



*The City of New York  
Office of the Comptroller  
Bureau of Financial Audit*

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**WILLIAM C. THOMPSON, JR.**  
*Comptroller*

**Audit Report  
on the Financial and Operating Practices  
of the Detectives Endowment Association  
Health Benefits Fund—Retirees**

**FL02-086A**

*June 24, 2002*

*The City of New York City  
Office of the Comptroller  
Bureau of Financial Audit*

**Audit Report on the  
Financial and Operating Practices of the  
Detective Endowment Association Health  
Benefits Fund—Retirees**

**FL02-086A**

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**EXECUTIVE SUMMARY**

**Background**

The Detectives Endowment Association Health Benefits Fund—Retirees (Retiree Fund) was established on March 1, 1979, under the provisions of a Fund Agreement between the City of New York and the Detectives Endowment Association (the Union), and a Declaration of Trust, to provide health and welfare benefits to all retired New York City detectives and their dependents.

According to the Retiree Fund's Fiscal Year 1999 financial statements, it had approximately \$7.1 million in revenues and \$7.7 million in expenses. As of December 31, 1999, the Retiree Fund reported net assets of \$3,724,888.

**Objectives, Scope, and Methodology**

Our audit objective was to determine whether the Retiree Fund complied with applicable procedures and reporting requirements, as set forth in Comptroller's Directive #12, as well as its own benefit processing and accounting procedures.

To achieve our audit objective, we reviewed the Retiree Fund's fiscal and operating practices for the period January 1, 1999, to December 31, 1999. We interviewed the Retiree Fund's Administrator and Certified Public Accountant, and reviewed the Retiree Fund's Trust Agreements. We prepared a flowchart of the Fund's contribution and benefit processing procedures to document our understanding of these procedures and of internal controls in place. In addition, we reconciled the Retiree Fund's financial statements with its trial balance, its cash receipts and cash disbursement journals, and other related documentation to determine whether all revenues and expenses

were properly recorded. Finally, we performed tests of the Retiree Fund's benefit payments to determine whether only eligible members and their dependants received benefits from the Retiree Fund.

## **Results in Brief**

Overall, the Retiree Fund generally complied with the procedures and reporting requirements of Comptroller's Directive #12, as well as its own accounting procedures. In addition, the Retiree Fund had adequate internal controls over the processing and reporting of contributions received and benefit and administrative expenses paid. Specifically:

- All City contributions were accounted for and deposited in the Retiree Fund's bank account in a timely manner.
- Expenses were accurately recorded in the Retiree Fund's trial balance and cash disbursements journal.
- The Retiree Fund had adequate supporting documentation for most of the expenses paid.
- Checks had the appropriate authorizations and signatures.

However, there were some weaknesses in the Retiree Fund's financial and operating practices. Specifically:

- The Retiree Fund made improper benefit payments totaling \$785.24. The improper payments included \$367 for optical services without supporting documentation and a catastrophic claim that exceeded Retiree Fund guidelines.
- The Retiree Fund paid the Union \$17,878 for its share of undocumented and questionable expenses or for expenses not related to Retiree Fund business. Some of the Retiree Fund's administrative expenses, such as telephone, postage, supplies, and equipment maintenance, are allocated between the Union, the Retiree Fund, the Active Fund, and the Annuity Fund. During Fiscal Year 1999, the Union allocated expenses totaling \$228,287, of which the Retiree Fund paid 20 percent or \$45,657. However, the Union did not document \$45,393 of these expenses, it made questionable payments totaling \$16,330, and it included in the allocated amount \$27,670 in expenses not related to Retiree Fund business. Consequently, we question \$89,393 of the \$228,287 in allocated expenses, which resulted in an excess payment of \$17,878.
- The Retiree Fund did not verify the eligibility of members' dependents. The Retiree Fund does not require that its members submit records, such as marriage or birth certificates, that document the eligibility of their dependents. Lack of such documentation prevents the Retiree Fund from ensuring that benefits are provided only to eligible individuals.

- The Retiree Fund does not maintain adequate control over its timekeeping function. The Retiree Fund does not require its employees to record daily attendance. Consequently, we could not confirm whether Retiree Fund employees were paid for hours actually worked.

The Retiree Fund's trustees should:

- Ensure that benefits are paid in accordance with the Retiree Fund's guidelines.
- Recoup the \$17,878 it overpaid the Union for allocated expenses.
- Ensure that it pays for Union-allocated expenses related only to Retiree Fund business.
- Obtain and maintain copies of all documentation showing the eligibility of dependents.
- Maintain daily attendance records for all Retiree Fund employees.

## **Fund Response**

The matters covered in this report were discussed with Retiree Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Retiree Fund officials and discussed at an exit conference on May 20, 2002. On May 29, 2002, we submitted a draft report to Retiree Fund officials with a request for comments. We received a written response from the Fund Manager on June 12, 2002.

The Fund Manager did not specifically address our recommendations to follow Fund benefit guidelines, to recoup overpayments from the Union, and to ensure that the Fund pays only for expenses related to Fund business. However, she agreed that two of the 17 claims cited in the report were paid in error. The Fund Manager further stated that the Fund would receive a credit from its health insurance company for six claims if the individuals were found to be ineligible. She also stated that the Fund found documentation supporting seven of the nine remaining claims cited in the report. In addition, she stated that although the Fund may have paid for certain expenses that were questioned by the audit, "the overall allocation methodology . . . results in a very inexpensive office." The Fund Manager also stated that she believes that daily attendance records are not necessary. Finally, the Fund Manager stated that the Fund is obtaining information on members' dependents and spouses, as recommended in the report.

The full text of the Fund response is included as an addendum to this report.

*The City of New York  
Office of the Comptroller  
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**Audit Report  
on the Financial and Operating Practices  
of the Detectives Endowment Association  
Health Benefits Fund - Retirees**

**FL02-086A**

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**INTRODUCTION**

**Background**

The Detectives Endowment Association Health Benefits Fund - Retirees (Retiree Fund) was established on March 1, 1979, under the provisions of a Fund Agreement between the City of New York and the Detectives Endowment Association (the Union), and a Declaration of Trust, to provide health and welfare benefits to all retired New York City detectives and their dependents.

Table I, following, shows the benefits that were available and the amounts paid for these benefits for the Retiree Fund's 6,212<sup>1</sup> members during Fiscal Year 1999—our audit period.

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<sup>1</sup>According to the Trustee's Representation Letter, the Retiree Fund had 6,212 members in 1999.

**TABLE I**  
Retiree Fund Benefits, Fiscal Year 1999

<b>Benefit</b>	<b>Amount</b>	<b>Coverage</b>
Prescription Drugs	\$4,774,189	This benefit, which is administered by National Prescription Administrators, Inc., entitles members and their dependents up to \$11,000 in prescription drug coverage per year. Eligible members and dependents are required to make a co-payment of \$5 or 20 percent, whichever is greater, for each prescription. In addition, members are entitled to a 100 percent reimbursement, less a \$5 co-payment for syringe prescriptions.
Dental	\$1,660,219	Each member selects either an insured or self-insured plan. <sup>a</sup> If the member selects the insured plan, Dentcare Delivery Systems bills the Fund \$25.95 per month per member to provide benefits to the member and member dependents. If the member selects the self-insured plan, the member is reimbursed by the Retiree Fund's third party administrator, Healthplex, Inc., based on a fee schedule.
Hospitalization	\$371,023	The Retiree Fund pays Blue Cross-Blue Shield to cover members and eligible dependents for up to 365 days in the hospital.
Optical	\$142,940	Members and eligible dependents are entitled to an eye examination and prescription eyeglasses once a year from participating opticians. If a non-participating optician is used, the member is entitled to reimbursement based on the fee schedule used by the participating opticians.
Catastrophic	\$110,360	<u>Catastrophic Rider</u> For Group Health Insurance (GHI) members only. Members are entitled to reimbursement of costs associated with surgery, anesthesia, chemotherapy, and radiation therapy. This benefit is subject to a \$4,000 annual deductible. In addition, members are reimbursed for any expenses not covered by GHI that exceed the \$4,000 deductible. <u>Catastrophic Deductible</u> Members and eligible dependents are entitled to reimbursement of \$3,000 of GHI's \$4,000 deductible.
Death	\$110,000	Beneficiaries receive \$2,000 for members who retired between 1/1/71 and 8/31/83.
Appliances	\$33,903	For HIP members only. Members are entitled to reimbursements for durable medical equipment, prosthetic devices, and orthopedic devices, according to a HIP fee schedule.

<b>Benefit</b>	<b>Amount</b>	<b>Coverage</b>
Hearing Aid	\$14,700	Members and eligible dependents are entitled to a maximum reimbursement of \$600 for hearing aids every four years.
Medical Co-pay Refund	\$12,470	For GHI and HIP members only. Members and eligible dependents are entitled to a refund of a \$5 co-payment for each doctor's visit to a maximum of 15 visits per year.

<sup>a</sup> For insured benefits, the Retiree Fund pays a premium to an insurance company to provide covered benefits to members. For self-insured benefits, the Retiree Fund directly provides covered benefits through a third-party administrator rather than through an insurance company.

During Fiscal Year 1999, the Retiree Fund provided benefits through contracts with: National Prescription Administrators, Inc. (for prescription drugs); Dentcare Delivery Systems and Healthplex, Inc. (for dental); New County Optical, General Vision Services, Vision Screening, National Optical Services, Comprehensive Professional Systems, Eyeglass Service Industries (for optical); Blue Cross Blue Shield (for hospitalization); and. HIP (for private duty nursing and medical appliances).

As of December 31, 1999, the Retiree Fund reported net assets of \$6,638,059. Table II, following, summarizes the Retiree Fund's audited financial data, as reported by the Retiree Fund, for the years ending December 31, 1998, and December 31, 1999.

**TABLE II**

Summary of the Retiree Fund's Reported  
Revenues and Expenses

	<u>1998</u>	<u>% of Total Revenue</u>	<u>1999</u>	<u>% of Total Revenue</u>
Employer's Contributions	\$6,014,555	93.60 %	\$6,831,397	95.23 %
COBRA	68,991	1.09 %	76,530	1.07 %
Investment/other Income	<u>275,486</u>	<u>4.33 %</u>	<u>265,460</u>	<u>3.70 %</u>
Total Revenue	\$6,359,032	100.00 %	\$7,173,387	100.00 %
Benefit Expenses	8,798,487	138.36 %	7,528,769	104.95 %
Administrative Expenses	217,165	3.42 %	223,374	3.11 %
Total Expenses	\$9,015,652	141.78 %	\$7,752,143	108.07 %
Excess (Deficiency) of Revenue	(\$2,656,620)		(\$578,756)	
Net Active Fund Assets:				
Fund Balance (Beginning of Year)	6,960,264		4,303,644	
Fund Balance (End of Year)	<u>\$4,303,644</u>		<u>\$3,724,888</u>	

## **Objective**

Our audit objective was to determine whether the Retiree Fund<sup>2</sup> complied with applicable procedures and reporting requirements, as set forth in Comptroller's Directive #12, as well as its own benefit processing and accounting procedures. Specifically, we:

- determined the adequacy and effectiveness of the Retiree Fund's internal controls related to processing and reporting contributions received, and benefit and administrative expenses paid;
- assessed the Retiree Fund's adherence to its benefit payment guidelines; and
- evaluated the propriety and reasonableness of the Retiree Fund's administrative expenses.

## **Scope and Methodology**

To achieve our audit objectives, we reviewed the Retiree Fund's fiscal and operating practices for the period January 1, 1999, to December 31, 1999. We obtained the Retiree Fund's Directive #12 filings with the Comptroller's Office, which included its financial statement, federal tax return, and other required schedules. Directive #12 establishes uniform reporting and auditing requirements for City-funded employee benefit plans. To determine whether the Retiree Fund complied with the significant terms and conditions of Directive #12, we verified whether the Retiree Fund filed:

- an annual CPA report prepared on the accrual basis of accounting, and
- Internal Revenue Service Form 990.

We interviewed the Retiree Fund's Administrator and Certified Public Accountant, and reviewed the Retiree Fund's Trust Agreements. We prepared a flowchart of the Retiree Fund's contribution and benefit processing procedures to document our understanding of these procedures and internal controls. In addition, we reconciled the Retiree Fund's certified financial statements with its trial balance, its cash receipts and cash disbursement journals, and other related documentation to determine whether all revenues and expenses were properly recorded.

Specifically, we traced revenue amounts for the audit period from City payment vouchers and copies of checks to the Retiree Fund's cash receipts journal and bank deposit slips to determine whether the Retiree Fund accurately reported and deposited its contributions.

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<sup>2</sup> We are also conducting a separate audit—Audit #FL02-085A—of the Detective Endowment Association Health Benefits Fund (Active Fund). The results of that audit will be covered in a separate report.

We also traced \$187,165 (83.79%) of the \$223,374 in administrative expenses from the cash disbursement journals to supporting documentation, which included vendor invoices, expense allocation reports, and payroll records, to determine whether these expenditures were properly recorded, reasonable, and appropriate. We also compared the percentage of revenue spent by the Retiree Fund on administrative and benefit expenses to other funds with total revenues of a similar size, to determine whether the Retiree Fund's expenses were in line with funds of a similar size.

In addition, we performed the following tests of the Retiree Fund's benefit payments to determine whether only eligible members and their dependants received benefits from the Retiree Fund:

- Prescription Drugs Benefit: To determine whether payments made to National Prescription Administrators, Inc. (NPA), the Retiree Fund's third party administrator, were for eligible members and their dependents, we traced 100 claims listed on NPA's October 1999 Utilization Reports to the Retiree Fund database. For instances in which a member's spouse or child received benefits, we verified that a marriage certificate, child's birth certificate, or other proof of dependency was on file.
- Dental Benefits: For self-insured dental benefits, we traced 50 dental claims processed by Healthplex Inc. (Healthplex), the Retiree Fund's third party administrator from Healthplex's Claim Check Register to the Retiree Fund database to verify member eligibility. We also verified whether the reimbursements were correct and did not exceed the amounts specified in the Retiree Fund fee schedule. For instances in which a member's spouse or child received benefits, we verified that a marriage certificate, child's birth certificate, or other proof of dependency was on file. For insured dental benefits, we traced 100 members listed on the May 1999 billing invoices from, Dencare Delivery Systems (Dencare), the Retiree Fund's insurance company, to the Retiree Fund database to verify member eligibility.
- Optical Benefit: We reviewed 529 optical vouchers processed during September 1999 by New County Optical, General Vision Services, Vision Screening, National Optical Services, Comprehensive Professional Systems, and Eyeglass Service Industries, (the Retiree Fund's optical providers). Specifically, we traced the users listed on the invoices from each optical provider to the Retiree Fund database to verify eligibility of members and dependents. We also verified whether the reimbursements were correct and did not exceed the amounts specified in the Retiree Fund fee schedule. For instances in which a member's spouse or child received benefits, we verified that a marriage certificate, child's birth certificate, or other proof of dependency was on file.
- Catastrophic Deductible: To determine whether members and their dependants were eligible for reimbursements, we traced all 19 payments listed on the Retiree Fund's

Check register to the amounts listed on the Retiree Fund Database. We also reviewed GHI invoices to verify whether the members were entitled to the reimbursements. For instances in which a member's spouse or child received benefits, we verified that a marriage certificate or child's birth certificate was on file.

- Death Benefit: We traced twelve payments listed on the Retiree Fund's check register to the Retiree Fund database to confirm eligibility. We also verified whether death certificates were on file to support the payments.
- Appliances Benefit: We traced 402 individuals listed on the August 1999 billing invoices to the Retiree Fund database to confirm eligibility.
- Hearing Aid Benefits: We reviewed 14 of 30 Hearing Aid claims paid during Fiscal Year 1999. We traced recipient names to the Retiree Fund database to verify eligibility. We also verified whether the reimbursements were in accordance with the Retiree Fund's fee schedule.
- Medical Co-payment Refund: We reviewed 13 payments listed on the Retiree Fund's check register to the Retiree Fund database to confirm eligibility. We also verified whether proper documentation, such as invoices and canceled checks, was on file to support the payments.

We reviewed the Retiree Fund's bank statements for January, February, and March 1999 to verify the accuracy of the Retiree Fund's bank reconciliations and to account for all checks paid, outstanding, and voided.

To verify the accuracy of employee time and leave balances, we reviewed timekeeping records for all Retiree Fund employees.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of records and other auditing procedures considered necessary. The audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

## **Fund Response**

The matters covered in this report were discussed with Retiree Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Retiree Fund officials and discussed at an exit conference on May 20, 2002. On May 29, 2002, we submitted a draft report to Retiree Fund officials with a request for comments. We received a written response from the Fund Manager on June 12, 2002.

The Fund Manager did not specifically address our recommendations to follow Fund benefit guidelines, to recoup overpayments from the Union, and to ensure that the Fund pays only for expenses related to Fund business. However, she agreed that two of the 17 claims

cited in the report were paid in error. The Fund Manager further stated that the Fund would receive a credit from its health insurance company for six claims if the individuals were found to be ineligible. She also stated that the Fund found documentation supporting seven of the nine remaining claims cited in the report. In addition, she stated that although the Fund may have paid for certain expenses that were questioned by the audit, “the overall allocation methodology . . . results in a very inexpensive office.” The Fund Manager also stated that she believes that daily attendance records are not necessary. Finally, the Fund Manager stated that the Fund is obtaining information on members’ dependents and spouses, as recommended in the report.

The full text of the Fund response is included as an addendum to this report.

**OFFICE OF THE COMPTROLLER  
NEW YORK CITY**

**DATE FILED: *June 24, 2002***

## FINDINGS AND RECOMMENDATIONS

The Retiree Fund generally complied with the procedures and reporting requirements of Comptroller's Directive #12, as well as with its own accounting procedures. In addition, the Retiree Fund had adequate internal controls over the processing and reporting of contributions received and benefit and administrative expenses paid. Specifically:

- All City contributions were accounted for and deposited in the Retiree Fund's bank account in a timely manner.
- Expenses were accurately recorded in the Retiree Fund's trial balance and cash disbursements journal.
- The Retiree Fund had adequate supporting documentation for most of the expenses paid.
- Checks had the appropriate authorizations and signatures.

However, there were some weaknesses in the Retiree Fund's financial and operating practices. Specifically:

- The Retiree Fund made improper benefit payments totaling \$785.24. The improper payments included \$367 for optical services without supporting documentation and a catastrophic claim that exceeded Retiree Fund guidelines.
- The Retiree Fund paid the Union \$17,878 for its share of undocumented and questionable expenses or for expenses not related to Retiree Fund business. Some of the Retiree Fund's administrative expenses, such as telephone, postage, supplies, and equipment maintenance, are allocated between the Union, the Retiree Fund, the Active Fund, and the Annuity Fund. During Fiscal Year 1999, the Union allocated expenses totaling \$228,287 of which the Retiree Fund paid 20 percent or \$45,657. However, the Union did not document \$45,393 of these expenses, it made questionable payments totaling \$16,330, and it included in the allocated amount \$27,670 in expenses not related to Retiree Fund business. Consequently, we question \$89,393 of the \$228,287 in allocated expenses, which resulted in an excess payment of \$17,878.
- The Retiree Fund did not verify the eligibility of members' dependents. The Retiree Fund does not require that its members submit records, such as marriage or birth certificates, that document the eligibility of their dependents. Lack of such documentation prevents the Retiree Fund from ensuring that benefits are provided only to eligible individuals.

- The Retiree Fund does not maintain adequate control over its timekeeping function. The Retiree Fund does not require its employees to record daily attendance. Consequently, we could not confirm whether Retiree Fund employees were paid for hours actually worked.

### **Improper Benefit Payments**

The Retiree Fund made improper benefit payments totaling \$795.24. Of the 1,289 claims reviewed, we found 18 instances in which the Retiree Fund paid for benefits that were not in accordance with its guidelines. Specifically, the Retiree Fund:

- overpaid a member on a catastrophic claim by \$225.
- reimbursed \$367.50 to nine members for optical benefits without having supporting documentation.
- overpaid \$32.50 to an optical provider for duplicate services provided to a member.
- paid \$160.24 to HIP on behalf of six individuals who were not members of the Retiree Fund.

### **Questionable Payments to the Union**

The Retiree Fund reimbursed the Union \$45,657 for its share of expenses that are allocated between the Union (50 percent), the Retiree Fund (20 percent), the Detectives Endowment Association Health Benefits Fund for active employees (20 percent), and the Detectives Endowment Association Annuity Fund (10 percent). Our review indicated, however, that the Retiree Fund should have paid the Union only \$27,779—a difference of \$17,878—since certain of the expenses were undocumented, questionable, or not related to the Retiree Fund. Specifically:

- The Union's ledger reflected only \$182,894 in the allocated expense account rather than the \$228,287 that was allocated between the funds and the Union. Therefore, the Retiree Fund paid the Union \$9,079 ( $\$228,287 - \$182,894 \times 20$  percent) for expenses that were not documented.
- The Union's allocated expense account included \$16,330 for payments made to DOM Printing in Hudson, Florida. The Retiree Fund paid \$3,266 of this expense. According to the invoices, DOM billed the Union on 16 invoices dated from June 22, 1999, to December 10, 1999. We question the validity of these invoices because of their numbering sequence, because each invoice appears to be written by the same person, and because we could not find a telephone listing for this business. With regard to the numbering sequence, we find it strange that DOM issued only 24 invoices over a period of approximately six months. In addition, as shown in Table III, following, no invoices were issued overextended periods of time. For example,

from August 30, 1999, to September 7, 1999, no invoices were issued. As another example, from September 7, 1999, to September 24, 1999, no invoices were issued. And finally, from September 28, 1999, to November 1, 1999, only one invoice was issued.

**TABLE III**  
Invoices Issued by DOM Printing

Invoice Number	Invoice Date	Amount
54364	6/22/99	\$197.09
54365	6/28/99	\$838.50
54368	7/26/99	\$46.00
54370	8/02/99	\$1,149.00
54371	8/03/99	\$2,237.50
54374	8/30/99	\$2,312.60
54375	9/07/99	\$314.28
54376	9/07/99	\$1,058.06
54377	9/07/99	\$151.09
54378	9/24/99	\$46.00
54380	9/28/99	\$2,038.50
54382	11/01/99	\$423.22
54383	11/11/99	\$3,205.13
54384	11/16/99	\$846.45
54385	11/30/99	\$394.18
54387	12/10/99	\$1,072.00

Even if these invoices represent legitimate expenses, most of the items listed were related to Union activities such as business cards for non-Fund employees, Union letterhead, and “dues slips,” which should not be allocated to the Fund.

- The allocated expense account included \$15,271 for the printing of posters and certificates not used by the Retiree Fund and \$12,399 for cellular telephone bills for individuals who are not trustees or employees of the Retiree Fund. Since these expenses are not related to Retiree Fund business, they should not be included as allocated expenses. As a result, the Retiree Fund paid the Union \$5,534 (\$15,271 + \$12,399 x 20 percent) for expenses not related to the operation of the Retiree Fund.

**The Retiree Fund Did Not Verify Eligibility of Members’ Dependents**

The Retiree Fund does not require that its members submit documentation, such as marriage or birth certificates, before processing benefits for members’ dependents. Requiring such documentation would help ensure that benefits are provided only to eligible members.

## **The Retiree Fund Does Not Maintain Employee Attendance Records**

The Retiree Fund does not maintain employee attendance records detailing the employees' time-in and time-out and employee absence or lateness to be charged against earned vacation or sick leave. Consequently, we could not confirm whether employees were paid for hours they actually worked.

Daily attendance records are necessary for effective payroll control because these records form the basis for the calculations of the amounts to be paid to employees. They are also necessary to settle payroll disputes and, at times, to establish the validity of injury and disability claims.

### **Recommendations**

The Retiree Fund should:

1. Ensure that benefits are paid in accordance with the Retiree Fund's guidelines.

**Fund Response:** The Fund did not specifically address Recommendation #1. However, the Fund Manager agreed that two of the 17 claims cited in the report were paid in error and stated that the Fund would receive a credit from HIP for six claims if it is found that the individuals were not eligible members. The Fund Manager further stated that the Fund found documentation supporting seven of the nine remaining claims.

**Auditor Comment:** We reviewed the additional documentation referred to in the Fund's response and found that it did not include invoices from optical providers or other acceptable documentation to support payments.

2. Recoup the \$17,878 it overpaid the Union for allocated expenses.
3. Ensure that it pays for allocated expenses related only to Retiree Fund business.

**Fund Response:** The Fund's response did not specifically address Recommendations #2 and #3. However, the Fund stated that "it is the Trustees' position that although your audit revealed expenses that may have been based on unsubstantiated estimates and for certain expenses that may be more Union than Fund related, the overall allocation methodology used for the Funds results in a very inexpensive office and overhead cost for the Funds that is much less than the fair market value of an office facility in lower Manhattan."

**Auditor Comment:** Although the Trustees may believe that the allocation methodology results in a "very inexpensive office," we still maintain that the

Fund should not pay for expenses that are undocumented, questionable, or related to Union business.

4. Obtain and maintain copies of all documentation showing the eligibility of dependents.

**Fund Response:** “In 1979 the DEA Funds split from the PBA Funds and received from the PBA a report of all eligible participants and dependents. Duplication of the documents was not requested since the records existed at the PBA office. Documents were obtained for any dependent added after that date. The Plan is currently in the process of obtaining all necessary information on dependents and participants of the members that were previously in the PBA Fund.”

5. Maintain daily attendance records for all Retiree Fund employees.

**Fund Response:** “Attendance records **are** [emphasis in original] kept by the Fund’s Administrator on her wall calendar with any and all days missed recorded. In addition, the current administrator maintains records of vacation, sick and personnel days permitted and used on individual time cards. Because it is also the Fund’s policy to treat all employees as responsible adults and due to the long and abuse free tenure of each employee, the Fund believes that a time clock or sign-in sheet is not necessary.”

**Auditor Comment:** The records maintained by the Fund Administrator do show the days that employees are not present. However, the Fund does not maintain employee attendance records detailing employees’ time-in and time-out. In addition, on the days when the Fund Administrator is not in attendance, the Fund has no system to ensure that employee absences are recorded. Therefore, we maintain our position that daily attendance records are important to ensure that Fund employees are paid only for hours they actually work.





RETIREES' HEALTH BENEFITS FUND  
OF THE  
DETECTIVES' ENDOWMENT ASSOCIATION, INC.  
POLICE DEPARTMENT • CITY OF NEW YORK

26 Thomas Street, New York, NY 10007 • 212-587-9120

TRUSTEES

THOMAS J. SCOTTO  
JOHN J. HEALY  
MICHAEL J. PALLADINO  
VICTOR R. CIPULLO  
PAUL DIGIACOMO

FUND MANAGER

SHARON ROBERTSON

June 12, 2002

The City of New York  
Office of the Comptroller  
Bureau of Audits  
1 Centre Street, Room 1100  
New York, New York 10007-2341

Reference: Audit Report on the Financial and Operating Practices of the  
Detectives Endowment Association Health Benefits Fund – Retirees, Case FL02-086A

Dear Sir/Madam:

The following are in response to findings and recommendations contained in the above-referenced report:

o Improper Benefit payments.

- ✓ Paid \$225.00 overpayment on catastrophic benefit – There was an addition error by the claims processor. The finding is correct.
- ✓ Paid \$367.50 to nine participants without proper documentation – The Fund, as a policy, does not pay benefits without confirming the proper documentation. Seven documents have been located since the Fund was informed of which participants you could not locate information for. Those records are available for inspection. The documents associated with the others must have been misfiled.
- ✓ Paid \$32.50 overpayment to optical provider for duplicate services – Member stated certificate was never received. The Fund issued a new certificate in response. Both certificates were eventually received and used by the participant. The member was notified of the overpayment and given the option of reimbursing the Fund or losing eligibility for the coverage for two years rather than the normal one year. The member chose the latter.
- ✓ Paid \$160.24 to HIP for six individuals that were not participants in the Fund – The City of New York provides HIP with the list of eligible Detectives and the Fund is billed accordingly. The Detectives Fund and the City periodically review this list. For all individuals listed that are not Detectives the Fund receives a credit on a later bill.

o Questionable Payments to the Union.

The Fund reimbursed the Union for its applicable share of common expenses in accordance with its adopted policy. The Union and the Fund are not on the same annual fiscal year. The Fund has a fiscal year ending December 31 and the Union has a fiscal year that ends on June 30. Since the Union does not close its books and records at December 31 the allocation of expenses charged to the Funds are based on estimates, not on actual account totals. In addition the allocation of expenses has been limited to only telephone, postage, printing, supplies and equipment rental and maintenance. The percentage of these items charged to the Funds is based on historical averages. Although there may be items paid in these accounts that are specific to one organization or the other, it is the Trustees' opinion that in the aggregate the expenses are fairly allocated.

The Trustees would like to note that the Funds are located in offices that occupy most of the first floor in a building owned by the Union. The Union does not charge the Funds rent nor are the Funds charged an allocation of utilities, cleaning, or security costs, nor were any of the costs for capital improvements and renovations of the Funds' offices, or the cost of the furniture and fixtures contained in those offices ever charged to the Funds. Rent alone at \$25 per square foot would result in an expense to the Funds of \$40,000 (25 x 4,000 square feet @ 40%).



**Questionable Payments to the Union (continued).**

In summary it is the Trustees' position that although your audit revealed expenses that may have been based on unsubstantiated estimates and for certain expenses that may be more Union than Fund related, the overall allocation methodology used for the Funds results in a very inexpensive office and overhead cost for the Funds that is much less than the fair market value of an office facility in lower Manhattan.

o **The Fund Did Not Verify Eligibility of Employees' Dependents.**

In 1979 the DEA Funds split from the PBA Funds and received from the PBA a report of all eligible participants and dependents. Duplication of the documents was not requested since the records existed at the PBA office. Documents were obtained for any dependent added after that date. The Plan is currently in the process of obtaining all necessary information on dependents and participants of the members that were previously in the PBA Fund.

o **The Fund does not maintain employee attendance records.**

Attendance records are kept by the Fund's Administrator on her wall calendar with any and all days missed recorded. In addition the current administrator maintains records of vacation, sick and personnel days permitted and used on individual time cards. Because it is also the Fund's policy to treat all employees as responsible adults and due to the long and abuse free tenure of each employee, the Fund believes that a time clock or sign-in sheet is not necessary.

Very truly yours,



Sharon Robertson,  
Fund Manager

cc Thomas J. Scott, Trustee