March 20, 2024

Benefit Administration Process Audit:

City of Milwaukee
Employes' Retirement System

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Background

At the request and direction of the Administration and Operations (A&O) Committee, an audit of Benefit Administration process and controls for the City of Milwaukee Employes' Retirement System (CMERS) was performed during the period from January 8, 2024, through March 20, 2024. The audit was requested to review, evaluate and test the organization's Benefit Administration process against leading practices, test controls and determine whether control deficiencies existed within the internal control environment or whether there were identified control design or operating deficiencies. This audit cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations.

We have concluded our consulting engagement to perform the procedures described in the attached report. These procedures, which were agreed to by CMERS, were applied solely to assist in evaluating the internal controls of CMERS. Management of CMERS is responsible for their operations and internal controls. The execution and maintenance of adequate internal controls is solely the responsibility of the management of CMERS. Consequently, we make no representations regarding the sufficiency of the procedures described in the attached document either for the purpose for which this report has been requested or for any other purpose.

CliftonLarsonAllen (CLA) was not engaged by CMERS to conduct a financial audit, for which the objective would be the expression of an opinion on the financial statements. Had we been hired to perform an audit of financial statement information in accordance with U.S. generally accepted auditing standards, other issues may have come to our attention that would have been reported to you. Therefore, we express no opinion on the effectiveness of CMERS's controls over all or any part of its financial statements.

Internal Controls Assessment Objectives and Scope

The objective of the Benefit Administration Process Audit was to review, evaluate, and test processes and controls currently in place against leading practices and evaluate operating effectiveness. The focus of the assessment was to address the following risks:

1. Perform a current state process assessment, internal controls assessment and organization assessment of the Benefit Administration Process to evaluate the design of current state processes and internal controls as it pertains to the organization's Benefit Administration processes.
2. Assess the governance and accountability over the Benefit Administration process, as well as the inherent risks from misappropriation, fraud, and abuse.
3. Compare current state internal controls versus leading practices and test for operating effectiveness.
4. Propose future state changes that mitigate risk or enhance CMERS' internal control structure and outcomes.

The following processes and sub-processes are in-scope, as well as segregation of duties in each area:

The objective of the Benefit Administration Process Audit included the review of processes and controls related to the design and test of operating effectiveness, including:

1. Health & Dental Insurance Benefits
   a. Rate Accuracy
   b. Benefit Election Approval
   c. Change Authorization
   d. Deduction Reconciliations
   e. Premium Reconciliations

2. Life Insurance Benefits
   a. Benefit Election Approval
   b. Premium Reconciliations
   c. Receipt, Collection and Reconciliation of Participant Receivables
   d. Death Benefit Claim Administration

3. System Access Restrictions
   a. System Access Review and Approval
   b. Access and Safeguarding of PII
   c. Segregation of Duties

4. Organizational Resilience
   a. Standard Practice Instructions (SPIs)
   b. Cross Training Procedures

Procedures Performed

As part of the audit, various techniques were used to audit and assess the effectiveness of the internal controls, including:

1. Interviewed members of CMERS
   - Dan Gopalan, Chief Financial Officer
   - Mike Dzuik, Retirement Plan Manager
   - Terry Siddiqui, IT Consultant

2. Gathered supporting documents describing current state processes (e.g., policies, procedures, screenshots, flowcharts, reconciliations, analyses, etc.)

3. Gathered evidence and tested CMERS processes and controls for the following functions;
   - Health and Dental Insurance Process & Controls
   - Life Insurance Process & Controls
   - System Access Restrictions
   - Organizational Resilience

4. Ranked current-state processes against five levels of maturity definition (1. Initial; 2. Repeatable; 3. Defined; 4. Managed; and 5. Optimized)

We would like to acknowledge and thank management with whom we interacted. The time, effort, and discussions they provided were instrumental in our understanding and provided the necessary information to complete our project. During the course of our assessment and audit, management and personnel provided all of the materials requested and answered all of our questions promptly.

Audit and Assessment Results – Executive Summary

All the established processes and controls that were assessed during the audit were rated as Defined Maturity*: Management has established defined and documented formalized processes, procedures, and transaction flows that are regularly updated. This level of maturity is considered suitable for these control environments by management and internal audit.

Processes	Control Description	Control Finding?	Process Maturity Level
Health and Dental Insurance Process & Controls	Member Health and Dental Insurance benefit rates are regularly updated to reflect the current participant rates. Once updated, these rates are then reviewed and approved by another CMERS team member to ensure the rates are accurate and have been properly applied in MERITS.	No	Managed
	Requested Health and Dental Insurance Benefits are properly authorized by the participant and are accurately recorded in MERITS.	No	Defined
	Member requested changes to Health and Dental Insurance are properly authorized by the member. These requested payroll deductions are then accurately updated and recorded in MERITS.	No	Defined
	Member Health and Dental payroll deductions report is properly reconciled and reviewed before it submitted to the City of Milwaukee	No	Defined
	Health and Dental Insurance Premiums reconcilaitions are properly reviewed and approved before they are submitted to the City of Milwaukee for payment.	No	Defined
Life Insurance Process & Controls	Requested Life Insurance Benefit are properly authorized by the participant and are accurately recorded in MERITS.	No	Defined
	Life Insurance Premium reconciliation is properly reviewed and approved before they are submitted to the City of Milwaukee for payment.	No	Defined
	CMERS monitors the receipt and collection of member Life Insurance Premiums. A reconciliation of member collections and outstanding receivables is performed monthly.	No	Defined
	Life Insurance death benefit claims are properly reviewed and recalculated to determine the authenticity of the claim and the accuracy of the Death Benefit.	No	Defined

System Access, Segregation of Duties and Access to PII	Employee access to CMERS systems is reviewed by management twice a year to ensure that ERS's employees and business partners have the appropriate system access and that no Segregation of Duties conflicts exist. In addition, internal organization policies and system controls are in place that guide and control employee access to member Personal Identifiable Information (PII) that are regularly reviewed and monitored by CMERS management.	**No**	**Defined**
Organization Resilience	Standard Practice Instructions (SPIs) are regularly reviewed and updated by management to ensure process and control procedural document is complete and accurate.	**No**	**Defined**
	Management regularly cross trains and evaluates department personnel as to their ability to competently perform duties outside of the employee's current role and responsibilities.	**No**	

PROCESS MATURITY DEFINITIONS	
*DEFINED MATURITY	**Policies and processes are established and are reviewed and updated as needed (e.g., annually) to reflect changing business needs; preventive and detective controls are employed but are primarily reliant on manual activities; performance monitoring is performed using a mix of manual and automated processes.**
*Managed Maturity	**Procedures and controls are well documented and kept current; Preventive and detective controls are employed, with greater use of automation to reduce human error. Many metrics are used with a blend of automated and manual performance monitoring. Best practices and/or benchmarking are used to improve process.**
See Appendix for all Maturity Definitions.	

Following the conclusion of our testing of CMERS Internal Control Environment, we identified No Internal Control Deficiencies.

Observations, Recommendations, and Management Responses

None.

Closing

We wish to extend our appreciation to management and staff for their timely cooperation and assistance during the project.

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This report has been prepared in accordance with Statement of Standards for Consulting Services issued by the American Institute of Certified Public Accountants and is solely for use by management. It is not intended for use, in whole or in part, by outside parties without the specific consent of CliftonLarsonAllen LLP.

CliftonLarsonAllen LLP
March 20, 2024

Appendix

Maturity Definitions

Capability Level	Capability Description	Capabilities Attribute
5. Optimized	Policies and processes are continuously reviewed and improved within a highly automated control environment	• Processes and controls are continuously reviewed and improved. • Preventive and detective controls are highly automated to reduce human error and cost of operation. • Comprehensive, defined performance metrics exist, with extensive automated performance monitoring. • Extensive use of best practices, benchmarking, and/or self-assessment to continuously improve process.
4. Managed	Policies and processes are documented, standardized, regularly updated and controls increasingly use automation.	• Procedures and controls are well documented and kept current. • Preventive and detective controls are employed, with greater use of automation to reduce human error. • Many metrics are used with a blend of automated and manual performance monitoring. • Best practices and/or benchmarking are used to improve process
3. Defined	Policies and processes are documented, standardized and updated, e.g., annually with heavy reliance on manual processes.	• Procedures are well documented, but not kept current to reflect changing business needs. • Preventive and detective controls are employed, still reliant on manual activities. • Some metrics are used, but performance monitoring is still manual and/or infrequent. • Generally occurs during periodic (e.g., annual) policy and procedure renewal.
2. Repeatable	Some standard processes are defined and success depends largely on "tribal knowledge" and detective controls.	• Some standard procedures exist, relies on "tribal knowledge." • Mostly detective are in place, minimal preventive controls, and highly manual. • Few performance metrics exist, thus performance monitoring is inconsistent or informal. • Most likely in reaction to audits or service disruptions.
1. Initial	Few processes are defined and success depends on individual effort and heroics.	• No formal procedures exist. • Controls are non-existent or primarily in reaction to a "surprise." • There are no metrics or performance monitoring.