

# INTERNAL AUDIT REPORT

2012-07

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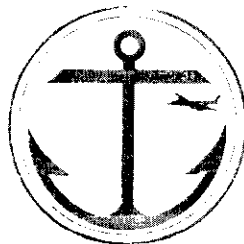
Police and Fire Retiree Medical Trust  
Two-Year Review

Employee Relations Department

July 19, 2012

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*Mayor Dan Sullivan*

June 19, 2012

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2012-07, Police and Fire Retiree Medical Trust Two-Year Review, Employee Relations Department** for your review. A brief summary of the report is presented below.

In accordance with the 2012 Audit Plan, we have completed an audit of the Police and Fire Retiree Medical Trust. The objective of this audit was to perform the second two-year review of the administrative costs and enrollment and payment records for members purchasing health insurance through the Municipality as required by Anchorage Municipal Code 3.87.070.B. Specifically, we evaluated trust administration costs incurred in 2011 and reviewed enrollment and payment records.

Based on our review, we determined that, overall Police and Fire Retiree Medical Trust operations complied with Anchorage Municipal Code 3.87. Specifically, enrollment and payment records were found to be accurate for members purchasing health insurance through the Municipality. In addition, administrative costs charged to Fund 713: Police and Fire Retirees Medical Administration in 2011 appeared reasonable. A schedule of the administrative costs is provided in the Appendix. We did find that some Police and Fire Retiree Medical Trust exemptions in Anchorage Municipal Code may require further review and the organizational placement of the professional administrative generalist needs to be clarified.

There were two findings in connection with this audit. Management was responsive to the findings and recommendations.

A handwritten signature in black ink, appearing to read 'Peter Raiskums'.

Peter Raiskums, CIA, CFE, CGFM  
Director, Internal Audit

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July 19, 2012

**Internal Audit Report 2012-07  
Police and Fire Retiree Medical Trust Two-Year Review  
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." 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. As of December 2011 there were 345 Program participants who received into their HRA accounts a monthly trust contribution ranging from \$572.58 to \$779.08 for a total of \$2,786,104.

- **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 contribution 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.

- **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 Part 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. For 2011, the discount was \$480.44. In addition, benefits provided to a surviving spouse were extended.
- **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 Certificate of Participation notes. 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 is completed, at 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) amended AMC 3.87 and 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 second two-year review of the 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 evaluated trust administration costs incurred in 2011 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 February through March 2012. The audit was performed to satisfy AMC requirements for periodic independent reviews.

**Overall Evaluation.** Overall, Program operations complied with AMC 3.87. Specifically, enrollment and payment records were found to be accurate for members purchasing health insurance through the Municipality. In addition, administrative costs charged to Fund 713: Police and Fire Retirees Medical Administration in 2011 appeared reasonable. A schedule of the administrative costs is provided in the Appendix. We did find that some Program exemptions in AMC may require further review and the organizational placement of the professional administrative generalist needs to be clarified.

## FINDINGS AND RECOMMENDATIONS

### 1. Exemption from Certain AMC Provisions May Require Review.

- a. **Finding.** Some Program exemptions in AMC may require review. 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 if the exemption in Title 3 pertains to the professional administrative generalist in administering the plan or only applies to the Board of Trustees of the Retiree Medical Funding Program. In addition, a budget for Trust expenses is not required to be submitted to the Assembly or Mayor for review or approval and adherence to Title 7, *Purchasing and Contracts and Professional Services*, is not required. Internal Audit Report 2010-12 reported a similar finding.
- b. **Recommendation.** The Assembly should consider revising AMC 3.87.030.B.1 to clarify that the exemption applies only to the Board of Trustees of the Retiree Medical Funding Program Trust and not the administrative position.
- c. **Management Comments.** Management stated, “Concur. The municipal assembly has authority to revise AMC 3.87 and to amend the funding program to clarify the appropriate exemptions from municipal code for the Board of Trustees and the professional administrative generalist position assisting the Board of Trustees in administering the trust fund. The Board of Trustees is responsible for trust administration. This audit finding should be reviewed with the Board of Trustees of the Retiree Medical Funding Program by the Municipal Audit Committee prior to action by the Assembly on the audit, to ensure responsibilities are understood, and any Board of Trustee recommendations for code changes are reviewed and evaluated as part of the this Audit Report. Proposed code revisions will be subject to legal review prior to submission to the Assembly for action.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Organizational Placement of the Administrative Position Should be Clarified.**

- a. **Finding.** The organizational placement of the professional administrative generalist needs to be clarified. AMC 3.87.030.D requires the Municipality to fund a professional administrative generalist to administer the program. This administrative position is a Non-Represented Municipal employee and accordingly should follow the provisions of the Personnel Rules. However, there have been instances where some requirements regarding pay did not apply to this position since the position worked for the Board. In addition, internal municipal controls on time and attendance applicable to municipal employment and incorporated under the KRONOS system are lacking because the administrative generalist position has no municipal supervisor. The former Employee Relations Director expressed a concern to the Municipal Audit Committee in an April 15, 2011, memorandum regarding the staffing of an administrative position for the Trust. According to the memorandum, the Board advised her that "...every administration since inception of the Trust has questioned the relationship between the Trust and the Municipality with respect to staffing." She further stated that "This recognition and questioning reflects that AMC 3.87 is not clear in its direction with respect to providing Municipal support for PFMT administrative functions. In short, this is not an issue of the current year, but rather a lack of consistency between the language of AMC 3.87 and current practice."
- b. **Recommendation.** The Assembly should consider revising AMC 3.87 to clarify the organizational structure and placement of the professional administrative generalist position for the Police and Fire Retiree Medical Funding Program.

- c. **Management Comments.** Management stated, “Concur. The municipal assembly has authority to revise AMC 3.87 and to amend the funding program to clarify the appropriate organizational structure, placement and supervision for the professional administrative generalist position assisting the Board of Trustees in administering the trust fund. The Board of Trustees is responsible for trust administration. This audit finding should be reviewed with the Board of Trustees of the Retiree Medical Funding Program by the Municipal Audit Committee prior to action by the Assembly on the audit, to ensure responsibilities are understood, and any Board of Trustee recommendations for code changes are reviewed and evaluated as part of the this Audit Report. Proposed code revisions will be subject to legal review prior to submission to the Assembly for action.”
- 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:  
Scott Lee



**APPENDIX**

**Fund 713: Police and Fire Retirees Medical Expendable Trust  
Miscellaneous Expenses  
2011**

<b>Expenses:</b>	
Conferences	\$ 2,430
Consulting – Wage and Hour Study	2,250
Computer Equipment	250
Computer Software	720
Document Shredding	40
Investment Consulting	10,848
Legal Services	1,878
Membership Dues	740
Office Supplies	3,667
Payroll	33
Telephone	177
Temporary Employees	17,112
Travel	3,675
<b>Total Expenses:</b>	<b><u>\$43,820</u></b>
Source: Auditor review of 2011 checks.	