




CITY AUDITOR'S OFFICE

TO: President Lt. Mark Muerth, International Association of Fire Fighters (IAFF)

FROM: Andrea R. Russell, City Auditor 

DATE: May 14, 2021

SUBJECT: Health Insurance Trust (HIT) Account transaction review

On December 23, 2020, IAFF President Muerth, requested further review of the HIT account activity after the City Auditor's review completed on December 21, 2020 - Fire Health Insurance Trust Status Inquiry. In the initial review completed December 21st, we looked at the methodology and calculations for re-entry into the City's health insurance plan.

Background

The HIT account was established to fund health benefits for active and retired firefighters. The account is managed by executive members of the IAFF (International Association of Fire Fighters), and administrative staff. In 2018, health insurance was provided by Cigna and was a hybrid plan that required monthly deposits to fund the plan in addition to monthly invoiced amounts. In 2019, the provider was changed to United Healthcare (United) and remained with United until the IAFF came back into the City's health insurance plan, Florida Blue. Once the switch to United occurred, funding deposits were no longer necessary as the plan was no longer a hybrid plan.

In accordance with the IAFF Collective Bargaining Agreement (CBA), effective 10/1/2015-9/30/2018, Article 19 Health Insurance,

The parties agree to include an allocation of \$196,531 of budgeted funds that were not expended in this agreement, and intend to utilize said funds for the reenrollment into the City's sponsored health insurance and intend to create and establish a Voluntary Employee Beneficiary Association (VEBA).

The VEBA funds were deposited into the HIT account in May 2018, were never invested and remain in the HIT account through the date of this memo. Funds for monthly premiums that are withheld from active employees' paychecks are wired from the City. Funds for retired members are either withheld from pension checks and wired to the account or are remitted via personal check and deposited. Any differences in premium amounts are either billed by IAFF admin staff to the member or refunded to the members

if an overpayment exists. Changes to plans, such as adding dependents, are processed through Human Resources benefits or Bentek.

According to the Trust agreement certain administrative expenses are allowable. IAFF utilizes the Gehring Group and trust attorneys to assist with the administration of the plan as well as the services of an accountant and bookkeeper. See table below for selected expenses from the HIT account for 2018, 2019 and 2020.

Type of Expense	2018 Amounts	2019 Amounts	2020 Amounts
Premium Payments Cigna	\$ 625,469.87	\$ 125,310.43	-
United	-	\$ 2,788,879.33	\$ 3,551,448.73
Citi Funding	\$ 2,341,977.83	-	-
Payroll	\$ 15,161.58	\$ 16,246.24	\$ 13,708.61
Gehring	\$ 70,583.37	\$ 83,416.71	\$ 64,166.70
Rent	\$ 4,905.00	\$ 4,360.00	\$ 5,995.00
Payroll Taxes	\$ 4,621.30	\$ 4,482.84	\$ 4,454.16
Total	\$ 3,062,718.95	\$ 3,022,695.55	\$ 3,639,773.20

Objective

The objective of the review was to examine monthly premium and reimbursements in the HIT account, to determine if there is a balance owed to or from the HIT account for current employee and retiree premiums. In addition, as part of the review, we looked at the supporting documentation and allowability of expenses in comparison to the Trust agreement as well as adherence to the requirements of the Trust agreement.

Scope and Methodology

We determined the scope for the review would be for calendar years 2018 through 2020 due to turnover in both the Human Resources and Financial Services Departments and the availability of data and staff to address questions. We interviewed the individual who maintained the books for the IAFF and the IAFF Treasurer to gain an understanding of the processes they followed. We also interviewed the Human Resources Benefits Coordinator, Deana Watson, and the Acting Payroll Supervisor, Penny Faulkner, to understand the process on the City's side. We reviewed the bank statements and premium invoices for the period to gain an understanding of the expenses processed through the account and determine if there were any outstanding liabilities. Finally, we selected check and debit card transactions to review in comparison to the Trust agreement for allowability.

Results

For the period reviewed, we noted all payments due to the providers were made and agreed to invoiced amounts. Discrepancies between invoiced amounts and amounts withheld from pension checks, paychecks or checks remitted, resulted from timing differences based on when changes were received and processed by the City or the healthcare providers. There doesn't appear to be a balance owed to the City or the HIT account.

In general, expenses paid from the HIT account can be categorized into benefits or administrative. We noted several instances where payments made to certain vendors did not appear to be allowable according to Trust documents. We also noted some purchases made, using the HIT debit card in error, that were not related to the HIT account at all. It is important to note that these payments were reimbursed with IAFF General Operating funds.

Overall, record keeping needs improvement to properly support expenses and provide a clear audit trail. In addition, it appears that Trust funds could have been spent more efficiently. More than \$292,000 was spent during the scope period (2018-2020) on payroll, payroll taxes, IAFF facility rent and Third-Party administration (Gehring Group). Finally, we noted instances of non-compliance with certain terms of the Trust agreement, including annual audits and filing of non-profit paperwork. Due to difficulties with the accountant retained by IAFF the audits were not performed, and the non-profit IRS forms had not been filed as of the dates of this review.

The tables below summarize the exceptions to test attributes for check and debit card transactions in the HIT account for the scope period, and include:

- Missing, and/or insufficient support attached (i.e. reimbursements did not have reports or benefits change notices to support amounts)
- Unallowable expenses based on lack of support or non-compliance with Trust agreement

	2018			2019				2020		
Checks	Total Sample	Total Exceptions	Exception Percentage	Total Sample	Total Exceptions		Exception Percentage	Total Sample	Total Exceptions	Exception Percentage
Supporting Documentation NOT present	12	9	75%	5	2		40%	7	2	29%
Support if attached NOT sufficient	4	3	75%	3	3		100%	5	3	60%
Expense is not allowable per the trust documents	12	1	8%	5	1	(a)	20%	7	0	0%

(a)- Unable to determine if expense was allowable based on the documentation provided or documentation not available

	2018				2019				2020			
Debit/POS	Total Sample	Total Exceptions		Exception Percentage	Total Sample	Total Exceptions		Exception Percentage	Total Sample	Total Exceptions		Exception Percentage
Supporting Documentation NOT present	6	4		67%	8	2		25%	1	1		100%
Support if attached NOT sufficient	2	0		0%	6	3		50%	0	0		0%
Expense is not allowable per the trust documents	6	6	(a)	100%	8	8	(a) for 4	100%	1	1	(a) for 1	100%

(a)- Unable to determine if expense was allowable based on the documentation provided or documentation not available

Overall Conclusion

The administration of the HIT fund could use improvement. Discrepancies or issues, such as documentation must be addressed in a timely manner when information is current and available, in order to provide for appropriate documentation and resolution when necessary.

Observation¹ and Recommendation

Condition

IAFF established a HIT account to accumulate funds and pay for member health insurance. Terms for the Trust, such as administration and allowable disbursements, are included in the Trust document. Overall, IAFF administration of the HIT needs improvement.

We noted expenses that didn't appear to be allowable according to the Trust documents, including erroneous expenditures not related to the Trust at all, as well as expenditures for Wellness Fairs that, although reimbursed, were not expressly stated in the document nor were they provided to us. HIT funds in excess of \$7,000 were spent in 2018 and 2019, on items such as TV's, Apple watches, gift cards and FitBits, to be given away to members at the Wellness Fairs.

We also found documentation for reimbursement to members was missing or did not provide enough detail to appropriately support expenses. For example, due to timing differences, member's premiums could change from family to single and the incorrect premium would be withheld from their check. Excess funds would be returned as appropriate; however, the documentation to explain the reason for return was often just a memo with no support to demonstrate the error in the transaction, or when the change from family to single was made in the system or communicated to the City's Human Resources Department.

Monthly, the bookkeeper would receive several checks for premium payments for those retired members who did not have health insurance withheld from their pension checks. We noted payment from some members for monthly premiums were more than two months late. There are no documented policies for members who pay cash for premiums.

IRS 990 reports, required for tax exempt organizations, were not filed with the IRS and no audits, as required by the Trust agreement, were conducted for the scope period due to difficulties and miscommunication with the CPA engaged to perform these duties.

Funds for the VEBA were deposited into the HIT account in May 2018 and utilized to pay monthly premium and other expenses until the IAFF came back to the City's Health Plan and currently remain in the HIT account. No separate fund was established for the VEBA

¹ Because this was not an audit, we will not report any findings and recommendations; however, based on our review we noted several areas for improvement for Trust administration we felt would be helpful going forward, should the IAFF administer Trust funds in the future. We have included the observation to help the IAFF with any further Trust funds they may establish.

and no amount was invested to provide for additional funding to continue to pay for health insurance.

Criteria

Section V of the HIT agreement describes duties and allowable expenses, investment of funds, member reimbursement, and the establishment of a Welfare Plan required for administration of the fund.

Article V, Section 18 of the Trust document states, "records and books shall be audited at least annually by a certified public accountant."

Article 40, Section 1 of the CBA for 10/1/2015- 9/30/2018, stated that the IAFF was to receive funds from the City to establish a VEBA. The funds of which were to be used for "reenrollment into the City's sponsored health insurance and intend to create and establish a Voluntary Employee Beneficiary Association (VEBA)."

Cause

- Non-compliance with Trust document and CBA
- Administrator unfamiliarity with Trust requirements
- Lack of policies and procedures
- No monitoring

Effect

- Potential unallowable expenses
- Potential loss of tax-exempt status (failure to file form 990 for three consecutive tax years)

Recommendation

The IAFF should establish clear plans, including detailed policies and procedures, that define roles and responsibilities for proper administration of Trust accounts and adhere to the terms of the Trust for any future Trusts established by the IAFF.

President's Response

Mark Muerth provided the following response:

First and foremost, I would like to thank Andrea Russell and the team in the City Auditor's Office for this assistance. As stated earlier in the document, I engaged the City Auditor for assistance. Having returned to the Board of Trustees in 2019 and taking over as Chairman in 2020, I wanted to ensure, with some level of certainty, that when the Firefighters moved back into the City's Health Insurance Plan that there were no outstanding monies owed in either direction.

During her review she also noted several other observations that I believe require a response, and what actions we should consider in the future if we continue to move forward operating this or another VEBA. Before I outline the additional observations, I

would like to say that we are in fact satisfied with the Auditor's findings regarding any outstanding payment to or from the CCPFF Health Insurance Trust with the City.

With respect to the following other observations:

1. ...expenses that didn't appear to be allowable according to the Trust Documents, including erroneous not related to the Trust at all. It is our understanding through our professional consultant, Gehring and our Trust attorney, that the Trust does permit such expenses related to enhancing the Health and Wellness of members. We do acknowledge that more documentation should have been available highlighting the program and that portions of these expenses were reimbursable from the Health Insurance Companies.

In addition, the erroneous expenditures were made by mistake and reimbursed by the IAFF General Operating Account. These mistakes were made by using the incorrect debit/credit card while traveling. The Trust must adopt a different method in the future whereby debit/credit cards will not be readily available, unless for Trust related travel or expenses.

2. ...documentation for reimbursement to members was missing or did not provide enough detail to appropriately support expenses. I agree that these corrections should be better demonstrated through documentation and communication with the City any time a member makes changes to their plan.

3. IRS 990 reports, required for tax exempt organizations, were not filed with the IRS and no audits, as required by the Trust agreement, were conducted for the scope period... This particular observation was the most alarming for me. While the Trust does engage with a professional accountant, clearly there was not enough oversight. Although we have already implemented a change in accountant services, we will need to adopt other changes to prevent this in the future.

Overall, I am pleased that we took measures to have the City Auditor review our performance and make several observations and recommendations for improvement, should we continue to operate a Trust in the future.

Mark Muerth, President

C: Mayor Gunter and Council
Rob Hernandez, City Manager
Connie Barron, Assistant City Manager
Dolores Menendez, City Attorney
Kimberly Bruns, City Clerk
Ryan Lamb, Fire Chief
Audit Committee