

ASD INTERNAL AUDIT REPORT

2017-01

Health Insurance Internal Service Fund

Anchorage School District

January 11, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

January 11, 2017

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2017-01; Health Insurance Internal Service Fund; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Health Insurance Internal Service Fund. The objective of this audit was to determine the causes for significant variances and if processes were in place to accurately report activity fund balances for the Health Insurance Internal Service Fund. We reviewed Health Insurance Internal Service Fund activity for fiscal year 2015-16.

Our review found that the Health Insurance Internal Service Fund balance was not consistently monitored and accurately reported to the Anchorage School Board.

There was one finding in connection with this audit. Management was responsive to the finding and recommendations.

Michael Chadwick, CIA, CICA
Acting Director, Internal Audit



Municipality of Anchorage

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Introduction. The Anchorage School District (District) maintains a Health Insurance Internal Service Fund (Fund) that funds medical claims, dental and vision premiums, and prescription services for over 5,000 employees, retirees, and dependents. The medical services are self-funded by the District. The Fund is funded by employee payroll contributions, employer contributions, and general fund transfers. Employer contributions are established by the employee bargaining contracts. Aetna Inc. (Aetna) is the third-party administrator for claims administration for the medical plan and processes all medical and prescription claims for the District. Aetna processed about \$35 million in medical and prescription claims for the period beginning July 1, 2015, and ending June 30, 2016.

The Benefits Department is the Plan Administrator and is responsible for ensuring the required insurance enrollment paperwork is on file and for notifying Aetna of any changes in coverage such as additions, terminations and retirements. The Finance Department processes the employee and employer contributions and insurance claims payments. Finally, the District contracted with Alliant Insurance Services, Inc. (Alliant), which is also a third-party administrator, to assist the District with open-enrollment, insurance rate negotiations and renewals, and provide the District with plan performance and claims assessments. (See Attachment for Fund balances.)

Objective and Scope. The objective of this audit was to determine the causes for significant variances and if processes were in place to accurately report activity fund balances for the Fund. We reviewed Fund activity for fiscal year (FY) 2015-16.

We conducted this audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of July through September 2016. The audit was requested by the Anchorage School District Finance Committee.

Overall Evaluation. Our review found that the Fund balance was not consistently monitored and accurately reported to the Anchorage School Board (Board).

FINDINGS AND RECOMMENDATIONS

1. Fund Balance and Activity was Not Activity Monitored and Reported.

- a. **Finding.** The Fund balance was not consistently monitored and accurately reported to the Board. According to ASD Policy 722.7.2. *Methods and Procedures*, “The Superintendent shall submit to the Board a summary statement of revenues and expenditures, bank balances and report of investments on a quarterly basis.” Several factors contributed to the inaccurate reporting of the Fund balance, revenues, and expenditures. For example, due to employee turnover within the Finance Department, the Fund balance was not actively monitored and quarterly reports were not prepared and presented to the Board.

To illustrate, at a February 2016 Finance Committee meeting the District’s Administration (Administration) reported that the Fund balance was \$6.2 million, and that \$2 million would be used during FY 2015-16, leaving a Fund balance of \$4.2 million. However, the \$6.2 million was the ending Fund balance for FY 2014-15 and did not represent the current Fund balance as of February 2016.

Later, at a May 2016 Finance Committee meeting, the Administration reported that \$5 million had been used from the Fund through the third quarter, leaving a Fund balance of \$1.2 million. As a result, Finance Committee members were concerned about the decreasing Fund balance.

The Fund balance has decreased over the past several years from \$10.6 million at the beginning of FY 2012-13 to \$4.2 million at the end of FY 2015-16. (Refer to Attachment for Fund balance history.) According to the Administration, they were advised by external auditors not to maintain an unnecessary large fund balance without an actuarial study to support the balance. An actuarial study was not performed. However, the Administration continued to draw down the Fund balance to pay for medical costs. As a result, \$3 million was transferred from the General Fund to replenish the Health Insurance Internal Service Fund.

According to an August 23, 2016, report prepared by Alliant, an estimated \$6.7 million was used in FY 2015-16 to subsidize the health care costs for employees enrolled in the Preferred Provider Organization plan. Fund balance reserves were used to subsidize a portion of the medical costs. For example, in FY 2015-16 the total monthly cost per employee was \$1,918. Per contract, each month ASD contributed \$1,540 per employee and the employee contributed \$75. The difference between the monthly cost and the contributions, a subsidy payment, was funded by reserves. In FY 2012-13 the subsidy payment was \$37 and in FY 2015-16 the subsidy payment was \$303, an increase of 719 percent.

Consistent monitoring and accurate reporting of the Fund balance is important because it provides information about significant revenue and expenditure fluctuations. Additionally, reporting on Fund balance activities allows management and the Board to understand how much is available and how much is needed to fund future health insurance costs.

b. Recommendations. The Superintendent and Chief Financial Officer should:

- 1) Ensure that quarterly reports are presented to reflect accurate and current Fund balance totals.
- 2) Determine if an actuarial study would benefit the District to ensure that sufficient reserves are maintained in the Fund.

c. Management Comments. Management stated, “Management agrees with the findings of the audit. Management agrees that quarterly reports should, and will, be presented to the School Board in order to ensure visibility of accurate and current Fund balance totals. The District currently has a contract with Alliant, which provides the information required in order to effectively project health costs; the information received from Alliant precludes the requirement for a separate actuarial study.”

d. Evaluation of Management Comments. Management comments were responsive to the audit finding and recommendations.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate District officials on November 9, 2016.

Audit Staff:
Brenda Peña, CFE

Attachment

Health Insurance Internal Service Fund Balance

	<u>FY 12-13</u>	<u>FY 13-14</u>	<u>FY 14-15</u>	<u>FY 15-16¹</u>
Operating revenues:				
Charges for health insurance services	\$ 34,643,429	\$ 33,152,418	\$ 34,285,197	\$ 35,464,501
Total operating revenues	34,643,429	33,152,418	34,285,197	35,464,501
Operating expenses:				
Costs of services	115,493	135,841	120,900	112,075
Medical plan administration	2,685,073	2,700,378	5,413,714	5,540,449
Medical claims	32,930,154	31,606,302	31,116,612	34,992,619
Total operating expenses	35,730,720	34,442,521	36,651,226	40,645,143
Operating loss	(1,087,291)	(1,290,103)	(2,366,029)	(5,180,642)
Non-operating revenues:				
Investment income	72,027	210,188	108,775	164,227
Total non-operating revenues	72,027	210,188	108,775	164,227
Total income (loss) before capital contributions and transfers	(1,015,264)	(1,079,915)	(2,257,254)	(5,016,415)
Transfers in – General Fund				3,000,000
Changes in net position	(1,015,264)	(1,079,915)	(2,257,254)	(2,016,415)
Net position at the beginning of the year	10,571,153	9,555,889	8,475,974	6,218,720
Net position at the end of the year	\$ 9,555,889	\$ 8,475,974	\$ 6,218,720	\$ 4,200,305

Source: Comprehensive Annual Financial Report (CAFR) for years ending June 30, 2013; June 30, 2014; June 30, 2015; and June 30, 2016.

¹An external audit opinion has not yet been issued for the totals reported in the FY 2015-16 CAFR.