

MUNICIPALITY OF ANCHORAGE



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Internal Audit Report 2010-12
Police and Fire Retiree Medical Trust
Employee Relations Department

Introduction. Anchorage Municipal Code (AMC) Chapter 3.87 establishes the Retiree Medical Funding Program for Police Officers and Firefighters (Program). The Program's purpose "...is to provide those retirees receiving retirement benefits under the police and fire retirement system and who qualify as members of the program with a health reimbursement arrangement (HRA) to cover the eligible medical expenses of the members, their spouses and eligible dependents." Starting in 2004, Program participants became eligible to enroll in the Municipality's flexible insurance plans. This allowed the participants to pick from a variety of active insurance plans. In addition, in 2009 AMC 3.87.050 was amended to provide a monthly discount from the stated premium to all members purchasing municipal health insurance. The Program is staffed by one professional administrative generalist.

- **Municipal Contributions:** Program contributions are made solely by the Municipality of Anchorage. The Municipality's responsibilities under this funding Program are limited to the following:
 - An initial prefunding contribution of \$2 million.
 - Monthly contributions for the benefit of a member of \$490 starting January 1, 1995, adjusted annually based on a set percentage of the National Medical Consumer Price Index (MCPI).
 - An amount equal to 50 percent of the Medicare Part A Premium that the member is required to pay for part A coverage if, upon reaching the age of Medicare eligibility, a member is not eligible to participate in Medicare without paying the Medicare Part A Premium.

- A balloon payment in 2006 of \$9.8 million.
 - Funding for a professional administrative generalist to administer the Program.
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- **Health Reimbursement Arrangement:** The Board of Trustees (Board) reimburses members and, as applicable, surviving spouses and dependents for medical expenses eligible under Section 213 of the Internal Revenue Code including eligible health insurance costs, the cost of Medicare Parts A and B, and long-term care premiums. According to AMC 3.87.060.J, “The program will not reimburse an expense incurred before the date ... an employee first becomes enrolled in the HRA. The maximum dollar amount reimbursable shall not exceed the balance in the member’s account.”
 - **Monthly Premium Discount:** In 2009 AMC 3.87 was amended to provide a monthly discount to all members purchasing municipal health insurance. Currently, the discount is \$234.40 per month. In addition, benefits provided to a surviving spouse were expanded.
 - **Prefunding Program:** AMC Chapter 3.88, Prefunding of Police and Fire Retiree Medical Program, was “...established for the purpose of managing the funding necessary to meet the obligations of the municipality for the police and fire retiree medical funding program...and making contributions to the retiree medical funding program trust on the behalf of eligible members”. The purpose of the investment program is to accumulate Municipal assets “...through a 27-year prefunding program of regular annual deposits by the municipality and accumulated interest earnings so that the municipal obligation is fully funded, requiring no further deposits.” An annual Municipal deposit to the investment program was established and has been adjusted as necessary to ensure full funding at the end of the year 2021. The prefunding included a balloon payment by the Municipality of \$9.8 million in 2006 paid for with proceeds from certain Certificates of Participation. The amount was based on the results of actuarial valuations and recommendations of the investment board. An actuarial valuation

of the Municipality's obligations to the funding program and the funding status of the investment program must be completed, at a minimum, every three years. Although the prefunding program was not part of this audit, the information was included to help the reader understand Program funding.

- **Assembly Review:** "Every five years from January 1, 1995, the assembly will review the operation of the program including the amount of the initial monthly contribution established in Section 3.87.060 to be made by the municipality."
- **Internal Audit Review:** Assembly Ordinance 2008-100 (S) amending AMC 3.87 required that "The Internal Auditor will perform an audit of the trust at least once every two years. The scope of the audit may include, but is not limited to, evaluating trust administrative costs, and reviewing enrollment and payment records for members purchasing health insurance through the Municipality."

Objective and Scope. The objective of this audit was to perform the third five-year (January 1, 2005 through December 31, 2009) review of the operation of the Program as required by AMC 3.87.070.A and the first two-year review of administrative costs and enrollment and payment records for members purchasing health insurance through the Municipality as required by AMC 3.87.070.B. Specifically, we reviewed the operation of the Program to determine whether it was being operated in compliance with AMC 3.87, including the accuracy of monthly trust contributions and participant transactions. In addition, we evaluated trust administrative costs and reviewed enrollment and payment records.

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 the period of July through October 2010. The audit was performed to satisfy AMC requirements for periodic independent reviews.

Overall Evaluation. Overall, Program operations complied with AMC 3.87. Trust contributions were properly adjusted annually for the MCPI. However, costs other than those required for a professional administrative generalist were charged to Fund 213: Police/Fire Retirees Medical Administration. Moreover, our review of Fund 713: Police and Fire Retirees Medical Expendable Trust, revealed a variety of purchases that appeared questionable and there was a lack of segregation of duties regarding control over the expenditure of Trust funds, which has been corrected. In addition, the 2009 revision to AMC 3.87 for police and fire retirees participating in the Program did not identify a funding source. Finally, the AMC for the Program may require revision.

According to the professional administrative generalist, as of October 2010, there were 336 participants in the Program with another 76 active members that will be eligible for the Program upon retirement.

During 2009 Program participants received into their HRA accounts a monthly trust contribution ranging from \$505.40 to \$738.66, for a total of \$2,514,661. From 2005 through 2009 monthly contributions to participant HRA accounts totaled \$10,878,891. These monthly contributions were adjusted each year for the MCPI, as required. In addition, from 2005 through 2009 payments from the HRA accounts totaled \$6,876,021.

FINDINGS AND RECOMMENDATIONS

1. Administrative Expenses Not Consistent With Fund's Purpose.

- a. Finding.** Costs other than those required for a professional administrative generalist were charged to Fund 213: Police/Fire Retirees Medical Administration. According to AMC 3.87.010.B the Municipality's responsibility is limited to providing funding for up to one technical level employee. In addition, AMC 3.87.030.D states "The municipality shall fund a professional administrative generalist to administer the police and fire retiree medical funding program." AMC does not require the

Municipality to fund other expenses such as office supplies, equipment purchases and communications charges. Specifically, we found the following costs were charged to Fund 213 from 2005 through 2009:

	<u>2005 through 2009</u>
Office Supplies	\$906
Operating Supplies	2,580
Computer Supplies	1,467
Communications	863
Wireless Airtime Only	652
Advertising	132
Tuition/Registration Anchorage Area	140
Computer Hardware Purchase > \$1,000	6,219
Computer Hardware < \$1,000	<u>125</u>
Total:	<u>\$13,084</u>

Source: 2005 through 2009 PeopleSoft Web-Based Reporting budget data.

- b. **Recommendation.** The Employee Relations Director should ensure that Fund 213 is used only to pay for the services of a professional administrative generalist as required by the AMC.
- c. **Management Comments.** Management stated, "Management concurs. Internal controls have been initiated that will assure that no expenses other than those authorized will be spent on behalf of the program or charged to Fund 213."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Review of Fund 713 Administrative Expenses.**

a. **Finding.** Our review of Fund 713: Police and Fire Retirees Medical Expendable Trust revealed a variety of purchases that appeared questionable. According to AMC 3.87.030.C.11, the Board has the authority to pay any costs reasonably incurred in connection with the Program's administration. Our review identified some expenses that may not have been necessary for administration of the Program. For example:

- ***Conference and Travel*** – From 2005 through 2009 the Trust spent \$41,486 on conferences, lodging, and travel by board members and the professional administrative generalist.
- ***Education*** – In 2008 and 2009 the Trust reimbursed the professional administrative generalist a total of \$7,862 for educational expenses. These expenses included tuition and books to pay for a master's degree in business administration.
- ***Legal Services*** – From 2005 through 2009 the Trust spent \$38,235 on legal services. While most of the legal services were for Trust requirements, they included about \$200 for legal services to discuss ordinance provisions for the payment of the professional administrative generalist's proposed salary increase.
- ***Office Equipment*** – From 2005 through 2009 the Trust spent \$11,612 on office equipment, including computer equipment and related software.

The Appendix provides a schedule of miscellaneous expenses for Fund 713 for the period January 1, 2005 through December 31, 2009.

- b. **Recommendation.** We recommend the Assembly consider revising AMC 3.87.030.C.11 to clarify what costs of administering the Program are necessary and reasonable.
- c. **Management Comments.** Management stated, “Concur. The Assembly will consider clarifying AMC 3.87.030.C.11 regarding administrative costs for the Police and Fire Medical Retiree Program.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Lack of Segregation of Duties.**

- a. **Finding.** There was a lack of segregation of duties regarding control over the expenditure of Trust funds. We found six instances from 2005 through 2007, involving two different professional administrative generalists who each signed checks issued to themselves for services rendered or for items bought using their personal credit cards. Specifically, the checks, which totaled \$11,262.73, were for travel to conferences by Board members, equipment purchased for the Trust, and payroll checks. No other instances were noted in our check review for the period 2008 through 2009.
- b. **Recommendation.** No recommendation required. We found no instances in 2008 and 2009 where the professional administrative generalist signed his own checks.
- c. **Management Comments.** No management comments were required.
- d. **Evaluation of Management Comments.** No evaluation was required.

4. **Revision to AMC 3.87 Not Funded.**

- a. **Finding.** The revision to AMC 3.87 for police and fire retirees participating in the Program was not funded. Assembly Ordinance 2008-100(S) amending AMC 3.87 was passed by the Municipal Assembly "...to partially remediate the funding deficiencies incurred by certain Police Officers and Fire Fighters receiving medical insurance funding pursuant to the retiree medical funding program." The summary of economic effects accompanying the ordinance showed increased costs of \$2.1 million through 2013 for discounting the health plan premium (currently \$20,627 per month) and expanding the surviving spousal benefits. Since a funding source for the costs was not provided by the ordinance, Fund 603: Medical, Dental, Life has been absorbing the discount provided by the ordinance.
- b. **Recommendation.** The Chief Fiscal Officer should request that the Assembly provide a funding source for added benefits to the police and fire health plan.
- c. **Management Comments.** Management stated, "Concur. Management will prepare a resolution to provide a funding source for the added benefits to the police and fire health plan."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Exemption from Certain AMC Provisions May Require Review.**

- a. **Finding.** The AMC for the Program may require revision. AMC 3.87.030.B.1 states, "The board of trustees shall not be subject to the provisions of Titles 3, except for this chapter, 4, 6 or 7 of the Anchorage Municipal Code or the Anchorage Municipal Charter." However, it is not clear whether this exemption pertains to the

administration of the plan and to the professional administrative generalist. We found that the professional administrative generalist did not follow AMC Title 7, *Purchasing and Contracts and Professional Services*, to procure goods and services for the Trust. Items were generally purchased at retail prices. In addition, a budget for Trust expenses is not required to be submitted to the Assembly or Mayor for review or approval.

In comparison, AMC 3.85, *Police and Fire Retirement System*, does not exempt the board from all of the AMC provisions. For example, AMC 3.85.025, *Powers of the Retirement Board*, states, “The powers of the board of trustees shall include, but not be limited to . . . Procure supplies, equipment and other non-professional contracted services and to dispose of any surplus or excess property. The board shall process purchase and disposal requests through the municipal purchasing department in accordance with Title 7, and shall adhere to the administrative policies and procedures of the municipality.” It further states “To submit an annual budget to the assembly and to comply with the other provisions of Title 6 of the Anchorage Municipal Code except for the payment of professional services and for trustee education and travel expenses as provided in this chapter. Such provisions may be enlarged from time to time by regulations adopted by the board and approved by the municipal manager or by ordinance adopted by the assembly”.

- b. **Recommendation.** We recommend the Assembly consider revising AMC 3.87.030.B.1 to not exempt the Board of Trustees of the Retiree Medical Funding Program Trust from the provisions of AMC Titles 3, 6 and 7.
- c. **Management Comments.** Management stated, “Concur. The Assembly will consider revising AMC 3.87.030.B.1 regarding exemptions of the Board of Trustees from certain AMC provisions.”

- 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 on October 7, 2010.

Audit Staff:
Jayi Schin

APPENDIX

Fund 713: Police and Fire Retirees Medical Expendable Trust Miscellaneous Expenses 2005-2009

Expenses:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Conferences	\$6,850	\$3,100	\$2,175	\$5,930	\$1,206
Consulting	11,900	8,731	10,310	12,000	18,212
Board Meeting Food			18		
Equipment	1,754	900			
Computer Equipment	1,876	82			469
Computer Software	1,004	181	5,032	314	
Fiduciary Liability Insurance	5,000				
Legal Services	11,877	4,061	736	21,017	544
Membership Dues	1,030	250	975	655	695
Office Supplies	331	556	152	190	822
Payroll	9,792				
Payroll Taxes	3,586	797			
Phone	1,476				
Postage	55				
Professional Services	775	318			
Subscriptions			145		
Temporary Employees		492	365	1,871	1,125
Training	195		156		
Travel	9,990	4,405	1,848	4,807	2,001
Tuition for Advance Degree for Professional Administrative Generalist				4,116	3,746
Unknown	146			99	
Total Expenses:	\$67,637	\$23,873	\$21,912	\$50,999	\$28,820
Source: Auditor review of 2005 through 2009 checks.					