

AUDIT REPORT



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 Sergeants Benevolent Association Health and Welfare Fund

FL03-086A

June 30, 2003



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

Pursuant to Chapter 5, Section 93 of the New York City Charter, we have examined the Sergeants Benevolent Association Health and Welfare Fund's (Fund) financial and operating practices for the period July 1, 2000, through June 30, 2001 (Fiscal Year 2001). Under the terms of a fund agreement, the Fund provides health and welfare benefits to active and retired New York City Police Officers with the rank of sergeant and their spouses and dependents.

The results of our audit, which are presented in this report, have been discussed with officials from the Fund, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that benefit funds are spending monies in the best interest of their members and are complying with applicable procedures and reporting requirements, as set forth in Comptroller's Internal Control and Accountability Directive 12, *Employee Benefit Funds—Uniform Reporting and Auditing Requirements*.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

WCT/GR

Report: **FL03-086A**
Filed: **June 30, 2003**

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

**Audit Report on the
Financial and Operating Practices of the
Sergeants Benevolent Association
Health and Welfare Fund**

FL03-086A

AUDIT REPORT IN BRIEF

The Comptroller's Office performed an audit on the financial and operating practices of the Sergeants Benevolent Association Health and Welfare Fund (the Fund) for fiscal year 2001. The Fund, which was established to receive contributions from the City of New York, provides health and welfare benefits to active and retired New York City Police Officers with the rank of sergeant and their dependents. The Fund is required to conform with the Directive 12's provisions, which set forth accounting, auditing and financial guidelines for the funds and their boards of trustees. As of June 30, 2001, the Fund reported contributions of \$12,140,547 from the City of New York and net assets of \$5,012,014.

Audit Findings and Conclusions

The Fund generally complied with the procedures and reporting requirements of Directive 12 and its benefit processing and accounting procedures. Furthermore, the Fund's administrative expenses were appropriate and reasonable. However, we found some weaknesses in the Fund's financial and operating procedures. Specifically, the Fund:

- Made improper benefit payments totaling \$8,607.
- Does not maintain employee attendance records. Consequently, we could not determine whether employees were paid for hours they actually worked.
- Did not verify eligibility of members' dependents.
- Paid \$33,595 in undocumented administrative expenses.
- Did not report an estimated postretirement obligation amount for benefits on its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Audit Recommendations

To address these issues the report recommends that the Fund:

- Ensure that benefits are paid in accordance with its guidelines. In that regard, the Fund should maintain documentation supporting eligibility and services for which reimbursements were made.
- Maintain daily attendance records for all Fund employees.
- Ensure that Employee Leave Summary forms properly reflect all leave use by Fund employees.
- Maintain copies of all documentation in members' permanent files to substantiate the eligibility of dependents.
- Ensure that all payments are properly supported by adequate documentation.
- Report its benefit liability on its financial statements, in accordance with Generally Accepted Accounting Principles.

INTRODUCTION

Background

The Sergeants Benevolent Association Health and Welfare Fund (the Fund) was established on July 1, 1993, under the provisions of a Fund Agreement between the City of New York and the Sergeants Benevolent Association (the Union), and a Declaration of Trust. The Fund provides health and welfare benefits to active and retired New York City Police Officers with the rank of sergeant. The Fund also provides benefits to members' spouses and dependents.

Table I, on the following page, shows the benefits that were available and the amounts paid for these benefits for the Fund's 9,574¹ members during Fiscal Year 2001—our audit period.

¹ According to the Trustees' Representation Letter, the Fund had 5,147 active members and 4,427 retired members during Fiscal Year 2001.

TABLE I**Fund Benefits, Fiscal Year 2001**

Benefit	Amount	Coverage
Dental	\$3,172,097	Members and their eligible dependents are entitled to a maximum benefit of \$1,500 per calendar year for each covered individual. Each member selects either an insured or self-insured plan. ² If the member selects the insured plan, Dentcare Delivery Systems (Dentcare) provides benefits to the member and member's dependents. If the member selects the self-insured plan, the member is reimbursed by the Fund's third-party administrator, Healthplex, Inc. (Healthplex), based on a fee schedule.
Prescription Drugs	\$2,995,105	Members and their dependents are entitled to a maximum benefit of \$5,000 per year. Prescriptions at participating pharmacies require a 15% co-payment for active members and a 40% (under Plan A) or 30% (under Plan B) co-payment for retired members. If members use a non-participating pharmacy, they are reimbursed according to the Fund fee schedule.
Optical	\$314,495	Active members and eligible dependents are entitled to one eye examination and one pair of prescription eyeglasses every twelve months from a participating optical provider. Retired members and eligible dependents are entitled to one eye examination and one pair of prescription eyeglasses every two years (under Plan A) or every year (under Plan B) from a participating optical provider. There is no optical benefit for dependent children under Plan A. If a non-participating provider is used, both active and retired members are reimbursed according to the Fund fee schedule.
Death	\$577,000	For Plan A retired members only. Beneficiaries receive \$5,000 for the death of a member.
Catastrophic	\$23,220	For GHI members only. Active members and eligible dependents are entitled to reimbursements of all catastrophic medical expenses over \$2,000 per person per year. Retired members and eligible dependents are entitled to the same reimbursement beyond the \$3,000 deductible (under Plan A) and beyond the \$2,000 deductible (under Plan B).

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

Benefit	Amount	Coverage
Expanded Medical	\$19,609	For HIP members only. Members are entitled to reimbursements for durable medical equipment, prosthetic/orthopedic devices, and private nursing services according to a HIP fee schedule.
Well-Baby Care	\$60	For GHI members only. Members are entitled to reimbursements up to \$240 for out-of-pocket newborn nursery expenses.
	\$7,101,586	

During Fiscal Year 2001, the Fund provided benefits through contracts with General Prescription Programs (prescription drugs); Healthplex, Inc., and Dentcare Delivery Systems (dental); and Health Insurance Plan of New York (expanded medical). Optical benefits were provided by the Fund through various carriers or through direct reimbursement, according to a fee schedule.

As of June 30, 2001, the Fund reported net assets of \$5,012,014. Table II, following, summarizes the Fund's audited financial data, as reported by the Fund, for the fiscal years ending June 30, 2000, and June 30, 2001.

TABLE II

Summary of the Fund's Reported
Revenues and Expenses, Fiscal Years 2000 and 2001

	2000	% of Total Revenue	2001	% of Total Revenue
Employer's Contributions	\$ 9,400,753	97.20%	\$12,140,547	96.47%
COBRA	\$47,064	0.49%	\$42,871	0.34%
Investment or Other Income	\$223,896	2.31%	\$401,832	3.19%
Total Revenue	\$ 9,671,713	100.00%	\$12,585,250	100.00%
Benefit Expenses	\$ 9,347,703	96.65%	\$ 7,101,586	56.43%
Administrative Expenses	\$684,936	7.08%	\$671,111	5.33%
Total Expenses	\$10,032,639	103.73%	\$ 7,772,697	61.76%
Excess (Deficiency) of Revenue	(\$360,926)		\$ 4,812,553	
Fund Balance (Beginning of Year)	\$ 560,387		\$ 199,461	
Fund Balance (End of Year)	\$ 199,461		\$ 5,012,014	

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; complied with its benefit processing and accounting procedures and whether those procedures were adequate and proper; and whether the Fund's administrative expenses were appropriate and reasonable. With regard to the Fund's benefit processing and accounting procedures, we determined the adequacy and effectiveness of its internal controls related to the processing and reporting of contributions received and benefit and administrative expenses paid; and we assessed its adherence to its benefit payment guidelines.

Scope and Methodology

To achieve our audit objectives, we reviewed the Fund's financial and operating practices for the period July 1, 2000, through June 30, 2001—the period covered by the latest Directive 12 filings available when we began the audit. We obtained the Fund's Directive 12 filings with the Comptroller's Office, which included its financial statements, 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 determined whether it filed:

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

We interviewed the Fund Administrator and reviewed the Fund's Trust Agreements. We prepared a flowchart of Fund 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 and deposited its contributions.

We also traced all administrative expenses (\$671,111) 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.

To determine whether all eligible employees were included on the Fund's eligibility database, we sampled 50 Union employees from the Payroll Management System (PMS)—the City's computerized payroll system. For each employee, we compared the employment information contained in PMS to the information recorded on the Fund database.

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

- **Dental Benefits:** For self-insured dental benefits, we traced 557 dental claims processed by Healthplex, Inc., the Fund's third party administrator, from Healthplex's claim Utilization Reports, to the Fund database to verify member eligibility. We also determined whether the reimbursements were correct and did not exceed the amounts specified in the Fund fee schedule. For insured dental benefits, we traced 423 participants listed on the July, August, and November 2000 billing invoices from Dentcare, the Fund's insurance company, to the Fund database to verify member eligibility. For instances in which a member's spouse or child received benefits, we determined whether a marriage certificate, child's birth certificate, or other proof of dependency was on file.
- **Prescription Drugs Benefit:** We traced 4,512 claims listed on the Weekly Claim Submission Reports for the week ending June 15, 2001, from GPP, the Fund's third party administrator to the Fund database to verify member eligibility. We also determined whether the prescriptions dispensed were covered by the Fund's prescription drug plan.
- **Optical Benefit:** We reviewed 100 randomly sampled optical vouchers processed by the Fund during Fiscal Year 2001. Specifically, we traced the users or members listed on the vouchers to the Fund database to verify eligibility of members and dependents. We also determined whether the reimbursements were calculated correctly, supported with proper documentation, and did not exceed the amounts specified in the Fund fee schedule. For instances in which a member's spouse or child received benefits, we determined whether a marriage certificate, child's birth certificate, or other proof of dependency was on file.
- **Death Benefit:** We traced the members listed on all 36 claims processed during the audit period to the Fund database to confirm eligibility. We also determined whether death certificates and designated beneficiary forms were on file to support the payments.
- **Catastrophic Benefit:** We traced all seven members listed on the Fund's Check Register for the audit period to the Fund database to confirm eligibility. We also reviewed GHI invoices to determine whether the members were entitled to the reimbursements. For instances in which a member's spouse or child received benefits, we determined whether a marriage certificate or child's birth certificate was on file.
- **Expanded Medical Benefit:** We traced the 400 members listed on the July 2000 billing invoice from HIP, the Fund's insurance company, to the Fund database to verify member eligibility.

- Well-Baby Care Benefit: We reviewed the two benefit claims paid during the audit period. We traced the names of recipients to the Fund database to verify eligibility. We also determined whether a birth certificate was on file to support the payment.

We reviewed the Fund's bank statements for November 2000 and June 2001 to determine the accuracy of the Fund's bank reconciliations and to account for all checks paid, outstanding, and voided.

To determine the accuracy of employee time and leave balances, we reviewed timekeeping records for all Fund employees for Fiscal Year 2001.

This 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.

Discussion of Audit Results

The matters covered in this report were discussed with the Fund Administrator and Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Fund officials on May 2, 2003, and discussed at an exit conference held on June 4, 2003. On June 5, 2003, we submitted a draft report to officials of the Fund with a request for comments. We received a written response from the President of the Union on June 16, 2003, in which he agreed with the audit's findings and recommendations. The full text of the comments is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Overall, the Fund generally complied with the procedures and reporting requirements of Directive 12. In addition, the Fund generally complied with its benefit processing and accounting procedures, and those procedures were adequate and proper. Furthermore, the Fund's administrative expenses were appropriate and reasonable. However, we found some weaknesses in Fund financial and operating procedures, as follows:

- **The Fund made improper benefit payments totaling \$8,607.** Of the 5,638 claims reviewed, we found 21 claims in which the Fund paid for benefits that were not in accordance with its guidelines.
- **The Fund does not maintain employee attendance records.** The Fund does not maintain employee attendance records detailing employees' time-in and time-out, and employee absence or lateness to be charged against accrued vacation or sick leave. Consequently, we could not determine whether employees were paid for hours they actually worked.
- **The Fund did not verify eligibility of members' dependents.** The Fund does not require that its members submit documentation, such as marriage or birth certificates, before processing benefits for members' dependents. Requiring such documentation from its members would help the Fund to ensure that benefits are provided only to eligible individuals.
- **The Fund paid \$33,595 in undocumented administrative expenses.** Our review of administrative expenses paid by the Fund, totaling \$671,111, disclosed that the Fund did not have supporting documentation for \$33,595 in expenses.
- **The Fund did not report an estimated postretirement obligation amount for benefits on its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).** Consequently, the Fund received an adverse opinion on its financial statements from its Certified Public Accountant.

Improper Benefit Payments

The Fund made improper benefit payments totaling \$8,607. Of 5,638 claims reviewed, we found 21 claims in which the Fund paid for benefits that were not in accordance with its guidelines. Specifically, the Fund:

- Paid \$5,000 to beneficiaries of a death claim whose file did not contain a copy of the death certificate as required by the Fund's procedures.
- Paid \$1,176 to GPP for prescription drugs not covered by the Fund benefits package.

- Overpaid \$1,000 to one member for catastrophic benefits.
- Paid \$804 to HIP for 176 ineligible individuals.
- Paid \$240 to a member for well-baby care benefits without having documentation to support proof of services provided.
- Paid \$143 for dental benefit premiums for an ineligible individual.
- Paid \$112 to GPP for prescription drugs for four ineligible individuals.
- Paid \$90 in optical benefits for which the vouchers had expired.
- Overpaid a total of \$42 to a member and a provider for optical services.

Recommendation

1. The Fund should ensure that benefits are paid in accordance with its guidelines. In that regard, the Fund should maintain documentation supporting eligibility and services for which reimbursements were made.

Fund Response: “The Fund Administrator has been directed to require evidence that any benefit payment complies with Plan guidelines. A policy has been adopted to create and maintain documentation supporting eligibility and services for which reimbursement was made. The Fund Manager is responsible for implementation of that policy.”

The Fund Does Not Maintain Employee Attendance Records

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

The Fund Administrator does maintain a calendar for each part-time employee. However, these calendars do not indicate the hours worked. We should note that the calendars show that three part-time employees worked on a number of legal holidays when the Fund was closed.

For full-time employees, the Fund Administrator maintains Employee Leave Summary forms that reflect accruals and use of vacation, sick, and personal days. However, we found that these forms do not always accurately reflect time used by Fund employees. For example, the payroll register indicated that one employee was paid for 10 days of vacation leave for the weeks

ending August 4, 2000, and August 11, 2000. However, the Employee Leave Summary forms for this employee indicated that no leave time was used during this two-week period. As a result, the employee's leave balance was never charged for this time.

Daily attendance records are necessary for effective payroll control since these records form the basis for calculating amounts 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 Fund should:

2. Maintain daily attendance records for all Fund employees.

Fund Response: "All Fund employees are now required to sign a daily attendance log, at the beginning and end of their daily shifts. The Fund Manager reviews the log daily."

3. Ensure that Employee Leave Summary forms properly reflect all leave use by Fund employees.

Fund Response: "All Fund employees have been instructed on leave policy and on proper completion of the forms. The Fund Manager regularly monitors compliance with the Fund's leave policy."

The Fund Did Not Verify Eligibility Of Members' Dependents

The Fund does not require that its members submit documentation, such as marriage or birth certificates, before processing benefits for members' dependents. Requiring such documentation from its members would help the Fund to ensure that the provide benefits only to eligible individuals.

Recommendation

4. The Fund should maintain copies of all documentation in members' permanent files to substantiate the eligibility of dependents.

Fund Response: "The Fund now requires proof of dependent eligibility (such as birth certificates and evidence of college enrollment) before paying claims on behalf of dependents."

The Fund Paid \$33,595 in Undocumented Administrative Expenses

The Fund did not have supporting documentation for \$33,595 in administrative expenses. Specifically, the Fund paid \$28,019 for office supplies, employee benefits, and postage without having any supporting documentation, such as vendor invoices or contracts. In addition, the Fund could not provide documentation to support \$5,576 of \$7,260 in payments to the Union. According to Fund officials, the amount paid was for the Fund's share of office expenses.

It is important that the Fund obtain appropriate documentation for all purchases to ensure that all payments are reasonable and appropriate.

Recommendation

5. The Fund should ensure that all payments are properly supported by adequate documentation.

Fund Response: "The finding relating to this Recommendation relates to payments for administrative expenses, including payment to the Union for shared expenses. The Fund Administrator now requires documentation of the purpose and amount of all administrative expenditures before making payment."

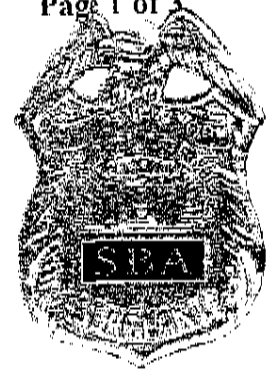
Issue Related to the Fund's Financial Statements

Comptroller's Directive 12 requires that benefit funds prepare their annual financial statements in accordance with GAAP. GAAP requires that these funds include an actuarial estimate of postretirement benefit obligation in their financial statements. The Fund did not include such an estimate in its Fiscal Year 2001 financial statements. According to the Fund's certified financial statements, "the Fund's financial statements do not present the Plan's obligation to provide health and welfare benefits to participants after retirement (post retirement benefit obligations)." It should be noted that because of this issue the Fund received an adverse opinion on its financial statements from its Certified Public Accountant.

Recommendation

6. The Fund Trustees should ensure that the Fund reports its benefit liability on its financial statements, in accordance with Generally Accepted Accounting Principles.

Fund Response: "The Trustees have retained First Actuarial Consulting Team, based in New York City, to perform the actuarial calculations required by GAAP. That work will be performed for the 2003 fiscal year audited financial statements."



SERGEANTS BENEVOLENT ASSOCIATION

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**HEALTH AND
WELFARE FUND**

June 15, 2003

CHAIRMAN

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Mr. Greg Brooks
Deputy Comptroller
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

**Re: Audit Report on the Financial and
Operating Practices of the
Sergeants Benevolent Association
Health and Welfare Fund
FL03-086A**

Dear Mr. Brooks:

Please accept this letter as the response of the Trustees of the Health and Welfare Benefit Fund of the Sergeants Benevolent Association to the Draft dated June 5, 2003 of the above referenced Audit Report for fiscal year 2001. The Trustees appreciate the excellent and thorough work of the Comptroller's staff and agree with the findings of the Draft Report.

Set forth below are the responses to the specific Audit Recommendations included in the Draft Report. These responses are part of an overall change in administration of the Fund implemented since I became President of the SBA on July 1, 2002. Since that date, the Fund has retained a new Fund Administrator, created a new Manager position to institute a program of controls of the type referenced in the draft report, retained new outside auditors and counsel, and instituted a program to provide on-going training for Trustees and Fund staff regarding fiduciary responsibilities and Fund management.

Mr. Greg Brooks
June 6, 2003
Page 2 of 3

Set forth below is each of the Audit Recommendations set forth in the Draft Audit Report and the Agency Implementation Plan ("AIP") adopted by the Trustees in response:

- Ensure that benefits are paid in accordance with its guidelines. In that regard, the Fund should maintain documentation supporting eligibility and services for which reimbursements were made.
 - **AIP:** The Fund Administrator has been directed to require evidence that any benefit payment complies with Plan guidelines. A policy has been adopted to create and maintain documentation supporting eligibility and services for which reimbursement was made. The Fund Manager is responsible for implementation of that policy.
- Maintain daily attendance records for all Fund employees:
 - **AIP:** All Fund employees are now required to sign a daily attendance log, at the beginning and end of their daily shifts. The Fund Manager reviews the log daily.
- Ensure that Employees Leave Summary forms properly reflect all leave use by Fund employees.
 - **AIP:** All Fund employees have been instructed on leave policy and on proper completion of the forms. The Fund Manager regularly monitors compliance with the Fund's leave policy.
- Maintain copies of all documentation in members' permanent files to substantiate the eligibility of dependents.
 - **AIP:** The Fund now requires proof of dependent eligibility (such as birth certificates and evidence of college enrollment) before paying claims on behalf of dependents.
- Ensure that all payments are properly supported by adequate documentation.
 - **AIP:** The finding relating to this Recommendation relates to payments for administrative expenses, including payment to the Union for shared expenses. The Fund Administrator now requires documentation of the purpose and amount of all administrative expenditures before making payment.
- Report its benefit liability on its financial statements, in accordance with Generally Accepted Accounting Principles.

Mr. Greg Brooks
June 6, 2003
Page 3 of 3

- **AIP:** The Trustees have retained First Actuarial Consulting Team, based in New York City, to perform the actuarial calculations required by GAAP. That work will be performed for the 2003 fiscal year audited financial statements.

We trust that the above AIP is acceptable to the Comptroller's office. Please do not hesitate to contact me, Jerry Leary, Health and Welfare Secretary, or Errol Ogman, Fund Administrator, if you have any questions.

Sincerely,



Edward D. Mullins
President

cc: Robert Ganley, Trustee
Robert Johnson, Trustee
Jerry Leary, Trustee
Gary DeRosa, Trustee
Maureen Murphy, Trustee
Paul Capotosto, Trustee
Errol Ogman, Fund Administrator
Dennis Ostermann, Comptroller