

# INTERNAL AUDIT REPORT

2018-07

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Police and Fire Retiree Medical Trust  
2-Year Review

Employee Relations Department

December 28, 2018

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 28, 2018

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2018-07, 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 2018 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 fifth 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 subsection 3.87.070B. Specifically, we evaluated trust administrative costs incurred from October 2016 to September 2018, and reviewed enrollment and payment records.

Our audit revealed that the Retiree Medical Funding Program for Police Officers and Firefighters operations generally complied with Anchorage Municipal Code chapter 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 713000, Police and Fire Retirees Medical Expendable Trust, from October 2016 through September 2018, appeared reasonable. However, the Controller Division staff had not made journal entries in the Municipality's financial system to record Police and Fire Retirees Medical Expendable Trust activities, for both 2018 expenditures and 2018 revenues. In addition, although the Employee Relations Department provided to the Police and Fire Retiree Medical Trust members the municipal insurance premium rates, these rates were not calculated as required by Anchorage Municipal Code subsection 3.87.050E.

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

Michael Chadwick, CIA, CICA  
Director, Internal Audit





# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 28, 2018

**Internal Audit Report 2018-07**  
**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 arrangement (HRA) to cover the eligible medical expenses of the members, their spouses and eligible dependents." In 2009, AMC section 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 September 2018, there were 375 Program participants who received into their HRA accounts a monthly trust contribution ranging from \$603.00 to \$908.78 for a total of \$2,614,773 for the first nine months of 2018.

- **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, surviving spouses and dependents for medical expenses eligible under Section 213 of the Internal Revenue Code, including eligible long-term care premiums. According to AMC subsection 3.87.060J, *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 section 3.87.050 was amended to provide a monthly discount to all members purchasing municipal health insurance. For 2018, the discount was \$1,058.22. In addition, benefits provided to a surviving spouse and dependents were extended.
  - **Prefunding Program:** Anchorage Municipal Code 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 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 subsection 3.87.070A, *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 subsection 3.87.070B, *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 fifth two-year review of the administrative costs, and enrollment and payment records for members purchasing health insurance through the Municipality as required by AMC subsection 3.87.070B. Specifically, we evaluated trust administrative costs incurred from October 2016 to September 2018, and reviewed enrollment and payment records.

We conducted this performance 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 September through October 2018.

**Overall Evaluation.** Based on our review, Program operations generally complied with AMC chapter 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 713000, Police and Fire Retirees Medical Expendable Trust (Fund), from October 2016 through September 2018, appeared reasonable. However, the Controller Division staff had not made journal entries in the Municipality's financial system (SAP) to record Fund activities, for both 2018 expenditures and 2018 revenues. Furthermore, although the Employee Relations (ER) Department provided to the Police and Fire Retiree Medical Trust (Trust) members the municipal insurance premium rates, these rates were not calculated as required by AMC subsection 3.87.050E.

## FINDINGS AND RECOMMENDATIONS

### 1. **SAP Journal Entries Not Entered.**

- a. **Finding.** The Controller Division staff had not made journal entries in SAP to record Fund activities, for both 2018 expenditures and 2018 revenues. Although the Trust's Plan Administrator provided bank statements to the Controller Division for the Fund's 2018 activities, staff did not make any journal entries in SAP to record the Fund's activities. As a result, SAP had outdated information for the Fund. According to Controller Division staff, they did not make the journal entries because they were still working on the Municipality's 2017 Comprehensive Annual Financial Report. Accounting activities should be recorded in SAP in a timely manner to ensure that decision makers have the most up-to-date information.
- b. **Recommendation.** The Controller should ensure that journal entries for the Fund's activities are entered into SAP in a timely manner.
- c. **Management Comments.** Management stated, "Concur. Unfortunately due to the conversion of the Financial Software System from PeopleSoft to SAP on October 1, 2017, all efforts and staff time were devoted to the completion of tasks related to the



completion of the 2017 Comprehensive Annual Financial Report. This included preparing and posting 2017 journal entries. All journal entries related to fiscal year 2017 have been completed, entered and posted. Staff is now preparing, completing, and posting the SAP Journal Entries for 2018. In the future, the Controller will make every effort to ensure the journal entries are entered timely in SAP.”

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

2. **Insurance Premium Rate Not Properly Calculated.**

- a. **Finding.** Although the ER Department provided to the Trust members the municipal insurance premium rates, these rates were not calculated as required by AMC subsection 3.87.050E. Anchorage Municipal Code subsection 3.87.050E states that “In the event that either public safety bargaining unit is removed, or removes itself, from the municipal insurance plan, the active insurance premium rate charged to members will be a rate computed as if the active group continued to participate in the municipal insurance plan.” In 2016, the International Association of Firefighters Local 1264 (IAFF) stopped participating in the municipal insurance plan. On July 25, 2016, the Program Trust Board of Trustees (Board) Chair sent a letter to ER requesting that “. . . the Administration provide the rate calculation for the 2016 MOA Insurance premium as if the active firefighter group was still participating in the municipal insurance plan.” The letter also requested that “. . . the insurance rate calculation be provided on an annual basis.” However, ER did not send the adjusted rate calculation to the Board because the rate could not be computed without the IAFF claims information. Employee Relations Department management asked the IAFF several times for the claims information; however, the IAFF has never responded to ER’s request.

- b. **Recommendation.** The ER Director should consider revising AMC subsection 3.87.050E since the requirement to compute the active insurance premium may not be achievable.
- c. **Management Comments.** Management (ER Department) stated, “Concur. Employee Relations has a working draft of our proposed changes to AMC 3.87.050E. A meeting is scheduled on January 8, 2019, with the Legal Department to ensure the proposed language is acceptable. Employee Relations plans to submit the proposed ordinance change to the Assembly during the first quarter of 2019 after meeting with the Police and Fire Retiree Medical Trust’s Board.”

Management (Board) stated, “The legislated benefit for the funding of retiree medical coverage makes this program a part of a public retirement system. Under the Alaska Constitution, legislated public retirement systems are cloaked with a constitutional protection for the retirement system against diminishment or impairment of the benefits.

“As the Alaska Supreme Court has decided in the cases Hammond v. Hoffbeck and Sheffield v. Alaska State Employees Association, when a person becomes employed under a retirement system's benefits program, those retirement benefits may not legally be reduced without some corresponding benefit increase. The retiree medical funding program is subject to these limitations.

“The trustees of the Municipality of Anchorage Retiree Medical Funding Program Trust For Police Officers and Firefighters opposes any change in legislation, removing the requirement that the active insurance premium rate charged to members will be a rate computed as if the active group continued to participate in the municipal insurance plan.”



- d. **Evaluation of Management Comments.** Employee Relations was responsive to the audit finding and recommendation. Although this finding and recommendation was not directed to the Board, they also submitted a response and asked that it be attached to this finding and recommendation. Their response stated that they are opposed to any changes to AMC subsection 3.87.050E, even if benefits are not diminished or impaired, or even increased. In our opinion, the Board may be limiting itself to possible solutions to the problem identified in this finding.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on November 13 and November 15, 2018.

Audit Staff:  
Scott Lee