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

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Audit Report on the Financial and Operating Practices of the Communication Workers Association Local 1182 Security Benefits Fund

FL02-083A

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EXECUTIVE SUMMARY

Background

The Communication Workers of America Local 1182 Security Benefits Fund (the Fund) was established on May 12, 1969, under the provisions of a Fund Agreement between the City of New York and Local 1182, Communications Workers of America (the Union), and a Declaration of Trust, to provide health and welfare benefits to eligible New York City employees and retirees in the following titles:

- Parking Enforcement Agent
- Sanitation Enforcement Agent
- Traffic Enforcement Agent

According to the Fund's Fiscal Year 2000 financial statements, it had approximately $2.3 million in revenues and $2.1 million in expenses. As of June 30, 2000, the Fund reported net assets of $1,315,567.

Objectives, Scope and Methodology

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

To achieve our audit objectives, we reviewed the Fund's fiscal and operating practices for the period July 1, 1999, to June 30, 2000. We interviewed the Fund Administrator and the Certified Public Accountant, and reviewed the 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 internal controls in place. In addition, we reconciled the 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 Fund's benefit payments to determine whether only eligible members and their dependants received benefits from the Fund.

Results in Brief

Overall, the 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 Fund had adequate internal controls over the processing and reporting of contributions received and of benefit and administrative expenses paid. Specifically:

- All City contributions were accounted for and deposited in the Fund's bank account in a timely manner.

- Expenses were accurately recorded in the Fund's trial balance and cash disbursements journal.

- The 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 Fund's financial and operating practices. Specifically:

- The Fund spent a larger percentage of its revenues on administrative expenses compared to other funds with total revenues of a similar size. Specifically, the Fund spent 14.75 percent of its total revenue on administrative expenses, while similarly-sized funds spent on average of just 7.69 percent. Since a welfare fund's basic objective is to provide benefits to members, it is important that administrative costs are kept to a minimum.

- The Fund slightly misstated benefit and administrative expenses on its financial statements and its Directive #12 filing. The Fund's Directive #12 filing for Fiscal Year 2000 did not accurately report benefit and administrative expenses. Administrative expenses were understated by

$19,655, or six percent of total reported administrative expenses, and benefit expenses were overstated by the same amount, which represented 1 percent of total reported benefit expenses.

- The Fund paid $6,874 in questionable expenses. The Fund made inappropriate payments to a Trustee and to the Fund Administrator, and paid Christmas bonuses to its employees.

- The Union owes the Fund $11,327. According to the Fund's financial statements, the amount owed pertains to rent, postage, and insurance expenses that should have been paid by the Union.

- The Fund did not properly allocate rent charges for office space shared by the Union and the Fund. For Fiscal Years 1999 through 2001, the Fund paid $21,120 in rent that should have been charged to the Union.

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

Consequently, our report recommends that the Fund's trustees should:

- Strive to provide benefits to its members in an efficient and economical manner by bringing administrative costs more in line with those of other funds with total revenues of similar size.

- Ensure that revenues and expenses are recorded on its financial statements, in accordance with Comptroller's Directive #12.

- Recoup $2,408 in questionable travel-related expenses from the Fund Trustee and Fund Administrator.

- Discontinue its practice of paying Christmas bonuses to its employees.

- Collect $11,327 from the Union.

- Revise the space-sharing agreement to account for the Union's share of hallway space and common building space in the calculation of rent.

- Maintain daily attendance records for all Fund employees.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the 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 in this report were discussed with Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Fund officials and discussed at an exit conference held on April 3, 2002. On April 12, 2002, we submitted a draft report to Fund officials with a request for comments. We received a written response from the Fund Administrator on April 25, 2002.

The Fund's response did not specifically address the audit's recommendations. In her response, the Fund Administrator stated that she did not agree that the Fund spent a larger percentage of its revenues on administrative expenses compared to other funds, that the Fund paid questionable expenses totaling $6,874, that the Fund paid a disproportionate share of the rent, and that the Fund should maintain sign-in/sign-out records for employees. The Fund Administrator stated, however, that measures have been taken to collect the remaining amount owed by the Union, and that administrative and benefit expenses will be accurately reported on the Fund's financial statements and Directive #12 filings in the future.

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Local 1182 Security Benefits Fund

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INTRODUCTION

Background

The Communication Workers of America Local 1182 Security Benefits Fund (the Fund) was established on May 12, 1969, under the provisions of a Fund Agreement between the City of New York and Local 1182, Communications Workers of America (the Union), and a Declaration of Trust, to provide health and welfare benefits to eligible New York City employees and retirees in the following titles:

- Parking Enforcement Agent
- Sanitation Enforcement Agent
- Traffic Enforcement Agent

Table I, following, shows the benefits that were available and the amounts paid for these benefits for the Fund's 1,544[1] members during Fiscal Year 2000—our audit period.

[1]Approximate number of City employed participants at the end of Fiscal Year 2000. Number varies during the year because of new hires, retirements, suspensions, etc.

TABLE I

Fund Benefits, Fiscal Year 2000

Benefit	Amount	Coverage
Dental	$567,563	Each member selects either an insured or self-insured plan.[2] If the member selects the insured plan, J.V. Lane Professional Corp. bills the Fund $26.50 per month per member to provide benefits to the member and dependents. If the member selects the self-insured plan, the member is reimbursed by the Fund's third party administrator, American Medical Insurance, based on a schedule of allowances. Maximum reimbursement is $1,000 per person per year.
Prescription Drugs	$704,065	This benefit, which is administered by General Prescription Programs Inc., entitles members and their dependents up to $3,000 in prescription drug coverage. Eligible members and dependents are required to make a co-payment of $3 for each generic prescription and $8 for each brand name prescription.
Optical	$168,003	Member and eligible dependents (19 or under) are each entitled once every plan year to prescription eyeglasses, contact lenses, and eye examinations at participating opticians. Spouse is entitled to the same benefit once every two years.
Legal	$282,508	Provided through a separate Legal Services Fund for each member, spouse, and eligible dependents. Services include preparation of simple wills, estate administration and proceedings, bankruptcies, adoptions, real estate transactions, and landlord tenant proceedings.
Disability	$128,653	Members are eligible to receive $125 per week for up to 26 weeks if they are disabled as the result of an illness or injury.
Podiatry	$50	Only members are eligible for reimbursements up to $15 per podiatry visit. Maximum reimbursement of three visits is allowed per year.
Death	$50,505	Term Life Insurance provided through First Unum Life and Aetna US Healthcare in the amount of $10,000 per member.

During Fiscal Year 2000, the Fund provided benefits through contracts with General Prescription Programs (for prescription drugs), American Medical Insurance and J.V. Lane Professional (for dental), General Vision Services (for optical), and the law firm of Fagenson & Puglisi, P.C. (for legal services).

[2] For insured benefits, the Fund pays a premium to an insurance company to provide covered benefits to members. For self-insured benefits, the Fund directly provides covered benefits through a third-party administrator rather than through an insurance company.

As of June 30, 2000, the Fund reported net assets of $1,315,567. Table II, following, summarizes the Fund's audited financial data, as reported by the Fund, for the years ended June 30, 1999, and June 30, 2000.

TABLE II

Summary of the Fund's Reported
Revenues and Expenses

	1999	% of Total Revenue	2000	% of Total Revenue
Employer's Contributions	$1,790,257	98.14%	$2,262,496	96.82%
COBRA	4,648	0.25%	9,367	0.40%
Investment/other Income	29,358	1.61%	64,890	2.78%
Total Revenue	1,824,263	100%	$2,336,753	100%
Benefit Expenses	1,860,092	101.96%	1,836,854	78.61%
Administrative Expenses	330,961	18.14%	344,641	14.75%
Total Expenses	$2,191,053	120.10%	$2,181,495	93.36%
Excess (Deficiency) of Revenue	$(366,790)		$155,258	
Net Active Fund Assets:				
Fund Balance (Beginning of Year)	1,479,160		1,160,309	
Prior Period Adjustment	47,939		0	
Fund Balance (End of Year)	$1,160,309		$1,315,567	

Objective

Our audit objective was to determine whether the 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. Specifically, we:

- determined the adequacy and effectiveness of the Fund's internal controls related to processing and reporting contributions received, and benefit and administrative expenses paid;

- assessed the Fund's adherence to its benefit payment guidelines; and

- evaluated the propriety and reasonableness of the Fund's administrative expenses.

Scope and Methodology

To achieve our audit objectives, we reviewed the Fund's fiscal and operating practices for the period July 1, 1999, to June 30, 2000. We obtained the Fund's Directive #12 filings with the Comptroller's Office, which include 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 Fund complied with the significant terms and conditions of Directive #12, we verified that the Fund filed:

- an annual CPA report prepared on the accrual basis of accounting, and

- Internal Revenue Service Form 990.

We interviewed the Fund's Administrator and Certified Public Accountant, and reviewed the 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 internal controls in place. In addition, we reconciled the 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 Fund's cash receipts journal and bank deposit slips to ascertain whether the Fund accurately reported its contributions.

We also traced $285,592 (83%) of the $344,641 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 Fund on administrative expenses to other funds with total revenues of a similar size, to determine whether the Fund's administrative expenses were in line with funds of a similar size.

To determine whether only eligible dependents are receiving benefits, we sampled 74 of the 1,544 members' files to see whether these files contained documentation of dependency in the form of marriage and birth certificates.

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

- <u>Prescription Drugs Benefit</u>: To determine whether payments made to General Prescription Plan (GPP), the Fund's third party administrator, were for eligible members and their dependents, we traced 2,722 claims listed on GPP's Claims Submission Report to the Fund database. In instances where a member's spouse or child received benefits, we verified that a marriage certificate or child's birth certificate was on file.

- Dental Benefits: For self-insured dental benefits, we traced 136 dental claims processed by American Medical Insurance, Inc. (American), the Fund's third party administrator from American's Claim Utilization Reports, to the Fund database to verify member eligibility. For insured dental benefits, we traced 103 claims listed on two billing invoices from J.V. Lane Professional, the Fund's insurance company, to the Fund database for member eligibility. In instances where a member's spouse or child received benefits, we verified that a marriage certificate or child's birth certificate was on file.

- Optical Benefit: We reviewed 194 optical vouchers processed by General Vision Services (GVS), the Fund's optical provider, during September 1999 and February 2000. Specifically, we traced the users listed on GVS' invoices to the Fund database to verify eligibility of members and dependents. We also verified that the reimbursements were correct and that they did not exceed the amounts specified in the Fund fee schedule. In instances where a member's spouse or child received benefits, we verified that a marriage certificate or child's birth certificate was on file.

- Legal Benefit: We traced the names of 439 individuals that Fagenson & Puglisi, the Fund's legal services provider, claimed used legal benefits during the audit period to the Fund database to verify their eligibility for this benefit.

- Life Insurance Benefit: To determine whether premium payments made to First Unum Life and Aetna US Healthcare, the Fund's accidental death benefit providers, were for eligible members and their dependents, we compared the number of members reported on the companies' premium invoices to the number of members listed on the Fund's monthly contribution reports from New York City from July 1, 1999, to June 30, 2000. Note: neither First Unum Life nor Aetna US Healthcare made payments on behalf of Fund members during the audit period.

- Disability Benefits: We traced 26 members listed on the Fund's June 2000 check register to the Fund database to determine member eligibility. We also verified that the payments did not exceed the 26-week limit imposed by the Fund.

- Podiatry Benefits: We reviewed the three podiatry claims paid during Fiscal Year 2000. We traced the recipients' names to the Fund database to verify eligibility of the members. We also verified that the reimbursements were correct and that they did not exceed the number of visits allowed by the Fund.

We also reviewed the Fund's bank statements for March 2001 to verify the accuracy of the Fund's bank reconciliation and to account for all checks paid, outstanding, and voided.

To verify the accuracy of employee time and leave balances, we reviewed available leave records of the three Fund employees for the audit period. We also verified whether all days recorded on the employees' leave records reconciled with the days reported on the payroll register.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the 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 in this report were discussed with Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Fund officials and discussed at an exit conference held on April 3, 2002. On April 12, 2002, we submitted a draft report to Fund officials with a request for comments. We received a written response from the Fund Administrator on April 25, 2002.

The Fund's response did not specifically address the audit's recommendations. In her response, the Fund Administrator stated that she did not agree that the Fund spent a larger percentage of its revenues on administrative expenses compared to other funds, that the Fund paid questionable expenses totaling $6,874, that the Fund paid a disproportionate share of rent expense, and that the Fund should to maintain sign-in/sign-out records for employees. The Fund Administrator stated, however, that measures have been taken to collect the remaining amount owed by the Union, and that administrative and benefit expenses will be accurately reported on the Fund's financial statements and Directive #12 filings in the future.

FINDINGS AND RECOMMENDATIONS

The Fund generally complied with the procedures and reporting requirements of Comptroller's Directive #12, as well as its own accounting procedures. In addition, the 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 Fund's bank account in a timely manner.
- Expenses were accurately recorded in the Fund's trial balance and cash disbursements journal.
- The 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 Fund's financial and operating practices. Specifically:

- <u>The Fund spent a larger percentage of its revenues on administrative expenses compared to other funds with total revenues of a similar size.</u> Specifically, the Fund spent 14.75 percent of its total revenue on administrative expenses, while similarly-sized funds spent on average of just 7.69 percent. Since a welfare fund's basic objective is to provide benefits to members, it is important that administrative costs are kept to a minimum.
- <u>The Fund slightly misstated benefit and administrative expenses on its financial statements and its Directive #12 filing.</u> The Fund's Directive #12 filing for Fiscal Year 2000 did not accurately report benefit and administrative expenses. Administrative expenses were understated by $19,655, or six percent of total reported administrative expenses, and benefit expenses were overstated by the same amount, which represented 1 percent of total reported benefit expenses.
- <u>The Fund paid $6,874 in questionable expenses.</u> The Fund made inappropriate payments to a Trustee and to the Fund Administrator, and paid Christmas bonuses to its employees.
- <u>The Union owes the Fund $11,327.</u> According to the Fund's financial statements, the amount owed pertains to rent, postage, and insurance expenses that should have been paid for by the Union. .
- <u>The Fund did not properly allocate rent charges for office space shared by the Union and the Fund.</u> For Fiscal Years 1999 through 2001, the Fund paid $21,120 in rent that should have been charged to the Union.

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

The Fund Spent a Larger Percentage of Its Revenues on Administrative Expenses, Compared to Similarly-Sized Funds

The Fund spent a significantly larger percentage of its total revenue on administrative expenses when compared to other funds with total revenues of a similar size.[3] As shown in Table III, below, during Fiscal Year 2000, the Fund spent 14.75 percent of its total revenue on administrative expenses while the similarly-sized funds spent an average of only 7.69 percent.

Table III
Comparison of Administrative Expenses
Between the Fund and Other Similarly-Sized Funds for Fiscal Year 2000

BENEFIT FUND	TOTAL REVENUE	TOTAL ADMIN. EXP.	ADMIN. EXP / TOTAL REV.
Local 1182 Communication Workers of America Security Benefits Fund	$2,336,753	$344,641	14.75%
Local 3 IBEW Electricians Welfare Fund	1,668,862	89,412	5.36%
Local 721 Licensed Practical Nurses Welfare Fund	1,837,279	268,776	14.63%
Local 891 School Custodians & Custodian Engineers Welfare Fund	1,971,611	187,264	9.50%
Local 854 Uniformed Fire Officers Assoc. Welfare Fund	2,859,144	150,257	5.26%
Superior Officers Council (Police) Welfare Fund	2,863,660	137,999	4.82%
Local 444 Sanitation Officers Retiree Welfare Fund	3,071,723	201,518	6.56%
Total (Excluding Local 1182)	**$14,272,279**	**$1,035,226**	**7.69%**
Average	**$2,378,713**	**$172,538**	**7.69%**

As indicated above, only the Local 721 Licensed Practical Nurses Welfare Fund spent approximately the same percentage of its total revenue on administrative expenses as the Fund. The remaining six funds spent significantly less. These funds spent between 4.82 percent and 9.5 percent of their total revenues on administrative expenses. Given the fact that the Fund's mission is to provide benefits for its members, the Fund should attempt to bring its administrative expenses more in line with funds of a similar size.

[3] As of December 31, 2001, six other funds submitted financial statements to the New York City Comptroller's Office (in accordance with Comptroller's Directive #12) showing that they had revenue of between $1.6 and $3.0 million in Fiscal Year 2000.

The Fund Misstated Benefit and Administrative Expenses On Its Financial Statements and Its Directive #12 Filing

The Fund did not accurately report benefit and administrative expenses for Fiscal Year 2000 on its financial statements and its Directive #12 filing. Administrative expenses were understated by $19,655, or six percent of total reported administrative expenses, and benefit expenses were overstated by the same amount, representing 1 percent of total reported benefit expenses.

The misclassified costs pertained to health benefits provided to the Fund's administrative support staff, not to covered members. Therefore, the amounts should have been classified as administrative expenses, in accordance with Directive #12. It is important that the Fund accurately report its revenue and expenses so that the City can properly assess its financial activities.

Questionable Expenses

The Fund made $6,874 in questionable payments to a Trustee, to the Fund Administrator, and to the Fund's other administrative staff. Specifically, the Fund paid $2,061 to the Trustee for questionable travel-related expenses, and it paid $347 to the Fund Administrator for questionable travel-related expenses and $1,222 as a Christmas bonus. The remaining $3,244 was paid to the Fund's two other employees for Christmas bonuses.

The questionable payments to the Trustee were made purportedly to reimburse him for expenses incurred in connection with two out-of-town education conferences. For one of these conferences—a six-day seminar held in Miami, Florida—the Fund paid the Trustee $1,533 for his daily expenses.[4] However, based on the documentation provided, we question $1,335 of the amount paid, as follows:

- $630 in payments to the Trustee for which no documentation was provided. This amount included $441 in advances paid to the Trustee and $189 for a meal for which no receipt or other documentation was provided.

- $373 for golf fees paid for two individuals at the Doral Golf Pro Shop. The Trustee indicated on his expense voucher that this expense was for dinner for him and three other individuals. However, the receipt submitted was for golf fees at a time when the Trustee was supposed to be attending the conference.

- $304 for which the Trustee had receipts but for which the amounts claimed exceeded the $63 per day limit allowed by the Fund's travel policy.

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[4] Daily expenses include meals, local travel, and incidentals for which the Fund's travel policy allows up to $63 a day. It does not include hotel, airfare, car rentals, and conference costs.

- $17 for an "in-room dining charge" that was paid for by the Fund as part of the hotel bill and paid to the Trustee as part of his expense voucher reimbursement.

- $11 for a "movie charge," which is not reimbursable according to the Fund's travel policy.

For the other conference—a six-day conference in Fort Lauderdale, Florida— the Fund paid the Trustee $900 for his daily expenses. However, based on the documentation provided, we question $726 of the amount paid, as follows:

- $441 advanced to the Trustee for which no documentation of the amount spent was provided.

- $168 for which the Trustee had receipts, but for which the amounts claimed exceeded the $63 per day limit allowed by the Fund's travel policy.

- $117 for alcoholic beverages.

The questionable payments to the Fund Administrator were made purportedly to reimburse her for expenses incurred in connection with an out-of-town six-day education conference held in Orlando, Florida. In connection with this trip, the Fund paid $582 consisting of $378 in advances and $204 in charge bills. However, based on the documentation provided, we question $347 of the amount paid, as follows:

- $300 in payments for which no documentation was provided.

- $10 in payments for which the Fund Administrator had receipts, but for which the amounts claimed exceeded the $63 per day limit allowed by the Fund's travel policy.

- $37 in entertainment charges, which are not reimbursable according to the Fund's travel policy.

Finally, we question the $4,466 in Christmas bonuses paid to the Fund's employees. Directive #12 states that funds should ensure that City contributions are spent appropriately by restricting their use to only expenditures and programs that directly or indirectly benefit fund members. We fail to see how this type of expense conforms to Directive #12.

The Union Owes the Fund $11,327

According to the Fund's financial statements, the Union owes the Fund $11,327 for rent, insurance, and postage costs. These charges have been carried on the financial statements since 1998. Fund officials could not explain why the Union has not repaid the Fund for these expenses.

The Fund Pays a Disproportionate Share of Rent Expense

The Fund did not properly allocate rent charges for office space shared by the Union and the Fund. On June 16, 1998, the Fund entered into a lease agreement with Cord Meyer Development LLC to rent "Suite No. 3" on the seventh floor at 108-18 Queens Boulevard, Queens N.Y. According to the lease agreement, the rented space includes 2,560 square feet of space—1,670 square feet within the suite (including 391 square feet of hallway and conference room space) and 890 square feet of common building space.

On July 6, 1998, the Fund entered into an agreement with the Union to share the office space and related rent charges. The agreement requires that the Union pay 39.645 percent of the rent. In return, the Union was to receive access to the common areas of the facility as well as to a portion of the space dedicated to Union activities.

The Fund inaccurately calculated the Union's share of rent. The Union occupies 645 square feet (50.43 percent) and the Fund occupies 634 (49.57 percent) of the 1,279 square feet of dedicated space within the suite. The remaining 391 square feet, representing the conference room and the hallway, is shared between the Fund and the Union. However, under the Fund's calculation, the Union was not charged for its share of the hallway space within the suite and the common building space. Consequently, for Fiscal Years 1999 through 2001, the Fund paid $21,120 in rent that should have been charged to the Union.

The Fund Does Not Maintain Employee Attendance Records

The Fund does not maintain employee attendance records detailing the time-in and time-out and 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 employees. They are also necessary to settle payroll disputes and, at times, to establish the validity of injury and disability claims.

Recommendations

The Fund should:

1. Strive to provide benefits to its members in an efficient and economical manner by bringing administrative costs more in line with those of other funds with total revenues of similar size.

Fund Response: In her response, the Fund Administrator stated:

"The Funds listed in the Comptrollers report for comparative purposes do not accurately compare similar operations. All organizations listed have offices that administer multiple Funds, except for the Local 721 Licensed Practical Nurses Welfare Fund and Local 891 IUOE Welfare Fund. There are certain fixed costs that all Funds must incur regardless of size. For a smaller fund these expenses represent a larger portion of revenues than for a larger fund. When multiple funds share the same office, these fixed costs are spread over all the Funds thereby reducing the ratio of expense to revenue. Upon information and belief, the Local 891 Fund does not have an office or employ professional staff but, rather, has the work done by volunteer union members. The only Fund listed in the report that is truly similar (an office that administers a single benefit plan), the Local 721 Licensed Practical Nurses Welfare Fund, had an almost identical administrative expense to revenue ratio."

Auditor Comment: We agree that the other funds to which the Fund is compared have alternative ways of providing services to their members that result in lower administrative costs. This does not preclude the Fund, however, from taking steps to reduce its administrative costs. For example, the Fund can easily reduce its administrative costs by discontinuing its practice of paying bonuses, by ensuring that the Union pays its fair share of rent, and by ensuring that only appropriate travel expenses are paid.

2. Ensure that revenues and expenses are recorded on its financial statements, in accordance with Comptroller's Directive #12.

   Fund Response: In her response, the Fund Administrator stated:

   "This criticism is accurate. The trial balance program used to create both the Fund's Financial Statements and Directive 12 Key Ratio Schedules contained an account assignment error. This had already been corrected in the following year."

3. Recoup $2,408 in questionable travel-related expenses from the Fund Trustee and Fund Administrator.

   Fund Response: In her response, the Fund Administrator stated with regard to the Trustee's questionable expenses:

   "It is the Fund's position that receipts are not required for the daily allowance. . . . While reviewing the Fund's travel policy statement it was noted by the Trustees that the statement . . . was not consistent with what the Trustees intended to be a permissible expense. Specifically, the Fund always intended to reimburse attendees at conferences for expenses at the daily per diem rate plus certain other entertainment expenses provided a valid business purpose is proven. This will be 'formalized' by the Board of Trustees at the next meeting where the enclosed 'revised' travel policy statement will be adopted. In addition, and consistent with Federal law, the Fund does not require documentation for any expense covered by the daily per diem rate. Lastly, the report questioned golf fees listed on the expense voucher as dinner. The administrator made the misclassification of the expense in error, not the Trustee. In addition, the time indicated on the invoice was not during any conference class as indicated in your report, which was incorrect. Mr. Kenneth Cook, an administrator of the Educational Conference has verified this to the Fund's auditor."

In her response, the Fund Administrator stated with regard to her own questionable expenses:

"It is the Fund's position that receipts are not required for the daily allowance (see above). In addition $105 of the $582 paid to the Administrator was for special travel arrangements made for her due to an injury sustained at the conference. The above-mentioned changes to the Fund's Travel Policy will make these expenses fully permissible."

Auditor Comment: Although it is within the Fund's prerogative to change its travel policies, clearly the Trustee did not follow the Fund's policy that was in effect at the time of the conference. Specifically, the policy stated that "the Trustees shall be reimbursed . . . for only their actual and necessary expenses that are reasonably and directly related to the performance of their responsibilities as Trustees. The Trustees must make a good faith effort to minimize the cost to the Fund of travel expenses." In addition, under that policy, receipts for all expenses over $10 were required in order for an individual to be reimbursed. Furthermore, under the policy, "entertainment" was not reimbursable. We fail to see how spending more than the daily allowance, charging golf fees and other entertainment expenses to the Fund, receiving duplicate reimbursements and reimbursements for alcoholic beverages are "necessary expenses that are reasonably and directly related to the performance of their responsibilities as Trustees."

4. Discontinue its practice of paying Christmas bonuses to its employees.

Fund Response: In her response, the Fund Administrator stated:

"It is the Fund's position that a bonus is employee compensation that is in no way inappropriate. In fact it is the Fund's belief that limiting pay raises and giving bonuses when 'earned' is an effective way of encouraging attendance and effort by its employees. The Fund determines bonuses annually in conjunction with a review of each employee."

5. Collect $11,327 from the Union.

   Fund Response: In her response, the Fund Administrator stated that "the Fund has been actively pursuing the Union in order to collect these charges. As of the date of this letter all but $7,327 of this amount has been collected."

6. Revise the space-sharing agreement to account for the Union's share of hallway space and common building space in the calculation of rent.

   Fund Response: In her response, the Fund Administrator stated:

   "The Fund's sub-lease agreement with the Union was prepared by the Fund's attorney and contemplated all appropriate items. It is the Fund's position that the allocation is appropriate, having been arrived at by a prior Auditor of the Fund, and no adjustment is required."

   Auditor Comment: We do not agree with the Fund's position that the Union is paying its appropriate share for leased space. Having the Union pay its fair share of rent would be another way for the Fund to reduce its high administrative expenses.

7. Maintain daily attendance records for all Fund employees.

   Fund Response: In her response, the Fund Administrator stated:

   "Attendance records **are** [emphasis in original] kept by the Fund's Administrator in her diary with any and all days missed recorded. In addition, this diary contains the record of vacation, sick and personnel days permitted and used. These very records were presented to the Comptroller's Auditor. 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 Trustees and Administrator do not believe that a time clock or sign-in sheet is 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 was not in attendance, the Fund had no system to ensure that employee absences were 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.

Communications Workers of America
Communications Workers of America Local 1182 Security Benefits Fund

Theresa Ferzola, *Administrator*

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April 25, 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 Communications Workers of America Local 1182 Security Benefits Fund FL02-083A

Dear Sir/Madam:

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

- **The Fund spent a larger percentage of its revenues on administrative expenses compared to other Funds of similar size.**

  The Funds listed in the Comptrollers report for comparative purposes do not accurately compare similar operations. All organizations listed have offices that administer multiple Funds, except for the Local 721 Licensed Practical Nurses Welfare Fund and Local 891 IUOE Welfare Fund. There are certain fixed costs that all Funds must incur regardless of size. For a smaller fund these expenses represent a larger portion of revenues than for a larger fund. When multiple funds share the same office, these fixed costs are spread over all the Funds thereby reducing the ratio of expense to revenue. Upon information and belief, the Local 891 Fund does not have an office or employ professional staff but, rather, has the work done by volunteer union members. The only Fund listed in the report that is truly similar (an office that administers a single benefit plan), the Local 721 Licensed Practical Nurses Welfare Fund, had an almost identical administrative expense to revenue ratio.

- **The Fund misstated benefit and administrative expenses on its financial statement and its Directive #12 Filing.**

  This criticism is accurate. The trial balance program used to create both the Fund's Financial Statements and Directive 12 Key Ratio Schedules contained an account assignment error. This had already been corrected in the following year.

- **Questionable expenses totaling $6,874.**

  1. Questionable payments to a Trustee for conference expenses totaling $2,061 – $819 of this amount was the permissible daily allowance that an attendee is entitled to. It is the Fund's position that receipts are not required for the daily allowance (see below). Of the $2,433 listed as paid to the Trustee ($1,533 + $900) $731 was car rental ($290 + $441), which is permitted at up to $75 per day and $1,135 was hotel and airfare which is separate from the daily allowance in the Fund's travel policy. $2,433 less $1,866 ($731 + $1,135) = $567. This $567 is less than the permissible daily allowance total of $819. While reviewing the Fund's travel policy statement it was noted by the Trustees that the statement (which was a proforma sample from another organization) was not consistent with what the Trustees intended to be a permissible expense. Specifically the Fund always intended to reimburse attendees at conferences for expenses at the daily per

diem rate plus certain other entertainment expenses provided a valid business purpose is proven. This will be "formalized" by the Board of Trustees at the next meeting where the enclosed "revised" travel policy statement will be adopted. In addition and consistent with Federal law, the Fund does not require documentation for any expense covered by the daily per diem rate. Lastly the report questioned golf fees listed on the expense voucher as dinner. The administrator made the misclassification of the expense in error, not the Trustee. In addition the time indicated on the invoice was not during any conference class as indicated in your report, which was incorrect. Mr. Kenneth Cook, an administrator of the Educational Conference has verified this to the Fund's auditor.

2. Questionable payments to the Fund Administrator for conference expenses totaling $347 – $378 of this amount were the permissible daily allowance that an attendee is entitled to. It is the Fund's position that receipts are not required for the daily allowance (see above). In addition $105 of the $582 paid to the Administrator was for special travel arrangements made for her due to an injury sustained at the conference. The above-mentioned changes to the Fund's Travel Policy will make these expenses fully permissible.
3. Payments of bonuses to the Administrator and staff totaling $4,466 – It is the Fund's position that a bonus is employee compensation that is in no way inappropriate. In fact it is the Fund's belief that limiting pay raises and giving bonuses when "earned" is an effective way of encouraging attendance and effort by its employees. The Fund determines bonuses annually in conjunction with a review of each employee. Moreover, this same criticism was raised in the Comptroller's draft report dated May 21, 1996 on this Fund. The Fund's attorney, Neil D. Lipton showed your Office that granting staff bonuses were acceptable practice under ERISA. Your Office thereupon withdrew the question it raised in its final report. Mr. Lipton's June 4, 1996 letter to Deputy Comptroller for Audits and Engineering Roger D. Liwer specifically recorded "that your auditors have agreed with our firm's interpretation of ERISA with respect to the right to pay Christmas bonuses to Fund employees and have removed any question about Fund activity in that regard."

- **The Union owes the Fund $11,327.**

  The Fund has been actively pursuing the Union in order to collect these charges. As of the date of this letter all but $7,327 of this amount has been collected. It should also be noted that the Union has been paying all current expense allocation charges as submitted.

- **The Fund pays a disproportionate share of rent expense.**

  The Fund's sub-lease agreement with the Union was prepared by the Fund's attorney and contemplated all appropriate items. It is the Fund's position that the allocation is appropriate, having been arrived at by a prior Auditor of the Fund, and no adjustment is required.

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

  Attendance records **are** kept by the Fund's Administrator in her diary with any and all days missed recorded. In addition, this diary contains the record of vacation, sick and personnel days permitted and used. These very records were presented to the Comptroller's Auditor. 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 Trustees and Administrator do not believe that a time clock or sign-in sheet is necessary.

Very truly yours,

Theresa Ferzola

Theresa Ferzola
Administrator