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

WILLIAM C. THOMPSON, JR.
Comptroller

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

FL02-085A

June 24, 2002

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

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

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EXECUTIVE SUMMARY

Background

The Detectives Endowment Association Health Benefits Fund (Active 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 of a Declaration of Trust, to provide health and welfare benefits to eligible New York City detectives and their dependents.

According to the Active Fund's Fiscal Year 1999 financial statements, it had approximately $7.8 million in revenues and $7 million in expenses. As of December 31, 1999, the Active Fund reported net assets of $10,021,655.

Objectives, Scope and Methodology

Our audit objective was to determine whether the Active 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 Active Fund's fiscal and operating practices for the period January 1, 1999, to December 31, 1999. We interviewed the Active Fund's Administrator and Certified Public Accountant, and reviewed the Active 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 Active 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 Active Fund's benefit payments to determine whether only eligible members and their dependants received benefits from the Active Fund.

Results in Brief

Overall, the Active Fund generally complied with the procedures and reporting requirements of Comptroller's Directive #12, as well as its own accounting procedures. In addition, the Active 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 Active Fund's bank account in a timely manner.

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

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

- <u>The Active Fund made improper benefit payments totaling $10,446.</u> For example, the Active Fund paid $3,653 for rehabilitation and detox services and $3,619 for infant formula. However, such payments are not covered by the Fund's benefits package.

- <u>The Active Fund paid the Union $17,878 for its share of certain expenses, but those expenses were either undocumented, questionable, or not related to Active Fund business.</u> Some of the Active Fund's administrative expenses, such as telephone, postage, supplies, and equipment maintenance, are allocated between the Union, the Active Fund, the Retiree Fund, and the Annuity Fund. During Fiscal Year 1999, the Union allocated expenses totaling $228,287, of which the Active Fund paid 20 percent ($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 Active Fund business. Consequently, we question $89,393 of the $228,287 in allocated expenses, which resulted in an excess payment of $17,878 by the Active Fund.

- <u>The Active Fund paid $3,951 in bonuses to Active Fund employees.</u> Directive #12 states that funds should ensure that City contributions are spent appropriately by restricting their use to expenditures and programs that directly or indirectly benefit only fund members. We fail to see how this type of expense conforms to Directive #12.

- The Active Fund did not verify the eligibility of members' dependents. The Active Fund does not require its members to submit records, such as marriage or birth certificates, documenting the eligibility of their dependents. Lack of such documentation prevents the Active Fund from ensuring that benefits are provided only to eligible individuals.

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

The Active Fund's trustees should:

- Ensure that benefits are paid in accordance with the Active 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 Active Fund business.

- Discontinue its practice of paying bonuses to its employees.

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

- Maintain daily attendance records for all Active Fund employees.

Fund Response

The matters covered in this report were discussed with Active Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Active Fund officials and discussed at an exit conference on May 20, 2002. On May 29, 2002, we submitted a draft report to Active 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. The Fund Manager stated that a Trustee approved the exceptions to the Fund's benefits policies, and 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." In addition, the Fund stated that it believes that paying bonuses to employees is appropriate and that daily attendance records are not necessary. The Fund stated, however, that it 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.

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

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INTRODUCTION

Background

The Detectives Endowment Association Health Benefits Fund (Active 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 of a Declaration of Trust, to provide health and welfare benefits to eligible 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 Active Fund's 6,697[1] members during Fiscal Year 1999—our audit period.

[1]Approximate number of City employed participants at the end of Fiscal Year 1999. Number varies during the year because of new hires, retirements, suspensions, etc.

TABLE I
Active Fund Benefits, Fiscal Year 1999

Benefit	Amount	Coverage
Dental	$2,215,452	Each member selects either an insured or self-insured plan.[a] 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's dependents. If the member selects the self-insured plan, the member is reimbursed by the Active Fund's third party administrator, Healthplex, Inc., based on a fee schedule.
Prescription Drugs	$3,677,332	This benefit, which is administered by National Prescription Administrators, Inc., entitles members and their dependents up to $10,000 in prescription drug coverage per year. Eligible members and dependents are required to make a co-payment of $1 for each prescription.
Hospitalization	$310,487	The Active Fund pays Blue Cross Blue Shield to cover members and eligible dependents for up to 365 days in the hospital.
Catastrophic	$195,442	Catastrophic Rider 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 $2,000 annual deductible. Catastrophic Deductible Members and eligible dependents are entitled to reimbursement of $1,500 of GHI's $2,000 deductible.
Optical	$128,691	Members and eligible dependents are entitled to eye examination and prescription eyeglasses once a year from participating opticians.
Appliances	$19,162	For HIP members only. Members are entitled to reimbursements from HIP for durable medical equipment, prosthetic devices, and orthopedic devices.
Nursery	$16,800	Members are entitled to $240 for each newborn child.
Hearing Aid	$3,000	Members and eligible dependents are entitled to a maximum reimbursement of $600 for hearing aids every four years.

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

During Fiscal Year 1999, the Active 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, and 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 Active Fund reported net assets of $10,021,655. Table II summarizes the Active Fund's audited financial data, as reported by the Active Fund, for the years ending December 31, 1998, and December 31, 1999.

TABLE II

Summary of the Active Fund's Reported
Revenues and Expenses

	1998	% of Total Revenue	1999	% of Total Revenue
Employer's Contributions	$5,872,417	93.60 %	$7,565,000	96.37 %
COBRA	11,397	0.18 %	10,596	0.13 %
Investment/other Income	389,514	6.22 %	273,236	3.50 %
Total Revenue	$6,273,328	100.00 %	$7,848,832	100.00 %
Benefit Expenses	5,798,908	92.44 %	6,814,152	86.82 %
Administrative Expenses	215,207	3.43 %	233,921	2.98 %
Total Expenses	$6,014,115	95.87 %	$7,048,073	89.80 %
Excess (Deficiency) of Revenue	$259,213		$800,759	
Net Active Fund Assets:				
Fund Balance (Beginning of Year)	8,961,683		9,220,896	
Fund Balance (End of Year)	$9,220,896		$10,021,655	

Objective

Our audit objective was to determine whether the Active Fund[2] 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 Active Fund's internal controls related to processing and reporting contributions received, and benefit and administrative expenses paid;
- assessed the Active Fund's adherence to its benefit payment guidelines; and
- evaluated the propriety and reasonableness of the Active Fund's administrative expenses.

[2] We are also conducting a separate audit——Audit #FL02-086A—of the Detectives Endowment Association Health Benefits Fund Retiree (Retiree Fund). The results of that audit will be covered in a separate report.

Scope and Methodology

To achieve our audit objectives, we reviewed the Active Fund's fiscal and operating practices for the period January 1, 1999, to December 31, 1999. We obtained the Active 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 Active Fund complied with the significant terms and conditions of Directive #12, we verified whether the Active Fund filed:

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

- Internal Revenue Service Form 990.

We interviewed the Active Fund's Administrator and Certified Public Accountant, and reviewed the Active Fund's Trust Agreements. We prepared a flowchart of the Active Fund's contribution and benefit processing procedures to document our understanding of these procedures and internal controls. In addition, we reconciled the Active 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 Active Fund's cash receipts journal and bank deposit slips to determine whether the Active Fund accurately reported and deposited its contributions.

We traced $374,329 (86%) of the $433,135 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 Active Fund on administrative expenses to other funds with total revenues of a similar size, to determine whether the Active Fund's administrative expenses were in line with funds of a similar size.

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

- <u>Prescription Drugs Benefit</u>: To determine whether payments made to National Prescription Administrators, Inc. (NPA), the Active 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 Active 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 Active Fund's third party administrator, from Healthplex's Claim Check Register to the Active Fund database to verify member eligibility. We also verified whether the reimbursements were correct and did not exceed the amounts specified in the Active 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 February and October 1999 billing invoices from Dentcare Delivery Systems (Dentcare), the Active Fund's insurance company, to the Active Fund database to verify member eligibility.

- Optical Benefit: We reviewed 506 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 Active Fund's optical providers). Specifically, we traced the users listed on the invoices from each optical provider to the Active 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 Active 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 three of ten payments listed on the Active Fund's Check register to the amounts listed on the Active 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.

- Nursery Benefit: We traced five members listed on the Active Fund's check register to the Active Fund database to confirm eligibility. We also verified whether proper documentation was on file to support the payments.

- Hearing Aid Benefits: We reviewed all six Hearing Aid claims paid during Fiscal Year 1999. We traced the recipients' names to the Active Fund database to verify eligibility. We also verified whether the reimbursements were in accordance with the Active Fund's fee schedule.

We reviewed the Active Fund's bank statements for January, February, and March 1999 to verify the accuracy of the Active 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 Active 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 Active Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Active Fund officials and discussed at an exit conference on May 20, 2002. On May 29, 2002, we submitted a draft report to Active 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, the Fund Manager stated that a Trustee approved the exceptions to the Fund's benefits policies, and 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." In addition, the Fund stated that it believes that paying bonuses to employees is appropriate and that daily attendance records are not necessary. The Fund stated, however, that it 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 Active 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 Active 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 Active Fund's bank account in a timely manner.

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

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

- <u>The Active Fund made improper benefit payments totaling $10,446.</u> For example, the Active Fund paid $3,653 for rehabilitation and detox services and $3,619 for infant formula. However, such payments are not covered by the Fund's benefits package.

- <u>The Active Fund paid the Union $17,878 for its share of certain expenses, but those expenses were either undocumented, questionable, or not related to Active Fund business.</u> Some of the Active Fund's administrative expenses, such as telephone, postage, supplies, and equipment maintenance, are allocated between the Union, the Active Fund, the Retiree Fund, and the Annuity Fund. During Fiscal Year 1999, the Union allocated expenses totaling $228,287 of which the Active 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 Active Fund business. Consequently, we question $89,393 of the $228,287 in allocated expenses, which resulted in an excess payment of $17,878 by the Active Fund.

- <u>The Active Fund paid $3,951 in bonuses to Active Fund employees.</u> Directive #12 states that Funds should ensure that City contributions are spent appropriately by restricting their use to expenditures and programs that directly or indirectly benefit only Fund members. We fail to see how this type of expense conforms to Directive #12.

- The Active Fund did not verify the eligibility of members' dependents. The Active Fund does not require its members to submit records, such as marriage or birth certificates, documenting the eligibility of their dependents. Lack of such documentation prevents the Active Fund from ensuring that benefits are provided only to eligible individuals.

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

Improper Benefit Payments

The Active Fund made improper benefit payments totaling $10,446. Of the 694 claims reviewed, we found 25 instances in which the Active Fund paid for benefits that were not in accordance with its guidelines. Specifically, the Active Fund:

- Paid $3,653 to Arms Acres on June 1, 1999, for rehabilitation and detox services provided to an Active Fund member. However, such services are not part of the Active Fund's benefits package.

- Reimbursed $3,619 to a member for infant formula, an item not covered by the Fund's benefits package.

- Reimbursed $985 to two members for appliance benefits that should have been paid for by HIP—the members' medical provider.

- Reimbursed $702 for prescription drugs not covered by the Active Fund's benefits package.

- Paid $424 for "IV therapy" services that are not included in the Active Fund's benefits package.

- Reimbursed $300 to a member for his mother's wheelchair. The member's mother is not a qualified dependant under the Active Fund's guidelines; therefore, the member was not entitled to the reimbursement.

- Paid $600 for a hearing aid without having supporting documentation.

- Paid $163 to the Active Fund's optical providers on behalf of five individuals whose optical vouchers had expired.

Questionable Payments to the Union

The Active Fund reimbursed the Union $45,657 for its share of expenses that are allocated between the Union (50 percent), the Active Fund (20 percent), the Detectives Endowment Association Health Benefits Fund Retiree (20 percent), and The Detectives Endowment Association Annuity Fund (10 percent). Our review indicated, however, that the Active Fund should have paid the Union only $27,779—a difference of $17,878—because certain of the expenses were undocumented, questionable, or not related to the Active 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 Active Fund paid the Union $9,079 ([$228,287-$182,894] x 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 Active 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 which follows, no invoices were issued over extended 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 Active Fund and $12,399 for cellular telephone bills for individuals who are not trustees or employees of the Active Fund. Since these expenses are not related to Active Fund business, they should not be included as allocated expenses. As a result, the Active Fund paid the Union $5,534 ([$15,271 + $12,399] x 20 percent) for expenses not related to the operation of the Active Fund.

Bonuses Paid to Fund Employees

The Fund paid $3,951 in bonuses to Active Fund employees. Directive #12 states that funds should ensure that City contributions are spent appropriately by restricting their use to expenditures and programs that directly or indirectly benefit only fund members. We fail to see how this type of expense conforms to Directive #12.

The Active Fund Did Not Verify Eligibility of Employees' Dependents

The Active 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 Active Fund Does Not Maintain Employee Attendance Records

The Active 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 Active Fund should:

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

   ***Fund Response**:* The Fund did not specifically address Recommendation #1. However, the Fund indicated that in the majority of the cases cited, a Trustee approved the exceptions to the Fund's benefit guidelines.

   ***Auditor Comment**:* From its response, it appears that the Fund believes that it is acceptable to make exceptions to its benefit guidelines. We believe that at the very least, any change or exceptions to the Fund's benefits package should be approved by the Board of Trustees rather than by an individual Trustee.

2. Recoup the $17,878 it overpaid the Union for allocated expenses.

3. Ensure that it pays for Union-allocated expenses related only to Active 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. Discontinue its practice of paying bonuses to its employees.

   Fund Response: "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. Obtain and maintain copies of all documentation showing the eligibility of dependents.

   Fund Response: "From 1979 through 1999 all newly promoted Detectives' dependents/spouses were verified with the PBA Fund office. Duplication of the documents was not requested since all source records were maintained at the PBA. Documents were obtained for any dependent/spouse added after promotion. Since 1999 the Fund has obtained necessary documents for dependents/spouses of promoted participants. The Plan is currently in the process of obtaining all necessary information on dependents/spouses of applicable participants that were previously in the PBA Fund."

6. Maintain daily attendance records for all Active 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.

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

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 FL02-085A

Dear Sir/Madam:

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

- **Improper Benefit Payments.**
    - ✓ Paid $3,653 to Arms Acres - Benefit approved by Trustee, as exception to Fund's schedule of benefits, for a suicidal participant who's City medical benefit was exhausted and needed to complete his "detox" program.
    - ✓ Paid $3,619 for infant formula - Benefit approved by Trustee, as exception to Fund's schedule of benefits, for a child that was highly allergic to milk products and needed an expensive prescription that was not covered under any other of the participants benefit plans. Benefit was permitted through the child's first birthday (ten months).
    - ✓ Paid $985 for two appliance benefits - Benefits were approved by Trustee, as exception to Fund's schedule of benefits, for a participant out of work under a line-of-duty injury and to a participant whose nine year old child did not have alternative coverage.
    - ✓ Paid $702 for a prescription drug benefit - Benefit was approved by Trustee, as exception to Fund's schedule of benefits, for a participant out of work under a line-of-duty injury. Benefit was limited to four payments.
    - ✓ Paid $424 for an "IV Therapy" prescription drug benefit - Benefit was approved by Trustee, as exception to Fund's schedule of benefits, for a participant out of work under a line-of-duty injury.
    - ✓ Paid $300 to member for mother's wheelchair – There was a misunderstanding by the Fund as to whom the benefit was for. The finding is correct.
    - ✓ Paid $600 for a hearing aid without proper documentation – The Fund, as a policy, does not pay benefits without confirming the proper documentation. The document associated with this benefit must have been misfiled.
    - ✓ Paid $163 for optical benefit with expired vouchers – These benefits had a date of service prior to the expiration of the vouchers, although billing and payment occurred later. It is the Fund's policy to extend the expiration date of a voucher as long as the participant had been to the store before that expiration date.

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- **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 (a very conservative estimate) would result in an expense to the Funds of $40,000 (25 x 4,000 square feet @ 40%).

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.

- **Bonuses Paid to Fund Employees.**

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. On a prior audit of another Fund (we will provide the Fund and audit period if requested) it was proved that granting staff bonuses was an acceptable practice under ERISA, and at the conclusion of that audit your office withdrew the criticism in its final report.

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

From 1979 through 1999 all newly promoted Detectives' dependents/spouses were verified with the PBA Fund office. Duplication of the documents was not requested since all source records were maintained at the PBA. Documents were obtained for any dependent/spouse added after promotion. Since 1999 the Fund has obtained necessary documents for dependents/spouse of promoted participants. The Plan is currently in the process of obtaining all necessary information on dependents/spouses of applicable participants that were previously in the PBA Fund.

- **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

Sharon Robertson,
Fund Manager

cc Thomas J. Scotto, Trustee