

# INTERNAL AUDIT REPORT

2014-07

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Police and Fire Retiree Medical Trust  
Two-Year Review

Employee Relations Department

October 21, 2014

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MUNICIPALITY OF ANCHORAGE  
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*Mayor Dan Sullivan*

October 21, 2014

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2014-07, Police and Fire Retiree Medical Trust Two-Year Review, Employee Relations Department**. A brief summary of the report is presented below.

In accordance with the 2014 Audit Plan, we have completed an audit of the Police and Fire Retiree Medical Trust. The objective of this audit was to perform the third 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 Police and Fire Retiree Medical Trust administration costs incurred from January 2013 to June 2014 and reviewed enrollment and payment records.

Based on our review, the Retiree Medical Funding Program for Police Officers and Firefighters generally 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 Expendable Trust, from January 2013 through June 2014 generally appeared reasonable. We did find that the organizational placement of the administrator needs to be clarified and some Retiree Medical Funding Program for Police Officers and Firefighters exemptions in Anchorage Municipal Code require further review.

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

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

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

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*Mayor Dan Sullivan*

October 21, 2014

**Internal Audit Report 2014-07**  
**Police and Fire Retiree Medical Trust Two-Year Review**  
**Employee Relations Department**

**Introduction.** Anchorage Municipal Code (AMC) Chapter 3.87, *Retiree Medical Funding Program for Police Officers and Firefighters*, 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 agreement (HRA) to cover the eligible medical expenses of the members, their spouses and eligible dependents." In 2009 AMC 3.87.050, *Eligibility for active municipal police or fire health insurance plan*, 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 (administrator) and one part time contractor. As of June 2014 there were 377 Program participants who received into their HRA accounts a monthly trust contribution ranging from \$586.71 to \$837.71 for a total of \$1,629,881 for the first six months of 2014.

- **Municipal Contributions:** Program contributions are made solely by the Municipality of Anchorage (Municipality). 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 each member of \$490 starting January 1, 1995, adjusted annually based on a set percentage of the national Medical Consumer Price Index.



- 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 an administrator to administer the Program.
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- **Health Reimbursement Arrangement:** The Program 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 and long-term care premiums. According to AMC 3.87.060.J, *Eligible expense reimbursements*, “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 3.87.050 was amended to provide a monthly discount to all members purchasing municipal health insurance. For 2014, the discount was \$800.27. In addition, benefits provided to a surviving spouse were extended.
  - **Prefunding Program:** Anchorage Municipal Code 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 objective 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 the Retirement Certificates of Participation Debt Service Fund. 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:** Anchorage Municipal Code 3.87.070.A, *Assembly review*, states that "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:** Anchorage Municipal Code 3.87.070.B, *Internal audit review*, requires 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 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 from January 2013 to June 2014 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 August 2014. The audit was performed to satisfy AMC requirements for periodic independent reviews.

**Overall Evaluation.** Based on our review, Program operations generally 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 Expendable Trust, from January 2013 through June 2014 generally appeared reasonable. We did find that the organizational placement of the administrator needs to be clarified and some Program exemptions in AMC require further review.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Organizational Placement of the Administrative Position Should be Clarified.**

- a. Finding.** The organizational placement of the administrator needs to be clarified. AMC 3.87.030.D, *Program administration*, requires the Municipality to fund a position to administer the Program. The position is a non-represented municipal employee and accordingly should follow the provisions of the Personnel Rules. However, over the years the organizational placement has become unsure. At one time, the administrator was an employee of the Employee Relations Department, located in their office. Over time the administrator's office has moved to various locations, residing now in City Hall. In addition, there have been instances where some requirements for non-represented municipal employees have not been applied to this position. For example:
  - *2009 Furlough Not Taken* – The administrator did not take the 2009 mandatory furlough, despite specific instructions from the acting Mayor to



take the furlough. In a May 14, 2009 memorandum the acting Mayor wrote to all directors stating, “We have determined that an unpaid furlough of 56 hours for each non-represented employee . . . will be necessary to help balance the budget . . . There will be no exceptions . . . .”

- *Organizational Placement Disputed* – The Municipality’s organizational chart shows the administrator as part of the Employee Relations Department. However, his municipal employee identification and building access card has “Finance Department” written on it. This card was approved by the Chief Fiscal Officer. In addition, the Municipality’s 2014 approved general government operating budget shows the Program being funded as part of the Mayor’s office.
- *Internal Controls Over Time Card Lacking* – Municipal controls on time and attendance applicable to municipal employment and incorporated in Kronos were lacking because the administrator had no municipal supervisor. Because there was no municipal supervisor, the administrator’s weekly Kronos time card was approved by a member of the Police and Fire Retiree Medical Board of Trustees (Board) who works in the Anchorage Fire Department’s Fire Prevention Office. The time was then entered into the Municipality’s financial system by an assistant to the Chief Fiscal Officer.
- *Pay Study* – With Board knowledge, a \$1,350 wage and hour study for the administrator position was recently completed. Normally, individual municipal employees do not have wage and hour studies paid for and conducted exclusively on their behalf.

- *Inconsistent Employee Evaluations* – From 2005 through 2009 four employee evaluations were completed for the administrator. Employee Relations supervisory staff completed three of these evaluations. The former Board chair performed the most current evaluation, which was completed in 2009.

Finally, the Employee Relations Director expressed a concern to the Municipal Audit Committee in an April 15, 2011, with a memorandum regarding the staffing of an administrative position for the Program. According to the memorandum, the Board stated that “...every administration since inception of the Trust has questioned the relationship between the Trust and the Municipality with respect to staffing.” The memo further stated that “This recognition and questioning reflects that AMC 3.87 is not clear in its direction with respect to to [sic] 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.” Internal Audit Report 2012-07 reported a similar finding. However, at the time of our current audit, corrective actions had not been implemented.

- Recommendation.** The Employee Relations Director should revise AMC 3.87 to clarify the organizational structure and placement of the administrator position for the Police and Fire Retiree Medical Funding Program.
- Management Comments.** Management stated, “It is not within the Director’s authority to revise AMC 3.87, although the department strongly concurs with the recommendation that clarification with respect to the PFRMT personnel is long overdue. The Department strongly recommends that the Police and Fire Retiree Medical Trust be integrated with the Police and Fire Retirement Trust that is governed by AMC 3.85. The Retirement Trust has a professional staff, and there is clearly synergy among the functions of the two Trusts. Further, the Medical Trust serves a



finite pool of participants. As noted in the audit, as of June 2014, there were 377 program participants. A full time administrative position should not be required to administer this program.

“With respect to the organizational placement, the Employee Relations Department concurs that roles and responsibilities are cloudy at best. This would be resolved if the PFRMT were integrated into the Police and Fire Retirement Trust.

“A recommendation has been made to the Municipal Attorney’s office to effectively merge AMC 3.85 and AMC 3.87.

“However, if the Assembly chooses not to combine the two functions, the Employee Relations Director will assume responsibility of assuring that the organization is aligned properly both from a funding standpoint as well as accountability for personnel authorizations.”

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

## 2. **Program Exemptions Require Clarification.**

- a. **Finding.** Some Program exemptions in AMC require clarification. 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, the current interpretation is that the administrator is also included in the exemption. We question this interpretation. In addition, a budget for Program 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.* Internal Audit Report 2010-12 and Internal Audit Report 2012-07 reported a similar finding. At the time of our audit, no corrective actions had been implemented.

- b. **Comment.** This finding will be resolved with the implementation of the Administration's response to Finding 1.

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

Audit Staff:  
Scott Lee