

**Milwaukee County Employees' Retirement System (ERS)
Special Audit Committee Meeting
MINUTES**

Call to Order

Chairperson Vera Westphal called the special Audit Committee meeting to order at 2:00 p.m. on Friday, August 14, 2015 in the Commission Room (210) of the Milwaukee County Courthouse, 901 North 9th Street, Milwaukee, WI 53233.

Board Members Present:

Laurie Braun, Pension Board Vice Chair
Dr. Brian Daugherty, Pension Board
Chair
Norb Gedemer
D.A. Leonard
Vera Westphal, Audit Committee Chair

Others Present:

Marian Ninneman, Director-Retirement Plan
Services
Vivian Aikin, CRC, ERS Sr. Pension Analyst
Tina Lausier, ERS Fiscal Officer
James Carroll, Assistant Corporation Counsel
Steven Huff, Reinhart Boerner Van Deuren s.c.
Wayne Morgan, Baker Tilly Virchow Krause
Darlene Middleman, Baker Tilly Virchow Krause

1. Topic: Baker Tilly Audit – Discussion

Wayne Morgan and Darlene Middleman from Baker Tilly distributed and discussed four required communications regarding Baker Tilly's audit process. Mr. Morgan explained that Baker Tilly performs the annual audit to provide reasonable assurance that ERS's basic financial statements are free from any material misstatements. Mr. Morgan further explained that Baker Tilly utilizes standard materiality thresholds to independently assess ERS's accounting principles to arrive at its final opinion. Baker Tilly does not share its materiality thresholds with ERS management. Mr. Morgan also explained that there were significant changes to the disclosures in the financial statements as required by the new pronouncements under Governmental Accounting Standards Board ("GASB") Statement 67. Mr. Morgan reviewed the three levels of materiality threshold required to report any financial misstatements and indicated that Baker Tilly found no misstatements in the trivial or above threshold levels. Ms. Middleman discussed one materiality threshold in the mid-level range pertaining to an alternative investment valuation. Mr. Morgan explained that although Baker Tilly is required to report any mid-level range misstatements to ERS's governing body, Baker Tilly agrees with the alternative investment valuation reporting method and, therefore, ERS will not have to make any further reporting adjustments. Mr. Morgan concluded the discussion by stating that Baker Tilly found no critical accounting or reporting issues and had no formal disagreements with ERS management.

2. Topic: Annual Report – Discussion

Mr. Morgan and Ms. Middleman distributed and discussed ERS's 2014 Annual Report of the Pension Board ("Annual Report"). Mr. Morgan explained to the Committee that Baker Tilly rendered its opinion on the basic financial statements and notes to the financial statements in the Annual Report. Mr. Morgan reported that Baker Tilly has issued a clean opinion that states ERS's financial statements fairly present the fiduciary net position of ERS as of December 31, 2014 and 2013, and the changes in fiduciary net position of ERS for the years then ended, in conformity with accounting principles generally accepted in the United States. The Committee members analyzed the minor changes to the Annual Report as previously suggested by Dr. Daugherty and discussed how the Annual Report preliminary review procedures could be streamlined for next year. Ms. Middleman highlighted and

discussed in detail the specific reporting changes required under GASB 67. With the implementation of GASB 67, the Committee determined at a prior Committee meeting that ERS will utilize the roll-forward period from the January 1, 2014 actuarial report. Therefore, ERS must continue to use the beginning of the year with the roll-forward period in its subsequent annual reports.

Ms. Middleman explained to Ms. Braun that a subsequent events footnote has been included in the Annual Report to disclose the changes to the January 1, 2015 actuarial valuation report resulting from the re-inclusion of certain 2013 and 2014 cost of living adjustment ("COLA") liabilities. The Committee members reviewed and discussed proposed changes to the subsequent event footnotes on page 21 of the Annual Report. The Committee members requested that the final paragraph of the subsequent events footnote outlining the effect of the funding policy changes on the re-inclusion of the COLA liabilities be deleted to remain consistent with other reports. In addition to some other minor wording and formatting changes, the Committee members requested that the second paragraph of the subsequent event footnote include the specific funding policy changes as recommended and adopted by the Pension Board in April 2015. Ms. Westphal confirmed that once completed, she would review the requested changes to the subsequent events footnote on page 21 of the Annual Report and circulate an updated version to Dr. Daugherty and Ms. Braun for review. Ms. Middleman also confirmed to the Committee members that she will contact Buck Consultants to verify that ERS's 81.37% funded status stated in the Annual Report is based on ERS's market value assets and not the actuarial value of assets.

Mr. Morgan reviewed the deficiencies in ERS's internal control that Baker Tilly identified and considered to be a material weakness. Mr. Morgan explained that a material weakness results from a deficiency or combination of deficiencies in internal control that creates a reasonable possibility that a material misstatement of the financial statements will not be prevented, detected, or corrected by ERS's internal control on a timely basis. Due to the GASB 67 changes in financial reporting and issues related to ERS staff turnover, Baker Tilly provided professional advice and direct assistance with the preparation of ERS's financial statements. Mr. Morgan explained that the fact that Baker Tilly was asked to and did provide assistance to ERS necessitated a finding of a material weakness. Mr. Morgan explained to Ms. Braun that ERS could have avoided the weakness comment if ERS had contracted with another firm to assist with the preparation of its financial statements. Ms. Braun then noted that the end result was a clean opinion, and it was likely more efficient from a cost and time perspective for Baker Tilly to provide the assistance because they were already familiar with ERS's data. Ms. Middleman reviewed management recommendations regarding retention of participant information and forms, and benefit payments. Mr. Morgan concluded with a review of Baker Tilly's standard pre-audit letter for ERS's 2015 annual audit.

Mr. Morgan and Ms. Middleman were excused from the remainder of the meeting and Ms. Lausier left the meeting.

3. Topic: Medical Review Board – Discussion

Ms. Ninneman discussed proposed service agreements from Managed Medical Review Organization, Inc. ("MMRO") to provide medical review board services and disability claims management services to ERS. Located in Michigan, MMRO is an independent review organization that contracts exclusively with public retirement system clients. Ms. Ninneman called for questions from the Committee members regarding MMRO's medical board services agreement and disability assessment and management services agreement distributed for review in advance of today's special meeting. Ms. Ninneman explained to Mr. Leonard that MMRO will contract with local physicians to perform physical examinations on disability

applicants as required by the ERS Ordinances. Ms. Ninneman further explained to Dr. Daugherty that the fee structure for MMRO consists of a flat monthly rate of \$1,250 in addition to individual case rates. Dr. Daugherty noted that MMRO's fee structure is within the range of ERS's prior medical review board. Ms. Ninneman stated that MMRO will be able to provide enhanced services to ERS and disability applicants through the utilization of statistical data and nurse case managers. Ms. Aikin explained that MMRO will also have the additional capability of providing psychiatric referrals.

After continued discussion regarding the current number of pending cases, Ms. Ninneman explained to the Committee that because a quorum of the Pension Board was present, the quorum could take action authorizing ERS to enter into a contract with MMRO, and the full Pension Board could ratify that action at its September 16, 2015 meeting. Ms. Westphal polled the Committee members and the Committee recommended approving the contract with MMRO.

The five members of the Pension Board present voted unanimously to authorize engaging in a contract with MMRO to provide medical review board services and disability claims management services to ERS, with such action to be ratified by the full Pension Board at its September 16, 2015 meeting. Motion by Mr. Leonard, seconded by Dr. Daugherty.

Mr. Gedemer left the meeting.

4. Topic: Actuarial Report and Presentations – Discussion

Ms. Westphal discussed Buck Consultants' final Actuarial Valuation Report for the Plan year January 1, 2015 to December 31, 2015 ("Actuarial Report"), and its January 1, 2015 Actuarial Valuation Presentation to the Pension Board dated July 15, 2015 ("Actuarial Presentation"). Ms. Westphal explained that the Committee should review the Actuarial Report and Actuarial Presentation to ensure that the changes requested by the Pension Board at its July 15, 2015 meeting have been included. Mr. Huff and Dr. Daugherty confirmed that on July 31, 2015, Dr. Daugherty signed a letter to the County Executive regarding the ERS and OBRA County contribution request (the "Letter"). The Committee noted that the Letter references a summary of the reconciliation of contributions as shown on page 16 of the Actuarial Presentation and confirmed a copy of the Actuarial Presentation should be enclosed with the Letter. Ms. Westphal noted that, as the Pension Board requested, page 2 of the Letter does include a statement that the re-inclusion of certain 2013 and 2014 COLA liabilities in ERS's total liabilities resulted in a further increase of approximately \$16.7 million to ERS's 2016 contribution. After further review, the Committee noted that as previously requested by the Pension Board and acknowledged by Buck Consultants, Buck did not include a statement regarding the \$16.7 million increase in its Actuarial Report or Actuarial Presentation. Ms. Braun noted that Buck's Actuarial Report and Actuarial Presentation presents the re-inclusion of the 2013 and 2014 COLA liabilities in a somewhat different manner. After continued discussion, the Committee determined the amounts in the Letter are materially correct and can be tied to the amounts in the Actuarial Report and Actuarial Presentation. The Committee agreed that no additional changes should be made to the content of the Letter. The Committee confirmed that Ms. Ninneman should issue the executed Letter to the County Executive with a copy of the Actuarial Presentation as previously authorized by the Pension Board.

The special Audit Committee meeting adjourned at 4:15 p.m.