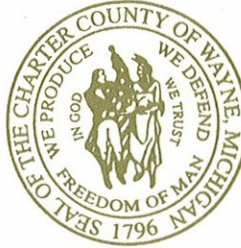


Office of Legislative  
**Auditor General**

**WILLIE MAYO, CPA, CIA, CICA**  
AUDITOR GENERAL

September 1, 2011



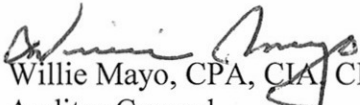
500 GRISWOLD STREET  
STE. 848; GUARDIAN BLDG.  
DETROIT, MICHIGAN 48226  
TELEPHONE: (313) 224-0924

**FINAL REPORT TRANSMITTAL LETTER**

Honorable Wayne County Commissioners:

Enclosed is the final copy of the Corrective Action Plan (CAP) and Auditor General's Assessment for the Operational Risk Audit Report on the Wayne County Employees Retirement System. Our report is dated June 22, 2011; DAP No. 2010-57-012. The contents of this report did not change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on August 23, 2011 and formally received by the Wayne County Commission on September 1, 2011.

We are pleased to inform you that officials from the Wayne County Employees Retirement System provided their complete and full cooperation during our review. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: <http://www.waynecounty.com/commission/lagreports.htm>.

  
Willie Mayo, CPA, CIA, CICA  
Auditor General

**REPORT DISTRIBUTION**

**Wayne County Employees Retirement System**

Robert J. Grden, Director

Gerard J. Grysko, Deputy Director

Lyn Roberts, Division Director, Information Systems

**Board of Trustees**

Patrick Melton, Chair

Matthew Schenk, Chair, WCERS Audit Committee

**Wayne County Department of Management and Budget**

Carla E. Sledge, Chief Financial Officer

Terry L. Hasse, Director, Grants Compliance and Contract Management

**Wayne County Executive**



Office of Legislative  
**Auditor General**

**WILLIE MAYO, CPA, CIA, CICA**  
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June 22, 2011

**DAP No. 2010-57-012**

Honorable Ilona Varga, Chairwoman  
Audit Committee  
Wayne County Commission  
County of Wayne, Michigan  
500 Griswold Ave., Suite 766  
Detroit, MI 48226

Subject: **Corrective Action Plan**, including the Auditor General's Assessment, dated March 28, 2011 for the Wayne County Employees Retirement System, Operational Risk Audit.

Dear Chairwoman Varga:

In accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, the Office of Legislative Auditor General (OAG) requested the Wayne County Employees Retirement System (WCERS) to submit a Corrective Action Plan (CAP) for multiple recommendations identified in the operational risk audit report, dated July 20, 2010.

The WCERS provided the CAP as requested. Attached is a Summary and Assessment of the CAP prepared by the OAG. The summary schedule includes: the recommendations; management's comments on the findings and recommendations; management's action taken or planned; whether management has or intends to implement the recommendations; responsible person(s)/area; implementation or targeted implementation date; and, the Auditor General's assessment.

Our assessment of the CAP indicated among the total 11 recommendations, the Wayne County Employees Retirement System has taken or plans to take sufficient action to address six of the recommendations. If the planned actions are implemented in the one recommendation as described, the actions appear to sufficiently address the recommendations. However, a follow-



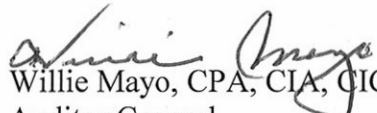
up review maybe necessary in the near future to verify that the described action planned has occurred.

However, the WCERS has partially agreed with two recommendations and disagreed with the three remaining recommendations summarized as follows:

- ❖ **Recommendation - 10-01 (partially agreed)** – Credit card should be in the name of WCERS.
- ❖ **Recommendation – 10-04 (partially agreed)** – Should use electronic device to record minutes.
- ❖ **Recommendation – 10-05** – Retirement Commission adopts a policy requiring annual conflict of interest forms be prepared and placed on file.
- ❖ **Recommendation – 10-10** – Request a legal opinion as to the legal obligation to match supplementary payments to key employees.
- ❖ **Recommendation – 10-11** – Develop an intergovernmental agreement between the Wayne County Airport and WCERS for services being performed.

We have discussed the above recommendations with management and the retirement board and they have elected to assume the risk related to the underlying risk inherent in the findings\recommendations by not implementing any corrective action. We disagree with their assertions about the risk; however, since the Retirement Commission is a separate independent board the OAG will consider these recommendations unresolved and no further action will be taken on our part.

Respectfully submitted,

  
Willie Mayo, CPA, CIA, CICA  
Auditor General

Pc: Robert Grden, Director, Wayne County Employees' Retirement System  
Gerard J. Grysko, Deputy Director, Wayne County Employees' Retirement System  
Patrick Melton, Chair, Board of Trustees  
Carla E. Sledge, Chief Financial Officer  
Terry L. Hasse, Director, Grants Compliance and Contract Management  
Lyn Roberts, Division Director, Information Systems, Wayne County Employees  
Retirement System  
Matthew Schenk, Chair, WCERS Audit Committee

Attachment



# Wayne County Retirement System Operational Risk Audit

## Summary and Assessment of CORRECTIVE ACTION PLAN

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
<p>10-01</p> <p>We recommend WCERS:</p> <p>(A) Obtain a WCERS corporate credit card for travel and hotel expenses for board members and the administrative staff which is to be maintained by the administration,</p> <p>(B) All travel expenses for staff should be approved by the director and all travel for the director and board members should be reviewed and approved by the Retirement Commission Board Chair, and</p> <p>(C) Administration should prepare formal reconciliations of total travel reimbursement and ensure that all supporting documentation is included in the file within a specified time after travel has been completed.</p>	Partially agreed	Pending WCERS Board action, the current WCERS Board of Trustees Education, Training, and Due Diligence Policy Adopted on October 27, 2007 will continue to be utilized.	Partially	Director and Board of Trustees	None	<p>According to WCERS management, the WCERS' audit committee agrees to have director's travel expenses approved by the board and perform reconciliations of travel reimbursement expenditures.</p> <p>However, at this time the board does not want to obtain a credit card in the name of WCERS. While we disagree with management's assertion about the risk related to the underlying finding and associated recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.</p>
<p>10-02</p> <p>We recommend:</p> <p>(A) The Retirement Commission create an audit committee consisting of at least three board members with business backgrounds to serve on this committee</p> <p>(B) The audit committee be responsible for approving the audit scope, evaluate all related Request for Proposals, recommend the appointment of the external auditor, overseeing the entity's financial statements and internal controls, and</p>	Agreed	An Audit Committee was formed.	Yes		August 1, 2011	<p>During our inquiry, we confirmed an Audit Committee was formed on 11/12/2010 and all members have business backgrounds and professional credentials. According to WCERS management, they are in the process of creating formal policies and procedures for the Audit Committee which will focus on scope, objective, and responsibilities. They plan to</p>

# Wayne County Retirement System Operational Risk Audit

## Summary and Assessment of CORRECTIVE ACTION PLAN

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
10-02 (Cont)  (C) The responsibilities between the board of trustees and the administration should remain separate and the external auditors should be managed and report directly to the audit committee and/or the Retirement Commission.						complete the draft policy & procedures on August 1, 2011, then forward to the Retirement Audit Committee and Board of Trustees for review and approval.  If the planned action is implemented as described, the action appears to sufficiently address the recommendation. A follow-up reviews maybe necessary in the near future to verify that the described action has occurred.
10-03  We recommend WCERS develop a training /orientation session for all new board members outlining their fiduciary duties and responsibilities prior to assuming their role and make it mandatory to attend this session.	Agreed	A training orientation session took place in January of 2011. All new members and current members were provided a WCERS trustee handbook along with electronic access to the Minute Master computer program. The training and handbook contained the above recommended information.	Yes	Director	Implemented	The OAG has confirmed the training occurred in January 2011 and we obtained and reviewed the training package. The training materials outlined the fiduciary duties and responsibilities of the board.  Based on the limited review of the action taken, management appears to have taken sufficient action to address the recommendation.



# Wayne County Retirement System Operational Risk Audit

## Summary and Assessment of CORRECTIVE ACTION PLAN

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment	
10-04	We recommend the WCERS:  (A) Use some sort of electronic recording apparatus to aid the executive secretary in the recording of the minutes. Once the minutes are transcribed and approved by the Retirement Commission they would then become the official minutes.  (B) Executive secretary signs off on the minutes affirming to their accuracy and correctness before they are placed on WCERS' website.  (C) Ensure the official minutes are posted on the WCERS' website within 7 days of approval.	Partially agreed	Pending WCERS Board resolution, the current WCERS Board of Trustees policy for recording of meeting minutes will continue to be utilized.	Partially	Director and Board of Trustees	None	The OAG has confirmed that executive secretary signs off on the minutes affirming to its accuracy and correctness and then ideally the minutes are posted on the website within 7 days of approval.  WCERS management disagrees with using an electronic device to record minutes. However, this issue will be revisited by the board in the future. While we disagree with management's assertion about the risk related to the underlying finding and associated recommendation; it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.
10-05	We recommend the Retirement Commission adopt the policy of requiring that annual conflict of interest disclosure forms be signed by each board member as well as key management officials and placed in their respective file.	Disagreed	Pending WCERS Board resolution, the current WCERS Board of Trustees Ethics Policy will continue to be utilized.	No	Board of Trustees	None	While we disagree with management's assertion about the risk related to the underlying finding and associated recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.

# Wayne County Retirement System Operational Risk Audit

## Summary and Assessment of CORRECTIVE ACTION PLAN

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
10-06	We recommend WCERS continue developing a formal written policy for depository, investment custodial credit and interest rate risk and plan to have the external auditor's review them before the Retirement Commission adopts them.	Agreed	Yes	Director and Board of Trustees	Implemented	The OAG has reviewed the investment custodial credit and interest rate policy and board meeting minutes where the policy was adopted. We also confirmed that the external auditor reviewed the policy.
10-07	We recommend the WCERS develop and follow a due diligence policy which sets forth guidelines governing the board of trustees/investment officer's responsibilities and activities in connection with the WCERS investment portfolio.	Agreed	Yes	Director and Board of Trustees	Implemented	The OAG reviewed the Due Diligence policy and confirmed it is included in the WCERS handbook. The policy outlines the guidelines for performing due diligence on proposed investments.  Based on a limited review of the action taken, management appears to have taken sufficient action to address the recommendation.



# Wayne County Retirement System Operational Risk Audit

## Summary and Assessment of CORRECTIVE ACTION PLAN

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
10-08  We recommend the Retirement Commission create a formal Investment Committee to perform the due diligence and screening on investments and make recommendations to the full board for acceptance or rejection based on an established set of criteria.	Agreed	The Chairperson appointed an Investment Review Committee at the February 2011 meeting.	Yes	Director and Board of Trustees	Implemented	The OAG reviewed the meeting minutes for the Board of Trustees and confirmed that the Investment Committee was formed in February 2011.  Based on a limited review of the action taken, management appears to have taken sufficient action to address the recommendation.
10-09  (A) We recommend the WCERS periodically review the administrative policies and procedures and have an independent IT auditing firm verify the data integrity of the benefit calculations system program, as well as verification of general and applications controls to ensure the accuracy and correctness of pension calculations and payments.  We recommend the Retirement Commission establish a written policy that requires retirement benefits for all WCERS administrative staff and board members be independently calculated and signed off by an outside consultant.	Agreed	The retirement benefits for all WCERS administrative staff and board members will be independently reviewed by an external auditor as part of their sample set.	Yes	Director and Board of Trustees	Implemented	Retirement management has submitted the proposed draft policy on Retirement Final Calculation to the Board for approval. The policy requires that all WCERS staff and board members calculations are independently reviewed by the external auditor.  If the planned action is implemented as described, the action appears to sufficiently address the recommendation. A follow-up review maybe necessary in the near future to verify that the described action has occurred.



# Wayne County Retirement System Operational Risk Audit

## Summary and Assessment of CORRECTIVE ACTION PLAN

10-10	Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
	<p>In order to resolve this matter as soon as possible and in an effort to control costs, we recommend:</p> <p>(A) The WCERS retirement commission considers obtaining an independent opinion and guidance from Wayne County Corporation Counsel on how to address the dilemma of two opposing opinions regarding the treatment of the supplemental payments received by the four executive personnel.</p> <p>(B) Seek counseling as to whether there is a legal obligation for participatory matching of supplemental payments by the county and should they be included in the FAC benefit calculation.</p> <p>(C) Based on the legal opinion, the board needs to clearly state their position on whether the supplemental payments qualify for participatory matching and are to be included in their final average compensation upon retirement.</p>	Disagreed	Supplemental pay was discontinued as of February 28, 2010, no longer an issue.	No	Board of Trustees	None	While we disagree with management's assertion about the risk related to the underlying finding and associated recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.
10-11	The OAG recommends the WCERS board engage Wayne County Corporation Counsel to develop a formal intergovernmental agreement between the Airport Authority and WCERS for the processing of airport employee retirement transactions and other administrative support services.	Disagreed	Public Act 90 provides a mandate on WCERS administering retirement benefits for the Airport Authority. Since the effective date of the implementation of PA 90, the Wayne County	No	Director and Board of Trustees	None	While we disagree with management's assertion about the risk related to the underlying finding and associated recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not

# Wayne County Retirement System Operational Risk Audit

## Summary and Assessment of CORRECTIVE ACTION PLAN

10-11 (Cont)	Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
			Airport Authority has paid all expenses and retirement contributions in a timely fashion.				implementing any corrective action.