

# Risk Management Audit and Other Fund Updates

December 4, 2012

# Introduction

- The city administers three funds for purposes of self-insurance. Those funds are:
    - Risk Management Trust Fund (RMTF) established (Ordinance #1254 – 1983)
    - Workers' Compensation Trust Fund (WCTF) established (Ordinance #1826 – 1994)
    - Employee Benefits Fund (2000)
  
  - Past Administrative Practices
  
  - Modifications to Administrative Practices
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# Audit Item #1

- Observation – “Over \$3.2M was transferred out of the RMTF in fiscal year (FY)10 to pay for the unfunded ASRS pension liability...”
  - Action – Procedures to be established to ensure approvals are obtained before transfers are made in consultation with the City Attorney's Office.
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# Audit Item #1 (continued)

- RMTF met required confidence level funding for the past five fiscal years.
  - Based on confidence levels, the fund balance is appropriate – no action required for additional funding in current FY.
  - 55% confidence level funding currently met based on Government Accounting Standards Board (GASB) standards.
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# Audit Item #2

- Observation – “In FY11 and FY12 transfers of \$1.45M and \$1.2M made out of RMTF respectively to the WCTF which did not receive budgeted premiums of \$985,920 in FY10.”
- Action – Discontinue practice of transfers between the two funds.
  - Establish emergency transfer process with City Attorney’s Office should funding fall below confidence levels (55%)
  - Board of Trustees to review proposed transfers prior to processing w/ recommendation to CC

# Audit Item #2 (continued)

- In FY 10, the WCTF fund balance fell to slightly below the recommended confidence level. Corrected in FY 11 w/ transfer from RMTF.
- The trust board (May 2010) and City Council (Nov 2010) were informed of budgeted premium not paid via FY 10 annual report.
  - "...because of the city's budget challenges, the WCTF did not receive its budgeted \$984,944 from department premiums."

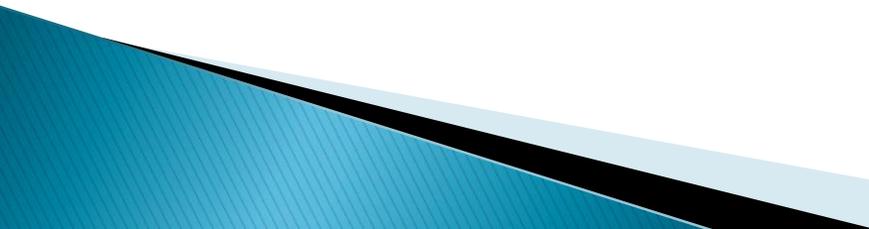
# Audit Item #6

- Observation – “Risk Management’s agreement for residential and commercial claims repair services did not go before the City Council and controls over the administration of the agreement need to be strengthened.”
  - Action – Seek bids for new contract on claims repair services according to city procurement processes.
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# Audit Item #7

- Observation – “Salaries and other administrative expenses were paid out of the RMTF in FY2011 / 12 and this is not allowed under the ordinance.”
  - Action – Discontinue paying salaries from RMTF.
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# Audit Item #7 (continued)

- General Fund (GF) to repay RMTF \$490K for FY11 and FY12 salary expenses.
  - Three FTE's to move from the RMTF to GF to be paid with savings from vacant GF positions.
  - Information about future actions to be brought forward as informational item at December 11, 2012 voting meeting.
  - This additional GF expense will be addressed in mid-year expenditure reductions.
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# Audit Item #9

- Observation – “It is unclear as to whether a separate external audit of the RMTF is required to be performed annually.”
- Action – Annual external financial audit includes all funds of the city including the RMTF
  - Board of Trustees recommends an additional audit be conducted every 5 years
  - Staff will bring recommendation to Council for discussion along with estimated costs.

# Audit Item #11

- Observation – “Risk Management’s Agreement for insurance broker services does not include five of the six types of insurance purchased by the city and the term of the agreement is inconsistent with the RFP.”
- Action – Addendum to broker services agreement has been completed to correct the terms of the agreement. In addition, all solicitation documents will be incorporated into future contracts.

# Other Related Items

- Future actions to be brought forward as informational item at Dec 11, 2012, voting mtg
  - Adjust workers' compensation premiums by approximately \$1.2M (GF \$758K) to meet 55% confidence funding level at end of CY 2012.
  - Discontinue 2008 authorization to draw down Employee Benefits Fund balance by \$1M annually.
  - Both to be funded by mid-year expenditure reductions.
  - Resolution to request ability to continue workers' compensation self-insurance

# Other Related Items (contd)

- ▶ Council direction regarding Employee Benefits Fund
  - Adoption of ordinance
  - Creation of oversight board
  - Setting appropriate fund balance confidence level

Questions?