system of internal control over financial reporting has a material weakness.

During the course of our audit, we determined that the Plan's accounting department would be able to prepare proper financial statements, with the exception of complete financial statement disclosures, specifically related to Governmental Accounting Standards Board (GASB), Statement No. 67. The Plan has relied on their external auditors to ensure that the annual audited financial statements include all applicable footnote disclosures that are required in order for the financial statements to be fairly stated in accordance with accounting principles generally accepted in the United States of America. Standards which were issued during 2006 have clarified that this is considered a material weakness in internal control, due to the fact that the Plan is relying on the auditor to prepare the required disclosures. In essence, the Plan does not have a control in place to ensure that accurate and complete disclosures are made. The standard also clarifies that an external auditor cannot be part of a Company's internal control structure.

Management Response

The Fiscal Office experienced significant turnover in 2014. The Senior Retirement Financial Analyst resigned in August with the Retirement Financial Analyst following in November. During the vacancy period, it was necessary to staff the positions with professional temporary workers. Retirement Plan Services hired a new Senior Retirement Financial Analyst in January of 2015 and began the year end tasks. The Senior Retirement Financial Analyst had difficulty locating workpapers and process guides from the prior years resulting in financials that needed significant review. This resulted in lost time and missed deadlines during the annual audit process. To complete the process and not delay the County's budgeting process, ERS engaged the services of Baker Tilly to assist with completing open audit issues and assist on the annual report.

The current Senior Retirement Financial Analyst has reconciled all prior periods, documented the annual audit process, and has documented the reports necessary for the annual report. Management is confident that ERS is prepared to complete future audits without the need for assistance.

The Plan's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In addition to the items above, we have other matters that we wanted to communicate to you regarding the operation of the plan. Those items are included in the attached document.

This communication is intended solely for the information and use of the Members of the Pension Audit Committee and management of Employees' Retirement System of the County of Milwaukee and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP.

Milwaukee, Wisconsin
July 30, 2015

Management Recommendations

Retention of Participant Information and Forms

During our demographic testing related to active, terminated and retired participants of the Plan, we noted nine instances where Plan personnel were unable to obtain enrollment forms and/or personnel files supporting the participation date of plan participants and retirement date of retired participants. This lack of documentation leaves the plan sponsor exposed to the risk participants' years of service could be questioned or challenged by employees in the future.

It is important that the Plan's staff members obtain and retain appropriate documentation for each participant. This course of action will ensure that inputs utilized to calculate future benefit payments can be substantiated if they ever came to be disputed by a beneficiary of the Plan.

Management Response

Retirement Plan Services understands the importance of retaining member documentation and requires that all member materials including forms, letters, pertinent email correspondence, and manual calculations be scanned into the member's record. Scanned records and logs are reviewed by staff to ensure that the scanning process was successful and that the member documents are contained in the member file.

Benefit Payments

During the audit of benefit payments, it was discovered that COLA benefits were being calculated incorrectly due to the COLA benefit beginning on the original retirement date of the retiree as opposed to the backDROP date. It was also noted that several retiree benefit payments were being calculated incorrectly due to incorrect options being utilized, incorrect COLA calculations and incorrect retirement dates used. The engagement team brought these variances to the attention of management who subsequently adjusted the monthly payment amounts.

Through communications with various Plan staff members, it has been expressed to Baker Tilly that the Plan's staff will conduct a multi-layer review of each and every new benefit calculation. We continue to recommend that the Plan monitor every facet of the benefit calculations, including but not limited to, factor rates, service credits, final average salaries, and the accuracy of both monthly and backDROP calculations. The engagement team will continue to work with the Plan's staff to monitor the progression of this implementation.

Management Response

Retirement Services implemented a peer review process which requires any benefit calculation or correspondence to members be reviewed by another staff member. All benefit calculations require additional review layers. The Retirement Specialist completes a calculation and hands it off to a peer for review. If deficiencies are noted, the file is returned to the initial Retirement Specialist for correction. After correction, if necessary, the file is again reviewed by a peer and then forwarded to the department manager for review. An additional review is completed by the fiscal office. If the file is clean, the fiscal office approves the payment amount and enters the distribution schedule into the system. The final review is done by the System Administrator who validates the calculation and the distribution schedule.