

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 Local 300 S.E.I.U. Civil Service Forum Employees Welfare Fund

FL03-087A

June 10, 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 Local 300 S.E.I.U. Civil Service Forum Employees Welfare Fund's (Active Fund) financial and operating practices for the period July 1, 1998, through June 30, 1999 (Fiscal Year 1999). Under the terms of a fund agreement, the Active Fund provides health and welfare benefits to eligible City employees and their spouses and dependents.

The results of our audit, which are presented in this report, have been discussed with officials from the Active 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.

Report: FL03-087A
Filed: June 10, 2003

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

**Audit Report on the
Financial and Operating Practices of the
Local 300 S.E.I.U. Civil Service Forum
Employees Welfare Fund**

FL03-087A

AUDIT REPORT IN BRIEF

We performed an audit on the financial and operating practices of the Local 300 S.E.I.U. Civil Service Forum Employee Welfare Fund (Active Fund) for Fiscal Year 1999. The Active Fund, which was established to receive contributions from the City of New York, provides health and welfare benefits to eligible City employees and their dependents. The Active Fund is required to conform with Comptroller's Internal Control and Accountability Directive 12, *Employee Benefit Funds—Uniform Reporting and Auditing Requirements* (Comptroller's Directive 12), which sets forth accounting, auditing, and financial guidelines for City welfare funds and their boards of trustees. As of June 30, 1999, the Active Fund reported contributions of \$992,467 from the City of New York and net assets of \$1,501,910.

Audit Findings and Conclusions

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

- Operating deficits are depleting the Active Fund's reserves.
- The Active Fund paid an employee for 13 days that she did not work.
- The Active Fund made questionable payments to its employees and did not maintain Personnel/Leave Records.
- The Active Fund reimbursed trustees for \$3,761 in questionable travel expenses.
- The Active Fund's financial statements and Directive 12 filing did not accurately report benefit and administrative expenses for Fiscal Year 1999.
- The Active Fund made improper benefit payments totaling \$6,022.
- The Active Fund paid 95 claims for dependents whose eligibility was not documented.

- The Active Fund's cash disbursements journal did not include \$36,851 of the expenses paid during the audit period.
- The Union owes the Active Fund \$3,810. Insurance proceeds belonging to the Active Fund were inappropriately deposited into a Union account.

Audit Recommendations

To address these issues, we recommend that the Active Fund should:

- Take immediate action to eliminate the Fund's operating deficit and thereby ensure its financial viability.
- Ensure that Fund employees are paid only for days actually worked.
- Determine whether it can recoup the \$910 from the overpaid employee.
- Ensure that all disbursements are adequately supported. In that regard, the Active Fund should maintain adequate personnel and leave records to support payments to its employees.
- Recoup the \$3,761 it paid Trustees for questionable travel expenses.
- Ensure that all dental and prescription drug administrative fees are classified as administrative expenses rather than benefit expenses on its financial statements and Directive 12 filings.
- Ensure that benefits are paid only to eligible individuals and are made in accordance with the Active Fund's guidelines for the service provided.
- Maintain in members' permanent files copies of all documentation that shows the eligibility of dependents.
- Active Fund Trustees should ensure that the Active Fund's cash disbursements journal is complete and accurate.
- Recoup the \$3,810 inappropriately deposited in the Union's bank account.

INTRODUCTION

Background

The Local 300 S.E.I.U. Civil Service Forum Employees Welfare Fund (Active Fund) was established on December 16, 1964, under the provisions of a Fund Agreement between the City of New York and the Civil Service Forum Local 300 Building Service Employees International Union AFL-CIO (the Union), and a Declaration of Trust. The Active Fund provides health and welfare benefits to eligible City employees in various titles, including Purchasing Agent, Quality Assurance Specialist, Fingerprinting Technician, and Bookbinder. The Active Fund also provides benefits to members' spouses and dependents.

Table I, following, shows the benefits that were available and the amounts paid for these benefits for the Active Fund's 830¹ members during Fiscal Year 1999—our audit period.

¹ According to the Trustees' Representation Letter, the Active Fund had 830 members in 1999.

TABLE I
Active Fund Benefits, Fiscal Year 1999

Benefit	Amount	Coverage
Prescription Drugs	\$441,330	Members are entitled to a maximum benefit of \$2,000 per calendar year for themselves and each eligible dependent. Prescriptions at participating pharmacies require a \$3 co-payment. If members use a non-participating pharmacy, they are reimbursed according to the Fund fee schedule.
Dental	\$423,071	Members are entitled to a maximum benefit of \$2,000 per year for themselves and each eligible dependent.
Optical	\$61,355	Members and eligible dependents are entitled to one eye examination per year. Members are entitled to obtain two pairs of prescription eyeglasses (dependants are entitled to one pair) per calendar year from a participating optical provider. If a non-participating provider is used, the member is reimbursed up to \$100 per calendar year upon the completion of an optical claim form.
Death	\$48,580	Beneficiaries receive \$20,000 for members who were actively at work prior to date of death.
Legal	\$45,900	Members are entitled to the following civil and general legal services: legal defense; uncontested legal separation; uncontested divorce; uncontested annulment; adoption; personal bankruptcy; change of name; real estate; will preparation and execution; personal injury (negligence); arraignment assistance; consumer protection issues; living will, health care proxy, and power of attorney; elderly planning; and estates administration. Member's payment is based on the law firm's fee schedule.
Disability	\$21,760	Members are entitled to \$100 per week if they become totally disabled because of a non-occupational accident or illness. Payments may be received for a maximum period of 18 weeks during any two-year period.
Hearing Aid	\$2,000	Members are entitled to a maximum reimbursement of \$1,000 for hearing aid purchases and repair every two years for themselves and each eligible dependent.
Podiatry	\$875	Members are entitled to a maximum of \$200 per year for office visits, x-rays, or physical therapy for themselves and their spouses.
	\$1,044,871	

During Fiscal Year 1999, the Active Fund provided benefits through contracts with Value Rx, Inc. (prescription drugs), Prudential Insurance Company² (life insurance), and the law firm of Mirkin & Gordon (legal services). Optical benefits were provided through various carriers or through direct reimbursement by the Active Fund according to a fee schedule. Dental, disability, and podiatry benefits were administered through a third-party administrator, Daniel H. Cook & Associates.

As of June 30, 1999, the Active Fund reported net assets of \$1,501,910. Table II, following, summarizes the Active Fund's audited financial data, as reported by the Active Fund, for the fiscal years ending June 30, 1998, and June 30, 1999.

TABLE II

Summary of the Active Fund's Reported
Revenues and Expenses, Fiscal Years 1998 and 1999

	1998	% of Total Revenue	1999	% of Total Revenue
Employer's Contributions	\$ 861,750	91.34%	\$992,467	96.80%
COBRA	270	0.03%	109	0.01%
Investment or Other Income	81,392	8.63%	32,690	3.19%
Total Revenue	\$ 943,412	100.00%	\$1,025,266	100.00%
Benefit Expenses	\$1,143,567	121.22%	\$1,026,541	100.12%
Administrative Expenses	\$136,518	14.47%	\$147,739	14.41%
Total Expenses	\$1,280,085	135.69%	\$1,174,280	114.53%
Excess (Deficiency) of Revenue	(\$336,673)		(\$149,014)	
Fund Balance (Beginning of Year)	\$1,987,597		\$1,650,924	
Fund Balance (End of Year)	\$1,650,924		\$1,501,910	

² Death benefits were paid on a self-insured basis prior to January 1, 1999.

Objective

Our audit objective was to determine whether the Active Fund:³ 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 Active Fund's administrative expenses were appropriate and reasonable. With regard to the Active Fund's benefit processing and accounting procedures, we determined the adequacy and effectiveness of the Active Fund's internal controls related to the processing and reporting of contributions received and benefit and administrative expenses paid; and we assessed the Active Fund's adherence to its benefit payment guidelines.

Scope and Methodology

To achieve our audit objectives, we reviewed the Active Fund's financial and operating practices for the period July 1, 1998, through June 30, 1999 (Fiscal Year 1999), the period covered by the latest Directive 12 filing available when we began the audit. 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 determined whether the Active Fund filed:

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

We interviewed various Active Fund officials 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 the related internal controls.

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 ascertain whether the Active Fund accurately reported and deposited its contributions.

In addition, we intended to reconcile the Active Fund's certified financial statements with its cash receipts, disbursements journals, and related documentation. However, the Active Fund could not provide us with the general ledgers, trial balance, and records of adjusting entries, since these records are in possession of the former Active Fund Certified Public Accountant, who refused to provide them to the Active Fund. As a result, we reviewed the Active Fund's cash disbursement journal and bank statements for Fiscal Year 1999 to account for all checks paid, outstanding, and voided. We also traced all \$176,738 in administrative expenses from the Active Fund's Fiscal Year 1999 cash disbursements journal to supporting documentation, which included vendor

³ We are also conducting a separate audit—Audit #FL03-088A—of the Local 300 S.E.I.U. Civil Service Forum Retired Employees Welfare Fund (Retiree Fund). The results of that audit will be covered in a separate report.

invoices, expense allocation reports, and payroll records, to determine whether these expenditures were properly recorded, reasonable, and appropriate.

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:

- **Prescription Drugs Benefit:** To determine whether payments made to Value Rx, Inc. (Value), the Active Fund's third party administrator, were for eligible members and their dependents, we traced 100 claims listed on Value's March 1999 Utilization Reports to the Active Fund membership cards and files. 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.
- **Dental Benefits:** To determine whether payments for dental claims processed by Daniel H. Cook Associates (Cook), the Active Fund's third party administrator, were for eligible members and their dependents, we traced 195 claims from Cook's Check Register for January 1999 to the Active Fund membership cards and files to verify member eligibility. We also determined 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 determined whether a marriage certificate, child's birth certificate, or other proof of dependency was on file.
- **Optical Benefit:** We reviewed the 106 optical vouchers processed in December 1998. Specifically, we traced the users or members listed on the vouchers to the Active Fund membership cards and files 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 Active 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:** Four Active Fund death claims were processed during Fiscal Year 1999. We traced the members listed on these claims to their membership cards and files to confirm eligibility. We also determined whether death certificates and designated beneficiary forms were on file to support the payments.
- **Disability Benefit:** We traced all 21 members listed on the Active Fund Disability Check Register for July 1, 1998–June 30, 1999, to their membership cards and the City's Payroll Management System to confirm eligibility. We also reviewed the corresponding claims for clerical accuracy and compliance with the 18-week timeframe imposed by the Active Fund for claim submission.
- **Hearing Aid Benefit:** We reviewed the two Hearing Aid claims paid during Fiscal Year 1999. We traced recipients to the Active Fund membership cards and files to verify

eligibility. We also determined whether the reimbursements were in accordance with the Active Fund fee schedule.

- Podiatry Benefit: We reviewed the eight payments listed on the Active Fund's check register during Fiscal Year 1999. We traced recipients to their membership cards and files to confirm eligibility. We also determined whether proper documentation, such as invoices and canceled checks, was on file to support the payments.
- Legal Benefit: We intended to review use of the Active Fund's legal benefit during Fiscal Year 1999. However, the Active Fund and its legal benefit provider were unwilling to provide the requested information concerning users. (See Scope Limitation below.)

To determine the accuracy of employee time and leave balances, we reviewed timekeeping records for all Active Fund employees for Fiscal Year 1999.

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.

Scope Limitation

As mentioned earlier, we intended to review the use of the Active Fund's legal benefit. In that regard, we requested from the Active Fund a list of all individuals who received legal benefits during Fiscal Year 1999. However, the Active Fund and its legal benefit provider (Mirkin & Gordon) were unwilling to provide this information. In a letter dated December 19, 2002, the provider stated:

“Please advise the undersigned on what basis you consider same possible consistent with the Code of Professional Responsibility, governing the conduct of attorneys, without the consent of the said individual clients.”

Consequently, we were unable to determine whether only eligible members received this benefit. (A copy of the letter from Mirkin and Gordon is attached to this report.)

In addition, the Active Fund could not provide us with the general ledgers, trial balance, and records of adjusting entries, since these records are in possession of the former Active Fund Certified Public Accountant, who refused to provide them to the Active Fund. Therefore, we were unable to reconcile the Active Fund's certified financial statements with its cash receipts, disbursements journals, and other related documentation.

Discussion of Audit Results

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 held on April 2, 2003. On April 23, 2003, we submitted a draft report to officials of the Active Fund with a request for comments. We received a written response from the Active Fund on May 5, 2003, which described the actions taken by Fund officials to address the report's findings and recommendations. According to Active Fund officials, most of the problems noted in the report are attributable to the practices of the prior Board of Trustees and accountant.

The full text of the comments from the Active Fund is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

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

- **Operating deficits are depleting the Active Fund's reserves.** Fiscal year 1997, 1998, and 1999, operating deficits of \$171,646, \$336,673, and \$149,014, respectively have decreased Active Fund reserves by 30.44 percent, from \$2,159,243 on July 1, 1996, to \$1,501,910 on June 30, 1999. If these operating deficits continue, the Active Fund could become insolvent, which would significantly affect its ability to provide benefits to its members. We should note that part of these deficits resulted from the Retiree Fund's not paying its share of common expenses totaling \$389,468 to the Active Fund⁴.
- **The Active Fund paid an employee for 13 days that she did not work.** For a period of 13 weeks, one employee was paid for four days a week but worked only three days a week. Consequently, the employee received overpayments totaling \$910 during the audit period (13 days@\$70 per day = \$910). Moreover, this employee was paid for 18 days for which there were no timesheets supporting the days actually worked. Therefore, we were unable to determine whether this employee was entitled to an additional \$1,260 in payments.
- **The Active Fund made questionable payments to its employees and did not maintain Personnel/Leave Records.** One employee was paid \$17,500 for a "deferred compensation plan . . . in lieu of a retirement plan" and another was paid \$2,000 for an individual retirement account even though the Fund has no policy regarding such payments. In addition, the former Fund Administrator was paid \$2,896 for unused vacation time the propriety for which we could not determine since the Active Fund did not maintain any personnel records detailing the dates of hire, original salaries, salary changes, additional compensation, and terminations. Nor did the Active Fund maintain leave records detailing accrual and usage of vacation or sick leave.
- **The Active Fund reimbursed trustees for \$3,761 in questionable travel expenses.** This included \$3,154 in undocumented expenses and \$607 in personal or inappropriate expenses.
- **The Active Fund's financial statements and Directive 12 filing did not accurately report benefit and administrative expenses for Fiscal Year 1999.** Specifically,

⁴ The amount owed by the Retiree Fund includes \$217,485 in common expenses such as payroll, rent and office supplies that was allocated to the Retiree Fund prior to 1995. In addition, due to the Retiree Fund's fiscal difficulties, the Active Fund did not allocate approximately \$171,983 in common expenses for Fiscal Years 1996 through 1999.

benefit expenses were overstated and administrative expenses were understated by \$30,278.

- **The Active Fund made improper benefit payments totaling \$6,022.** Specifically, the Fund overpaid disability benefits totaling \$3,880, it paid optical benefits totaling \$1,833 to five individuals or optical providers where the files did not contain documentation of the expense, and it paid \$309 to ineligible individuals for prescription drugs benefits.
- **The Active Fund paid 95 claims for dependents whose eligibility was not documented.** Despite requiring members to submit birth certificates, marriage licenses, or bursar's receipts to support a dependent's eligibility when initially enrolling or when adding or deleting dependents, such documentation was not evident in the Active Fund's files. After the exit conference, the Fund's attorney provided us with documentation supporting the eligibility of dependents for 26 of these claims.
- **The Active Fund's cash disbursements journal did not include \$36,851 of the expenses paid during the audit period.** We were unable to determine whether these expenses were reported on the Active Fund's financial statements.
- **The Union Owes the Active Fund \$3,810.** Insurance proceeds belonging to the Active Fund were inappropriately deposited into a Union bank account.

Operating Deficits Are Depleting Active Fund Reserves

The Active Fund's certified financial statements reported operating deficits of \$171,646, \$336,673, and \$149,014, in Fiscal Years 1997, 1998, and 1999, respectively. As a result, Active Fund reserves decreased by 30.44 percent, from \$2,159,243 on July 1, 1996, to \$1,501,910 on June 30, 1999. If Active Fund operating deficits and depletion of Active Fund reserves continues, the Fund could become insolvent, which would significantly affect its ability to provide benefits to its members.

We should note that according to the Active Fund's certified financial statements, the Local 300 S.E.I.U. Civil Service Forum Employees Retiree Welfare Fund (Retiree Fund) owes the Active Fund \$217,485 for common expenses, such as payroll, rent, and office supplies. In addition, according to Active Fund officials, the Active Fund Trustees discontinued allocating common expenses to the Retiree Fund in 1994 because the Retiree Fund did not have sufficient net assets. As a result, the Active Fund did not allocate approximately \$171,983 to the Retiree Fund for common expenses for Fiscal Years 1996, 1997, 1998, and 1999 (certified financial statements were not available for Fiscal Year 1995). Consequently, the Retiree Fund owes the Active Fund \$389,468 (\$217,485 + \$171,983). We should note that the Retiree Fund made a payment of \$313,334 to the Active Fund on December 20, 2002. However, based on our calculation, the Retiree Fund still owes the Active Fund \$76,134 (\$389,468 - \$313,334).

The Trustees, in their fiduciary capacity, should consider the financial health of the Active Fund in future decisions regarding the reduction of administrative and benefit expenses, as well as the allocation of common expenses to the Retiree Fund.

Recommendation

1. The Active Fund's Trustees should take immediate action to eliminate the Fund's operating deficit and thereby ensure its financial viability.

Fund Response: "On December 20, 2002, pursuant to a formal action by the Board of Trustees of the Active Fund at its meeting held December 5, 2002, and consistent with the written recommendation of the Active Fund's accountant dated December 4, 2002, the Active Fund was fully reimbursed for all outstanding Retiree Fund expenses, as allocated by the Fund's Accountant. In addition, at said meeting on December 5th, the Trustees directed that all future expenses attributable to the Retiree Fund, incurred by the Active Fund, shall be immediately reimbursed to the Active Fund at the close of the fiscal year, as recommended by the Fund Accountant pursuant to his annual allocation of expenses."

Active Fund Paid an Employee for 13 Days That She Did Not Work

The Active Fund paid an employee for 13 days that she did not work. For a period of 13 weeks, the employee was paid for four days a week but worked only three days a week. Consequently, the employee received overpayments totaling \$910 during the audit period (13 days @ \$70 per day = \$910).

Moreover, this employee was paid for 18 days for which there were no timesheets supporting the days actually worked. Therefore, we were unable to determine whether she is entitled to an additional \$1,260 in payments.

Recommendations

The Active Fund Trustees should:

2. Ensure that Fund employees are paid only for days actually worked.
3. Determine whether it can recoup the \$910 from the overpaid employee.

Fund Response: "Since neither party can verify whether or not the employee worked on the nine (9) days in question without the appropriate timesheets, the employee has agreed to make restitution to the Fund. With respect to "18 days for which there were no timesheets supporting the days actually worked" we provided an accounting for the holidays for which employees of the Fund receive compensation (accounting for 5 days); approved days off (accounting for at least 1 day); and in light of the more than twenty

(20) years of employment with the Funds, thus pursuant to the regularity, the remaining days for which she was compensated were valid. Furthermore, as your office knows, the Funds experienced a fire in the office, which resulted in a loss of documentation. However, during the audit, and otherwise, the Funds have continuously attempted to reconstruct the lost information.”

The Active Fund Made Questionable Payments to Fund Employees and Did Not Maintain Personnel/Leave Records

The Fund made \$22,396 in questionable payments to Active Fund employees. Specifically, the Active Fund paid the former Fund Administrator \$17,500 (an additional \$17,500 was paid prior to our audit period), which according to Board of Trustee minutes were for a “deferred compensation plan . . . in lieu of a retirement plan.” The Active Fund, however, neither has a policy covering retirement benefits nor has it set up a deferred compensation or retirement plan for its employees. In addition, the Active Fund paid another employee \$2,000 for an individual retirement account. However, the Active Fund neither has a policy covering IRA payments nor has it set up such retirement accounts for its employees. Finally, the Active Fund also paid the former Administrator \$2,896 for four weeks of unused vacation, which purportedly was from fiscal years 1997 and 1998.

In addition, even if there were a policy and a plan, we would not have been able to determine if these payments were appropriate since the Active Fund did not maintain any personnel records detailing the dates of hire, original salaries, salary changes, additional compensation, and terminations. Nor did the Active Fund maintain leave records detailing accrual and usage of vacation or sick leave. Without these records, we could not determine whether these employees were entitled to these payments.

We question why the Active Fund’s Board of Trustees approved these payments given the facts noted above.

Recommendation

4. Active Fund trustees should ensure that all disbursements are adequately supported. In that regard, the Active Fund should maintain adequate personnel and leave records to support payments to its employees.

Fund Response: “The current Board of Trustees is ensuring that the Fund continues to maintain adequate personnel and leave records for the Fund’s employees.”

Questionable Travel Expense Payments

During the audit period, the Active Fund paid a total of \$11,122 in travel-related expenses. However, we question \$3,761 of this amount, as follows:

- \$3,154 was paid to four Trustees as reimbursement for their food and other expenses while traveling on Fund business. However, the Trustees did not provide receipts to document the expense. The Active Fund's travel, conference, and meeting policy requires that "all expenses [be] substantiated."
- \$607 was paid to Trustees as reimbursement of expenses that were of a personal nature or were inappropriate. Specifically, Trustees were paid for golf cart rental, baseball tickets, and alcoholic beverages.

Recommendation

5. The Active Fund should recoup the \$3,761 it paid Trustees for questionable travel expenses.

Fund Response: "Those, however, found to have been lacking 'back-up documentation' involved expenses which were less than \$25.00 each. This was the result of a past policy, implemented by the then President, Chairperson and Fund Administrator, Judith Hunter Rhodes, who advised members of the Board that receipts were not required for expenses under \$25.00."

The Active Fund Misstated Benefit and Administrative Expenses on Its Financial Statements and Its Directive 12 Filing

The Active Fund's financial statements did not accurately report benefit and administrative expenses for Fiscal Year 1999. Benefit expenses were overstated by \$30,278, and administrative expenses were understated by the same amount. The financial statements included \$25,200 in dental administrative fees and \$5,078 in prescription drug administrative fees as benefit expenses rather than administrative expenses. Comptroller's Directive 12 states that all administrative fees should be classified as administrative expenses. We found that the misstatements were immaterial to the financial statements taken as a whole.

Recommendation

6. In accordance with Directive 12, the Active Fund should ensure that all dental and prescription drug administrative fees are classified as administrative expenses rather than benefit expenses on its financial statements and Directive 12 filings.

Fund Response: "All filings beginning with the Fund's June 30, 2000 Fiscal Year End have properly reported the above-mentioned expenses. The Fund's financial statements

are also now presented in accordance with Generally Accepted Accounting Principles (GAAP) as required by Directive 12.”

Improper Benefit Payments

The Active Fund made improper benefit payments totaling \$6,022. Of the 438 claims reviewed, we found 16 instances where the Active Fund paid for benefits that were not in accordance with its guidelines. Specifically, the Active Fund:

- Overpaid \$3,880 to eight members for disability benefits. According to the Fund’s benefit book “benefits are payable after the exhaustion of paid leave (annual and sick) or after the seventh day of disability, if the member receives less than seven days of paid leave.” These individuals were paid even though their leave was not exhausted.
- Paid \$1,833 as optical reimbursements to five individuals or optical providers where the files did not contain documentation of the expense. The files should have included the optical voucher, receipt, or invoice showing the services rendered and the amount paid.
- Paid \$309 to two ineligible individuals for prescription drugs. In each of these instances the individual(s) was not listed on the contribution report received from the City’s Office of Labor Relations, the Active Fund’s list of members, or on PMS.

Recommendation

7. The Active Fund should ensure that benefits are only paid to eligible individuals and are made in accordance with the Active Fund’s guidelines for the service provided.

Fund Response: “The amount of benefits payments in question, \$6,022, represents less than one-half of one percent of all benefits paid out for the fiscal year and is thus *de minimis*.

- “Regarding the overpayment of \$3,880 to eight members for disability benefits you cite in your report, it was Sal Cangiarella’s, the former President’s, policy to pay disability benefits irrespective of sick leave. He failed to amend the plan of benefits to be consistent with practice.
- “Regarding the overpayment of \$1,833 for optical reimbursements you cite in your report, . . . Fund Counsel provided substantiation for \$1,466.50 of that amount. In fact, \$1,300 of the claimed ‘mispayment’ was actually a payment to a pharmacy benefit manager (‘PBM’) auditing service, which amount represented a percentage of the amount recovered by the Active Fund from the PBM as a result of the audit. Fund Counsel provided a copy of the contract for said auditing services to your office.

- “Regarding prescription drug benefits totaling \$309 to ineligible individuals cited in your report, and once again, subsequent to the exit conference, Fund Counsel provided your office with copies of eligibility run from CUNY for the member cited, for a total of \$307.03 in claims duly paid.”

Auditor Comment: Contrary to its response, the Fund did not provide documentation to support any portion of the \$1,833 in optical reimbursements questioned in the report. Moreover, the individual who received the \$307.03 in prescription drug benefits was not listed on the contribution reports for the audit period. Thus, he was not eligible for those benefits.

Claims Paid for Dependents Whose Eligibility Was Not Documented

Of the 438 claims reviewed, 156 were for services provided to individuals who were listed as dependents of eligible members. The Active Fund, however, did not have documentation in its files (i.e., birth certificates, marriage licenses, or bursar’s receipts) showing that the individuals were in fact eligible dependents. In fact, such documentation was missing in 95 (61%) of the 156 claims paid for dependents that we reviewed.

According to the Active Fund’s Chairman, members are required to submit all necessary documents to prove eligibility of their dependents when members initially enroll or when they want to add or delete dependents. Despite this requirement, as previously stated, the Active Fund did not have copies of dependents’ birth certificates, marriage certificates, or bursar’s receipts in 61 percent of the cases reviewed. Requiring such documentation from its members would help the Active Fund to ensure that they provide benefits only to eligible members.

After the exit conference, the Fund’s attorney provided us with documentation supporting the eligibility of dependents for 26 of the 95 claims.

Recommendation

8. The Active Fund should maintain in members’ permanent files copies of all documentation that shows the eligibility of dependents.

Fund Response: “Fund Counsel has provided documentation for 28 of these claims. The Active Fund continues in its endeavors to recreate these files in order to bring all into compliance with its ongoing policy of eligibility verification.”

The Active Fund’s Cash Disbursements Journal Did Not Include \$36,851 of the Expenses Paid

Our review of the Active Fund’s bank statements revealed that records of disbursements totaling \$36,851 were missing from the Active Fund’s cash disbursements journal. The cash disbursement journal is made up of loose ledger pages that may have been lost or misplaced.

Accordingly, we could not determine whether the \$36,851 of expenditures was included in the financial statements for Fiscal Year 1999.

Recommendation

9. Active Fund Trustees should ensure that the Active Fund's cash disbursements journal is complete and accurate.

Fund Response: "Beginning with the Fund's June 30, 2000 Fiscal Year End all Fund transactions are posted in a new accounting system (QuickBooks Pro). The system is maintained on the cash basis and includes all transactions for all bank accounts. Each bank account is reconciled to bank statements monthly on the system ensuring complete and accurate records.

"The former Active Fund's Accountant you reference in this section of your report was such for many years prior to the present Board of Trustees and was criticized by the present Board of Trustees in the past for his failure to comply with Directive 12 requirements. Unfortunately, the former Fund Accountant repeated that non-compliance and was fired by the present Board of Trustees prior to the commencement of this audit."

The Union Owes the Active Fund \$3,810

On July 15, 1998 a fire damaged the premises where the Active Fund and the Union had their offices. The Active Fund maintained business interruption and business property insurance with the Ulico Casualty (Ulico) insurance company. Ulico issued two checks to the "Local #300 C.S.E. AFL-CIO Employee Welfare," totaling \$3,810 as settlement of the Fund's claim. The checks, however, were not deposited into the Active Fund's bank account. Instead, these funds were deposited into a Union bank account. Since the insurance policy was paid for by the Fund, the proceeds should have been deposited in the Fund's bank account.

Recommendation

10. The Active Fund should recoup the \$3,810 inappropriately deposited in the Union's bank account.

Fund Response: "As a result of the audit by your office, this error was discovered, for which the Board of Trustees expresses its gratitude. Unfortunately, the failure of such a discovery by the Active Fund's former accountant is further evidence of his incompetence. The matter was immediately referred to the current accountant for verification and correction."

**SEIU LOCAL 300 CIVIL SERVICE FORUM
ACTIVE EMPLOYEES WELFARE FUND**

180 Broadway, Suite 800
New York, NY 10038
(212) 267-1022

May 5, 2003

Greg Brooks, Deputy Comptroller
The City of New York
Office of The Comptroller
Bureau of Audits
1 Centre Street, Room 1300
New York, NY 10007-2341

**Re: Response to Audit Report on the Financial and Operating Practices of the Local 300,
S.E.I.U. Civil Service Forum Employees Welfare Fund ("Fund") for fiscal year July 1,
1998 through June 30, 1999**

Dear Mr. Brooks:

-We received the draft Audit Report of your office dated April 23, 2003, for the above-referenced period. This constitutes the Fund's response to the recommendations contained therein. (It should be noted at the outset that the audit covers a period during which the Fund was administered by a former Board of Trustees, the Chairperson of which was the former Union President.)

"Findings and Recommendations"

pages 8 - 9

Finding: *"Operating deficits are depleting the Active Fund's reserves."*

Response: The footnote indicates, incorrectly, that, "the Retiree Fund owes the Active Fund \$389,468." On December 20, 2002, pursuant to a formal action by the Board of Trustees of the Active Fund at its meeting held December 5, 2002, and consistent with the written recommendation of the Active Fund's accountant dated December 4, 2002, the Active Fund was fully reimbursed for all outstanding Retiree Fund expenses, as allocated by the Fund's Accountant. In addition, at said meeting on December 5th, the Trustees directed that all future expenses attributable to the Retiree Fund, incurred by the Active Fund, shall be immediately reimbursed to the Active Fund at the close of the fiscal year, as recommended by the Fund Accountant pursuant to his annual allocation of expenses.

Findings: *"The Active Fund paid an employee for 13 days that she did not work."*

Response: Since neither party can verify whether or not the employee worked on the nine (9) days in question without the appropriate timesheets, the employee has agreed to make restitution

to the Fund. With respect to "18 days for which there were no timesheets supporting the days actually worked" we provided an accounting for the holidays for which employees of the Fund receive compensation (accounting for 5 days); approved days off (accounting for at least 1 day); and in light of the more than twenty (20) years of employment with the Funds, thus pursuant to regularity, the remaining days for which she was compensated were valid. Furthermore, as your office knows, the Funds experienced a fire in it the office which resulted in a loss of documentation. However, during the audit, and otherwise, the Funds have continuously attempted to reconstruct the lost information.

Finding: *"The Active Fund made questionable payments to its employees and did not maintain Personnel/Leave Records."*

Response: The current Board of Trustees is ensuring that the Fund continues to maintain adequate personnel and leave records for the Fund's employees.

The employee specifically referred to by this office in its audit, the same employee who is the subject of the previous recommendation, has now reached the age of 86. At the time of the transaction you cite, she was 83 and appealed to the Trustees for payment of her previously agreed upon "deferred compensation in lieu of retirement plan benefit". Unfortunately, the prior Administration had not made an arrangement for this devoted and loyal employee and it was left to the then Board of Trustees to address the issue in an appropriate and equitable way. The Trustees turned to the Fund Counsel and Accountant for advice as to the appropriateness of doing same. Both advised that it was unusual, but inappropriate not to do anything. This matter was discussed by the previous Board of Trustees on several occasions, at formal meetings thereof, at which time the Chairperson was authorized to negotiate with the subject employee as to the payment arrangements for the agreed upon sum.

Finding: *"The Active Fund reimbursed trustees for \$3,761 in questionable expenses."*

Response: As indicated in your office's audit notes and tables, an overwhelming majority of the expenses incurred by the Board of Trustees in their attendance at educational conferences were accounted for in the appropriate expense reports with receipts. Those, however, found to have been lacking "back-up documentation" involved expenses which were less than \$25.00 each. This was the result of a past policy, implemented by the then President, Chairperson and Fund Administrator, Judith Hunter Rhodes, who advised members of the Board that receipts were not required for expenses under \$25.00.

The transaction involving payment to Ms. Rhodes from the Union apparently failed to give rise to receipts. Judith Hunter Rhodes received a check from the Union to reimburse her expenses for a Fund authorized trip. The Union then received reimbursement from the Fund for that amount. This Union practice did not afford the appropriate standard of requiring receipts under Directive 12.

Finding: *"The Active Fund's financial statements and Directive 12 filing did not accurately report benefit and administrative expenses for Fiscal Year 1999."*

Response: On behalf of the Active Fund, its Accountant, Stephen T. Schlapp, CPA of Gould Kobrick & Schlapp, P.C., responds as follows:

"As auditor's to many NYC benefit plans the Fund's current auditor's are well aware of the Comptroller's requirements for reporting administrative expenses on the Key Ratio Schedules included in Directive 12 Filings. As such, all filings beginning with the Fund's June 30, 2000 Fiscal Year End have properly reported the above-mentioned expenses. The Fund's financial statements are also now presented in accordance with Generally Accepted Accounting Principles (GAAP) as required by Directive 12."

Finding: *"The Active Fund made improper benefit payments totaling \$6,022."*

Response:

The amount of benefits payments in question, \$6,022, represents less than one-half of one per cent of all benefits paid out for the fiscal year and is thus *de minimis*.

- Regarding the overpayment of \$3,880 to eight members for disability benefits you cite in your report, it was Sal Cangiarella's, the former President's, policy to pay disability benefits irrespective of sick leave. He failed to amend the plan of benefits to be consistent with practice.
- Regarding the overpayment of \$1,833 for optical reimbursements you cite in your report, subsequent to the exit conference, at which time your office provided an itemization of the purported unsubstantiated benefit payments, Fund Counsel provided substantiation for \$1,466.50 of that amount. In fact, \$1,300 of the claimed "mispayment" was actually a payment to a pharmacy benefit manager ("PBM") auditing service, which amount represented a percentage of the amount recovered by the Active Fund from the PBM as a result of the audit. Fund Counsel provided a copy of the contract for said auditing services to your office.
- Regarding prescription drug benefits totaling \$309 to ineligible individuals cited in your report, and once again, subsequent to the exit conference, Fund Counsel provided your office with copies of eligibility run from CUNY for the member cited, for a total of \$307.03 in claims duly paid. We are unaware of a "mis-payment" for the remaining \$1.48.

Finding: *"The Active Fund paid 95 claims for dependents whose eligibility was not documented."*

Response: We appreciate the recognition by your office that Fund Counsel provided the Comptroller's Office with documentation supporting the eligibility of 26 dependents; however, to date, Fund Counsel has provided documentation for 28 of these claims. The Active Fund

continues in its endeavors to recreate these files in order to bring all into compliance with its ongoing policy of eligibility verification.

Finding: *"The Active Fund's cash disbursements journal did not include \$36,851 of the expenses paid during the audit period."*

Response: On behalf of the Fund, its Accountant, Stephen T. Schlapp, CPA of Gould Kobrick & Schlapp, P.C., responds as follows:

"Beginning with the Fund's June 30, 2000 Fiscal Year End all Fund transactions are posted in a new accounting system (QuickBooks Pro). The system is maintained on the cash basis and includes all transactions for all bank accounts. Each bank account is reconciled to bank statements monthly on the system ensuring complete and accurate records."

Furthermore, on page 5, paragraph 4 under "Scope and Methodology" you state the following:

"However, the Active Fund could not provide us with general ledgers, trial balance, and records of adjusting entries, since these records are in possession of the former Active Fund Certified Public Accountant, who refused to provide them to the Active Fund."

The former Active Fund's Accountant you reference in this section of your report was such for many years prior to the present Board of Trustees and was criticized by the present Board of Trustees in the past for his failure to comply with Directive 12 requirements. Unfortunately, the former Fund Accountant repeated that non-compliance and was fired by the present Board of Trustees prior to the commencement of this audit. Despite numerous attempts by the Fund's Trustees to obtain from the former Fund Accountant, records requested by both the Comptroller's auditors and the Active Fund's current accountant, he failed and refused to provide same. Because of these unprofessional practices, the current Board of Trustees had authorized litigation against the former Accountant, which litigation has, at this time, commenced.

The current Board of Trustees has retained the accounting firm of Gould Kobrick & Schlapp, P.C. and worked with Steve Schlapp, who has been able to issue financial statements for all fiscal years subsequent to the subject fiscal year, as well as all filings required by Directive 12.

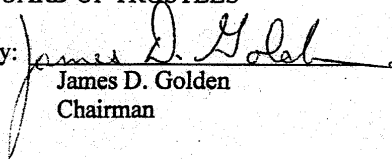
Finding: ***"The Union owes the Active Fund \$3,810."***

Response: As a result of the audit by your office, this error was discovered, for which the Board of Trustees expresses its gratitude. Unfortunately, the failure of such a discovery by the Active Fund's former accountant is further evidence of his incompetence. The matter was immediately referred to the current accountant for verification and correction.

Very truly yours,

BOARD OF TRUSTEES

By:


James D. Golden
Chairman