

# INTERNAL AUDIT REPORT

2017-04

---

Police and Fire Retiree Medical Trust 2-Year Review

Employee Relations Department

March 9, 2017

---

MUNICIPALITY OF ANCHORAGE  
Internal Audit Department  
632 W 6th Avenue, Suite 600  
P.O. Box 196650  
Anchorage, Alaska 99519-6650  
[www.muni.org/departments/internal\\_audit](http://www.muni.org/departments/internal_audit)



INTERNAL AUDIT DEPARTMENT  
Michael Chadwick, CIA, CICA  
Director  
Phone: (907) 343-4438  
Fax: (907) 343-4370  
E-Mail: [chadwickmb@muni.org](mailto:chadwickmb@muni.org)



# Municipality of Anchorage

Office of the Mayor

Ethan Berkowitz, Mayor

March 9, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-04, Police and Fire Retiree Medical Trust 2-Year Review, Employee Relations Department**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the Police and Fire Retiree Medical Trust 2-Year Review of the Employee Relations Department. The objective of this audit was to perform the fourth two-year review of the administrative costs and enrollment and payment records for members purchasing health insurance through the Municipality of Anchorage, as required by Anchorage Municipal Code 3.87.070.B. Specifically, we evaluated trust administration costs incurred from January 2015 to September 2016, and reviewed enrollment and payment records.

Our audit revealed that Retiree Medical Funding Program for Police Officers and Firefighters operations 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 of Anchorage. In addition, administrative costs charged to Fund 713, Police and Fire Retirees Medical Expendable Trust, from January 2015 through September 2016, generally appeared reasonable. However, we found that the Municipality of Anchorage's Employee Relations Department did not bill the Police and Fire Retiree Medical Trust the excess 2015 salary and benefits paid by the Municipality of Anchorage for the trust program administrator position. In addition, an agreement to provide for full payroll and employee benefit services for Retiree Medical Funding Program for Police Officers and Firefighters staff was not entered into between the Board and the Municipality of Anchorage. Finally, the organizational placement of the trust program administrator and administrative assistant needs to be clarified, as recommended in previous Internal Audit reports.

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

Michael Chadwick, CIA, CICA  
Director, Internal Audit



# Municipality of Anchorage

Office of the Mayor

Ethan Berkowitz, Mayor

March 9, 2017

## **Internal Audit Report 2017-04 Police and Fire Retiree Medical Trust 2-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 staff administrator and one administrative assistant. As of November 2016, there were 385 Program participants who received into their HRA accounts a monthly trust contribution ranging from \$593.04 to \$864.94 for a total of \$3,157,297 for the first eleven months of 2016.

- **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 (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 payment in 2006 of \$9.8 million.
  - Funding for a trust program staff to administer the Program.
- 
- **Health Reimbursement Arrangement:** The Program reimburses members and, as applicable, spouses and/or the member's 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 2016, the discount was \$810.70. In addition, benefits provided to a surviving spouse and dependents 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 34-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 2028. The prefunding included a 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 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:** 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 fourth 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 2015 to September 2016, 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. 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 November through December 2016. 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 2015 through September 2016, generally appeared reasonable. However, we found that the Municipality's Employee Relations Department (Employee Relations) did not bill the Police and Fire Retiree Medical Trust (Trust) the excess 2015 salary and benefits paid by the Municipality for the trust program administrator position. In addition, an agreement to provide for full payroll and employee benefit services for Program staff was not entered into between the Board and the Municipality. Finally, the organizational placement of the trust program administrator and administrative assistant needs to be clarified, as recommended in previous Internal Audit reports.

## FINDINGS AND RECOMMENDATIONS

### 1. Excess Expenditures for Program Staff Salary and Benefits Not Billed.

- a. **Finding.** Employee Relations did not bill the Trust the excess 2015 salary and benefits paid by the Municipality for the trust program administrator position. At the time of this audit, 2016 excess costs had not been billed because the year had not yet concluded. According to AMC 3.87.030.D.1.a, the Municipality's responsibility is limited to providing funding equivalent to the salary and benefits of a Non-Rep level 15 municipal employee. In addition, AMC 3.87.030.D.1.b, permits the Police and Fire Medical Trust Board (Board) to determine the compensation of the trust program administrator position, ". . . provided that compensation and costs in excess of the municipality's contribution shall be borne by the trust program assets."

Specifically, in 2015, the Municipality expended \$133,481 in salary and benefits for the trust program administrator position. However, based on our review of PeopleSoft 2015 budget to actual records, salary and benefits for a non-represented level 15 employee were budgeted at \$127,464, resulting in \$6,017 of additional costs that should have been reimbursed to the Municipality from trust program assets. Costs exceeded the funding for a level 15 employee because, in May 2015, the Board

reclassified the trust program administrator position from a non-represented level 15, step 6 employee to an executive position. This change increased the annual salary from \$78,749 to \$88,005, an 11.8 percent increase, as well as increased benefit costs.

- b. **Recommendation.** The Employee Relations Director should bill the Program for the excess 2015 salary and benefit costs to fund the trust program staff administrator position.
  
- c. **Management Comments.** Management stated, “Concur. On February 14, 2017, the Police and Fire Retiree Medical Trust (PFRMT) was issued two invoices:  
Invoice # 1 - 2015 for a reimbursement amount of \$7,666.17  
Invoice # 2 - 2016 for a reimbursement amount of \$35,487.29  
On February 17, 2017, PFRMT paid the invoice in the amount of \$43,153.46.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Agreement to Provide Program Staff’s Payroll and Benefit Services Not Established.**

- a. **Finding.** An agreement to provide for full payroll and employee benefit services for Trust Program staff was not entered into between the Board and the Municipality, as required by AMC 3.87.030.D.1.c. According to the Board, there was a verbal agreement.
  
- b. **Recommendation.** The trust program administrator should work with the Board to establish an agreement with Employee Relations to provide full payroll and employee benefit services for the trust program staff as required by AMC 3.87.030.D.1.c.
  
- c. **Management Comments.** Management concurred and stated, “The Medical Trust administrator position and staff position are receiving payment and benefits through

the Municipality payroll system. The Medical Trust entered into an agreement with the Municipality for full payroll services. The arrangement was developed and implemented by Municipal staff and is currently in operation. The first billing for these services occurred at the conclusion of the 2016 fiscal year when all the data is available. Payment was made promptly. Payroll services commenced mid-year 2015 and are included in the 2016 billing. As recommended by the IA staff, a written agreement will be entered into for full payroll services.”

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

3. **Organizational Placement of Program Staff Should be Clarified.**

- a. **Finding.** The organizational placement of the trust program administrator and administrative assistant needs to be clarified, as recommended in previous Internal Audit reports. In April 2015, AMC 3.87 was revised to clarify that the funded position serves as staff administrator to the Board of Trustees. In addition, the revision gave the Board the responsibility to determine staffing and scheduling of personnel based on Program needs as well as the authority to select, compensate and retain Program staff.

Although AMC 3.87 was revised, no changes were made to clarify Program staff’s organizational placement. 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. As a result, lines of authority have become blurred. Below are some of the organizational inconsistencies that continue to exist:

- The Municipality’s organization chart showed Program staff as part of Employee Relations. However, one staff municipal employee identification



and building access card had "Finance Department" written on it. This card was approved by the Chief Fiscal Officer in 2012. The other staff municipal employee identification card had "Police/Fire Retirement" written on it. This card was not approved by any department director.

- Although the Municipality's organization chart showed Program staff as part of Employee Relations, Program staff weekly Kronos time cards were approved by a Board member who worked 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.

- Recommendation.** The Employee Relations Director should work with the Board to clarify the organizational placement of Program staff for the Police and Fire Retiree Medical Trust Funding Program.
- Management Comments.** Management stated, "Concur. On February 21, 2017, Employee Relations met with the Chair of the Police & Fire Retiree Medical Trust. He agreed the PFRMT will be within the Employee Relations Department organizational structure and he agreed that beginning February 27, 2017, Employee Relations will begin approving the timecards for the PFRMT employees. Request for leave will be approved by PFRMT Chair via email and forwarded to Employee Relations. In addition, new ID cards will be issued for the PFRMT staff."
- 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 January 4 and January 9, 2017.

Audit Staff:  
Scott Lee