

November 23, 2009

**Internal Audit Report 2009-13**  
**Fund 603, Medical and Dental Self-Insurance**  
**Employee Relations Department**

**Introduction.** The Municipality of Anchorage (Municipality) currently uses a self-insured benefit plan that covers medical, dental, vision, and prescription services for approximately 7,582 employees, dependents, and retirees. Fund 603 (Fund), Medical and Dental Self-Insurance, is an Internal Service Fund used to account for money received from other Municipal funds to pay for the costs of self-insurance claims. During 2008, the Fund had total operating revenues of \$47,087,695 and total operating expenses of \$44,880,502 with a fund balance at December 31, 2008, of \$6,870,578. Fund revenue is generally derived from self-insurance premiums from the employee and employer. In 2008, \$3,770,001 in excess funds was refunded with General Government receiving \$3,060,205, the Utility Funds receiving \$498,173, and participating members receiving \$211,623. The Medical and Dental self-insurance program is managed by the Employee Relations Department.

**Objective and Scope.** The audit objective was to determine whether expenses charged to the Fund were consistent with the Fund's stated purpose and in accordance with accepted accounting procedures. To accomplish our objective we reviewed expenses charged to the Fund in 2008 and 2009 to date.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during June and July 2009. The audit was requested by the Administration.

**Overall Evaluation.** Expenses charged to the Fund were not consistent with the Fund’s stated purpose and the Municipality’s accounting standards. Specifically, costs for personnel services, tuition and registration, lodging, and postage were charged to the fund.

**FINDINGS AND RECOMMENDATIONS**

**1. Administrative Expenses Not Consistent With Fund’s Purpose.**

- a. Finding.** Costs other than self-insurance claims were charged to the Fund. Specifically, we found the following costs charged to the Fund:

	<b><u>2008</u></b>	<b><u>2009</u></b>
Personnel Services	\$201,832	\$270,014
Operating Supplies	2,241	-
Legal Services	-	475
Postage	7,826	911
Travel Agent Fees	14	-
Airfare	3,763	549
Other Transportation Costs	135	-
Lodging	3,385	243
Per Diem	924	-
Tuition/Registration – Nonlocal	3,830	2,855
Rentals	980	-
Printing and Binding	1,483	-
Dues, Subscription, Membership	552	-
Tuition/Registration - Anchorage	370	-
Computer Software < \$1,000	-	478
Office Furniture & Fixtures < \$5,000	-	<u>1,645</u>
<b>Totals:</b>	<u>\$227,335</u>	<u>\$277,170</u>

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Source: 2008 and 2009 PeopleSoft Web-Based Reporting budget data, 2009 data as of September 2, 2009.

The Comprehensive Annual Financial Report (CAFR) states that the Fund accounts for money received from other Municipal funds to pay for the costs of the self-insurance medical and dental claims. In addition, the Municipality's Accounting Guide states that, "The financial resources in this fund may be used only for payment of premiums, professional services and processing fees and claims related to medical, dental, and life insurance of Municipal employees and their eligible dependents."

In addition, since the Fund does not have a budget, these administrative expenses, such as personnel costs, travel, and office supplies and equipment, have not come under Municipal budgetary controls and have not been budgeted.

- b. **Recommendation.** The Chief Fiscal Officer in coordination with Employee Relations and the Office of Management and Budget should determine the proper accounting and budgeting for the administrative expenses related to the medical and dental self-insurance program.
  
- c. **Management Comments.** Management stated, "Management agrees with Internal Audit's comments. The CFO is working with Employee Relations and OMB to come up with a written policy on the proper accounting and budgeting for the administrative expenses related to the medical/dental self-insurance program."
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials.

Audit Staff:  
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