AUDIT REPORT

CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER


FL09-099A

September 30, 2009
To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has examined the financial and operating practices of the Superior Officers Council Health and Welfare Fund (Active Fund) for the period July 1, 2006 through June 30, 2007.

Under the terms of its agreement with the City, the Active Fund receives City contributions and provides health and welfare benefits to New York City Police Officers with the rank of Captain and Lieutenant and their eligible dependents. Audits such as this provide a means of ensuring that benefit funds are spending public monies in the best interest of their members and are complying with applicable City procedures and reporting requirements.

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

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,

William C. Thompson, Jr.

WCT/fh

Report: FL09-099A
Filed: September 30, 2009
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ADDENDUM Superior Officers Council Health and Welfare Fund Response
The City of New York  
Office of the Comptroller  
Bureau of Financial Audit  

Audit Report on the  
Financial and Operating Practices of the  
Superior Officers Council Health & Welfare Fund  
Of the New York City Police Department  

FL09-099A  

AUDIT REPORT IN BRIEF  

The Superior Officers Council Health & Welfare Fund (Active Fund) provides health and welfare benefits to New York City Police Officers with the rank of Captain and Lieutenant, and their eligible dependents. It receives contributions from the City of New York. 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.

We performed an audit on the financial and operating practices of the Active Fund for Fiscal Year 2007. As of June 30, 2007, the Active Fund reported $3,739,844 in City contributions and net assets of $4,022,166.

Audit Findings and Conclusions  

The Active Fund generally complied with the procedures and reporting requirements of Directive #12. In addition, except for the Prescription Drug Benefit and the Catastrophic Benefit, 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 generally 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.
- Misclassified benefit and administrative expenses.
- Did not maintain documentation to support its Prescription Drug benefit and its Catastrophic benefit payments, totaling $3,123,171—71 percent of its benefit payments.
- Made questionable benefit payments totaling $3,330.
- Paid claims for dependents whose eligibility was not documented.
- Is owed $1,473 by the unions.
- Does not maintain employee attendance records.
Audit Recommendations

To address these issues, we made seven recommendations, that the Active Fund should:

- Take immediate action to eliminate the Fund’s operating deficit and thereby ensure its financial viability.
- Ensure that administrative and benefit expenses are recorded accurately on its Directive #12 filing and accurately calculate and submit its key ratios, in accordance with Comptroller’s Directive #12.
- Recoup $1,473 from the unions for their share of the telephone expense.
- Ensure that it pays for benefits only for eligible individuals, in accordance with its guidelines.
- Maintain copies of all documentation in members’ permanent files to substantiate eligibility of dependents.
- Create and implement written time-keeping procedures and maintain daily attendance records for its employees.
- Maintain all supporting documentation to substantiate City contributions, member eligibility, and benefit use. These documents should include, but not be limited to, the City contribution reports, Pharmacy Billing Detail for Drug Mail Orders, and a complete list of participants recorded on the catastrophic premium billings that were missing during our audit period.
INTRODUCTION

Background

The Superior Officers Council Health & Welfare Fund (Active Fund) was established on May 5, 1965, under the provisions of a Fund Agreement between the City of New York and the Captains Endowment Association (Captains Union) and Lieutenants Benevolent Association (Lieutenants Union) and a Declaration of Trust. The Active Fund provides health and welfare benefits to New York City Police Officers with the rank of Captain and Lieutenant. The Active Fund also provides benefits to members’ spouses and dependents. The Active Fund received $3,739,844 in City contributions for Fiscal Year 2007.

The Active Fund is required to conform to Comptroller’s Directive #12, “Employee Benefit Funds—Uniform Reporting and Auditing Requirements,” which sets forth accounting, auditing and financial guidelines for funds and their boards of trustees. Table I (on page 2) shows the benefits that were available to the 2,555 members of the Active Fund and the total amount reportedly paid for each type of benefit during Fiscal Year 2007.¹

Table I

Active Fund Benefits and Amounts Paid as Reported by the Active Fund  
Fiscal Year 2007

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Amount</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prescription</td>
<td>$3,080,482</td>
<td>Members and their dependents are entitled to a maximum family benefit of $15,000 per year.</td>
</tr>
<tr>
<td>Drugs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dental</td>
<td>$1,119,120</td>
<td>Each member selects either the Self-Insured Plan or the Comprehensive Plan. If the member selects the Self-Insured Plan, the member is reimbursed by the Active Fund based on a fee schedule. If the member selects the Comprehensive Plan, the member and eligible dependents are assigned to a participating dentist and are provided services listed in its Dental Care Program generally without any out-of-pocket expense. However, some procedures require a co-payment between $50 and $150.</td>
</tr>
<tr>
<td>Optical</td>
<td>$166,914</td>
<td>Members and eligible dependents are entitled to one eye examination and one pair of prescription eyeglasses each year, from a participating optical provider.</td>
</tr>
<tr>
<td>Catastrophic</td>
<td>$42,689</td>
<td>For Group Health Incorporated (GHI) members only.</td>
</tr>
</tbody>
</table>

¹ According to the Trustees’ Management Letter, the Active Fund had 2,555 members during Fiscal Year 2007. The number of members varies during the year because of new hires, retirements, suspensions, etc.
<table>
<thead>
<tr>
<th>Benefit</th>
<th>Amount</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td></td>
<td>Members and their eligible dependents are entitled to be reimbursed for medical and hospital charges—lifetime maximum of $250,000 per person with a $3,000 annual family deductible—that are considered reasonable and customary by GHI and that are not reimbursed by either the City Health Plan or by private insurers with the following limitations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Private Nursing Care – GHI pays the first $25,000 and thereafter, 50% of the remainder, with a lifetime cap of $50,000 per person.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Mental Health – GHI pays for hospital mental health charges up to a lifetime maximum of $10,000 per person.</td>
</tr>
<tr>
<td>Extended Health</td>
<td>$15,376</td>
<td>For Health Insurance Plan of New York/Health Maintenance Organization (HIP/HMO) members only. The Active Fund pays the premium for those members who opt for the HIP/HMO optional rider, private duty nursing, and appliances.</td>
</tr>
<tr>
<td>Total</td>
<td>$4,424,581</td>
<td></td>
</tr>
</tbody>
</table>

During Fiscal Year 2007, the Active Fund provided benefits through contracts with Empire Blue Cross and Blue Shield (prescription drugs, and comprehensive dental plan), Healthplex, Inc. (self-insured dental plan), Dentcare Delivery Systems (comprehensive dental plan), Group Health Incorporated (catastrophic health), and Health Insurance Plan of New York (extended medical). Optical benefits were provided through Davis Vision.

As of June 30, 2007, the Active Fund reported net assets of $4,022,166. Table II, below, summarizes the Active Fund’s audited financial data, as reported by the Active Fund, for the years ending June 30, 2006, and June 30, 2007.
Table II
Summary of the Active Fund’s Reported Revenues and Expenses

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>% of Total Revenue</th>
<th>2007</th>
<th>% of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Contributions</td>
<td>$3,909,726</td>
<td>98.18%</td>
<td>$3,739,844</td>
<td>95.60%</td>
</tr>
<tr>
<td>Investment or Other Income</td>
<td>65,654</td>
<td>0.17%</td>
<td>167,923</td>
<td>4.29%</td>
</tr>
<tr>
<td>COBRA</td>
<td>6,683</td>
<td>1.65%</td>
<td>4,206</td>
<td>0.11%</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$3,982,063</td>
<td>100%</td>
<td>$3,911,973</td>
<td>100%</td>
</tr>
<tr>
<td>Benefit Expenses</td>
<td>4,120,485</td>
<td>103.48%</td>
<td>4,424,581</td>
<td>113.10%</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>170,209</td>
<td>4.27%</td>
<td>175,325</td>
<td>4.48%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$4,290,694</td>
<td>107.75%</td>
<td>$4,599,906</td>
<td>117.59%</td>
</tr>
<tr>
<td>Excess (Deficiency) of Revenue</td>
<td>$(308,631)</td>
<td></td>
<td>$(687,933)</td>
<td></td>
</tr>
<tr>
<td>Fund Balance (Beginning of Year)</td>
<td>$5,018,730</td>
<td></td>
<td>$4,710,099</td>
<td></td>
</tr>
<tr>
<td>Fund Balance (End of Year)</td>
<td>$4,710,099</td>
<td></td>
<td>$4,022,166</td>
<td></td>
</tr>
</tbody>
</table>

We should note that we are also conducting a separate audit, Audit # FL09-100A, of the Superior Officers Council Retiree Health and Welfare Fund of the New York City Police Department (Retiree Fund). The results of that audit will be covered in a separate report.

Objective

The objectives of the audit were to determine whether the Active Fund: complied with applicable procedures and requirements of Comptroller’s Directive #12, had adequate and proper benefit-processing and accounting procedures and complied with them, and paid administrative expenses that were appropriate and reasonable.
Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), except for our inability to obtain sufficient appropriate evidence to test and determine whether the Active Fund had appropriately provided Prescription Drugs and Catastrophic Health benefits to its members in accordance with its benefit-processing procedures. This issue is more fully disclosed in the subsequent paragraph. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The Active Fund reported payments of $3,080,482 for Prescription Drugs and $42,689 for Catastrophic Health premiums, totaling $3,123,171. The Active Fund was unable to provide us with the Pharmacy Billing Detail for Drug Mail Orders and a complete list of participants listed on the premium billings for Catastrophic Benefits. We were therefore unable to test and determine whether the Active Fund had appropriately provided these benefits in accordance with its benefit-processing procedures.

To achieve our audit objectives, we reviewed the Active Fund’s financial and operating practices for the period July 1, 2006, through June 30, 2007—the period covered by the most recent Directive #12 filing available when we began the audit. Directive #12 establishes uniform reporting and auditing requirements for City-funded employee benefit plans. We obtained the Active Fund’s Directive #12 filings with the Comptroller’s Office, which included its financial statements, federal tax return, and other required schedules. We determined whether the Active Fund complied with the significant terms and conditions of Directive #12 by checking its filings of:

- annual certified financial statements prepared in accordance with generally accepted accounting principles that were attested to by a Certified Public Accountant (CPA), and
- Internal Revenue Service Form 990.

We interviewed the Fund Administrator and reviewed the Active Fund’s Fund Agreement and Trust Agreement to gain an understanding of the contribution and benefit-processing procedures, and prepared flowcharts and memoranda outlining our understanding of these procedures and Active Fund internal controls.

To determine whether all revenues and expenses were properly recorded, we reconciled the Active Fund’s certified financial statements with its trial balance, records of adjusting entries, cash receipts, disbursements journals, and other related documentation. Specifically, we traced revenue amounts for the audit period from the New York City payment vouchers and copies of canceled checks to the Active Fund’s cash receipts journal and bank deposit slips. We also reviewed documentation related to the Active Fund’s investments to determine the accuracy of the amounts reported in the financial statements.
We vouched all reported administrative expenses ($175,325) from the Active Fund’s cash disbursements journal to supporting documentation, which included expense allocation reports, payroll records, and vendor invoices, to determine whether reported administrative expenditures were properly recorded, reasonable, and appropriate.

We randomly sampled the records of 50 of the 2,497 City employees listed on the contribution reports received from the New York City Police Department Payroll Section and compared the employment information contained in the reports to the Fund’s membership records to ascertain whether all eligible employees were included on the Active Fund’s membership records.

To determine the accuracy of the Active Fund’s bank reconciliations and to account for all checks paid, outstanding, and voided, we reviewed Active Fund bank statements for the commercial checking account for Fiscal Year 2007.

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

**Prescription Drugs**

We intended to trace a sample of participants listed on the Pharmacy Billing Detail for Drug Mail Orders for the month of February 2007 from Empire Blue Cross and Blue Shield, the Active Fund’s third-party administrator, to the City contribution reports to verify member eligibility. We also intended to determine whether the prescriptions dispensed were covered by the Active Fund’s prescription drug plan. However, the Active Fund was unable to provide us with either the Pharmacy Billing Detail for Drug Mail Orders or the City contribution reports. As a result, we were unable to perform tests on this benefit.

**Dental Benefit**

For self-insured dental benefits, we intended to trace the participants of 100 randomly sampled dental claims listed on the June 2007 claims register from Healthplex, the Active Fund’s third party administrator, to the City contribution reports to verify member eligibility. However, the Active Fund was unable to provide us with the City contribution reports. Therefore, we traced the 100 participants to the City’s Payroll Management System (PMS) to determine whether members were working in covered titles and eligible for benefits. However, it should be noted that without the City contribution reports, we were unable to determine whether the Active Fund received contributions for these members. We were able to determine whether the reimbursements

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2 For our tests of prescription drug benefit expenses, we judgmentally selected February 2007, based on the highest dollar amount the Active Fund paid in prescription drug claims during Fiscal Year 2007.

3 For our tests of self-insured dental benefit expenses, we judgmentally selected June 2007, based on the highest dollar amount the Active Fund paid in self-insured dental claims during Fiscal Year 2007.
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.

For comprehensive dental benefits, we intended to trace 100 randomly sampled participants listed on the September 2006 billing invoices from Empire Blue Cross and Blue Shield and DentCare Delivery Systems, the Active Fund’s dental insurance providers, to the City contribution reports to verify member eligibility. As previously stated, the Active Fund was unable to provide us with the City contribution reports. Therefore, we traced the 100 participants to the City’s PMS to determine whether members were working in covered titles and eligible for benefits. However, it should be noted that without the City contribution reports, we were unable to determine whether the Active Fund received contributions for these members.

Optical Benefits

We intended to trace all 305 optical vouchers processed by the Fund during March 2007 from Davis Vision, the Active Fund’s optical provider, to the City contribution reports to verify member eligibility. Again, the Active Fund was unable to provide us with the City contribution reports. Therefore, we traced all participants to the City’s PMS to determine whether members were working in covered titles and eligible for benefits. However, it should be noted that without the City contribution reports, we were unable to determine whether the Active Fund received contributions for these members. 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.

Catastrophic Benefit

We intended to trace a sample of participants listed on the October 2006 premium billings from Group Health Incorporated (GHI) (the Active Fund’s catastrophic benefit insurance provider) to the City contribution reports to verify member eligibility. However, not only was the Active Fund unable to provide us with the City contribution reports, it was unable to provide us with a complete list of participants listed on the premium billings. Specifically, for members with the rank of Captain, the Active Fund was unable to provide us with a listing of participants whose last name started with A through N. For members with the rank of Lieutenant, the Active Fund was unable to

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4 For our tests of comprehensive dental benefit expenses, we judgmentally selected September 2006, based on the highest dollar amount the Active Fund paid in comprehensive dental premiums during Fiscal Year 2007.

5 For our tests of optical benefit expenses, we judgmentally selected March 2007, based on the highest dollar amount the Active Fund paid in optical claims during Fiscal Year 2007.

6 For our tests of catastrophic benefit expenses, we judgmentally selected October 2006, based on the highest dollar amount the Active Fund paid in catastrophic premiums during Fiscal Year 2007.
provide us with a listing of participants whose last name started with A through R. As a result we were unable to perform tests on this benefit.

**Extended Health Benefit**

We intended to trace all 395 participants listed on the October 2006 billing invoice from Health Insurance Plan of New York (HIP), the Active Fund’s extended health insurance provider, to the City contribution reports to verify member eligibility. Since the Active Fund was unable to provide us with the City contribution reports, we traced all participants to the City’s PMS to determine whether members were working in covered titles and eligible for benefits. However, it should be noted that without the City contribution reports, we were unable to determine whether the Active Fund received contributions for these members. We also determined whether the premiums were calculated correctly and supported with proper 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 on May 15, 2009, and was discussed at an exit conference held on June 3, 2009. On July 29, 2009, we submitted this draft report to Active Fund officials with a request for comments. We received a written response from Active Fund officials on August 24, 2009. While the Active Fund’s response did not address the audit’s recommendations, Active Fund officials described the actions they have taken to address the audit’s findings.

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

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7 For our tests of extended health benefit expenses, we judgmentally selected October 2006, based on the highest dollar amount the Active Fund paid in extended health premiums during Fiscal Year 2007.
FINDINGS

The Active Fund generally complied with the procedures and reporting requirements of Directive #12. In addition, except for the Prescription Drug Benefit and the Catastrophic Benefit, 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 generally 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 2006 and 2007 operating deficits of $308,631, and $687,933, respectively, have decreased Active Fund reserves by 24.78 percent, from $5,018,730 on July 1, 2005, to $4,022,166 on June 30, 2007. 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.

- **Misclassified benefit and administrative expenses.** Administrative expenses were understated by $97,268—36 percent of the Active Fund’s total administrative costs (after our adjustment), and benefit expenses were overstated by the same amount.

- **Did not maintain documentation to support its Prescription Drug Benefit and its Catastrophic Benefit payments, totaling $3,123,171—71 percent of its benefit payments.** As a result, we were unable to determine whether these payments were reasonable, appropriate, and for only eligible members and their dependents.

- **Made questionable benefit payments totaling $3,330.** Of the $40,072 in claims we reviewed, $3,330 (8 percent) in payments were made to individuals who are not listed on the PMS reports and were made without supporting documentation.

- **Paid claims for dependents whose eligibility was not documented.** Of the 900 benefit claims reviewed, 247 claims were for services provided to individuals who were listed as dependents of eligible members. However, the Active Fund did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were, in fact, eligible dependents for 216 (87%) of the 247 claims.

- **Is owed $1,473 by the unions.** The unions owe the Active Fund $1,473 for their share of shared telephone expenses—the Captains Union owes $736.50, and the Lieutenants Union owes $736.50.

- **Does not maintain employee attendance records.** The Active Fund does not maintain employee attendance records detailing the employee’s time-in and time-out, 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.

These issues are discussed in detail in the following sections of this report.

**Operating Deficits Are Depleting Active Fund Reserves**

The Active Fund’s certified financial statements reported operating deficits of $308,631, and $687,933, in Fiscal Years 2006 and 2007, respectively. As a result, Active Fund reserves decreased by 24.78 percent, from $5,018,730 on July 1, 2005, to $4,022,166 on June 30, 2007. If Active Fund operating deficits and depletion of Active Fund reserves continue, the Active Fund could become insolvent, which would significantly affect its ability to provide benefits to its members.

It should be noted that according to the Active Fund’s certified financial statements, the Superior Officers Council Retiree Health and Welfare Fund of the New York City Police Department (Retiree Fund) and the Superior Officers Council Annuity Trust Fund (Annuity Fund) owe the Active Fund $636,519—$553,374 from the Retiree Fund and $83,145 from the Annuity Fund. In fact, the dollar amount the Retiree and Annuity Funds owe the Active Fund has increased by 75 percent from $161,817 on June 30, 2001, to $636,519 on June 30, 2007. Given the Retiree Fund’s financial condition, we question its ability to pay the $553,374 due the Active Fund. If the Retiree Fund does not pay the Active Fund the $553,374, it could negatively affect the Active Fund in terms of its financial stability and its ability to provide benefits to its members. In that regard, if the Retiree Fund does not pay the Active Fund, the Active Fund’s reserves would be further reduced to $3,468,792, based on the $4,022,166 in reserves reported on the Active Fund’s financial statements as of June 30, 2007.

Furthermore, in the past the Comptroller’s Office has issued general guidelines stating that a reasonable reserve level for self-insured funds is 200 percent of total annual revenue. However, the Active Fund’s reserves are only 103 percent of its total annual revenue. We believe that the Active Fund’s reserve balance is inadequate and may affect the Active Fund’s ability to provide benefits to its members.

Clearly, reserves of $3,468,792 will not be sufficient if the Active Fund’s operating deficits continues to double over the next two fiscal years. Therefore, the Active Fund needs to reduce expenses to ensure its financial viability.

**Active Fund Response:** “When the current trustees of the SOC Fund assumed their current role during the calendar year of 2008 it became apparent that the funds were operating at a substantial deficit. As a result of this deficit spending, all facets of Fund operations are being reviewed. The first area the current trustees looked into was the Prescription Drug Benefit. The SOC embarked on a ‘Request for Proposal’ (‘RFP’)

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8 We also conducted an audit of the Superior Officers Council Retiree Health and Welfare Fund of the New York City Police Department (Retiree Fund). The results of that audit are discussed in a separate report (Audit #FL09-100A).
process to determine whether our current Prescription Benefit Manager (‘PBM’) was operating in a manner that was cost effective to the Fund. As a result of this RFP process, the SOC Fund PBM was changed. This change in PBM was coupled with a modification of the co-payment structure for participants in the Prescription Drug Benefit. These changes were implemented for both the Active and Retiree Fund on January 1, 2009 and the Funds have realized a substantial decrease in drug cost expenditures. The SOC Fund is currently performing a comprehensive analysis of our Dental Benefit and is planning to make a number of cost saving changes on January 1, 2010.”

The Active Fund Misclassified Benefit and Administrative Expenses

The Active Fund did not accurately report benefit and administrative expenses for Fiscal Year 2007 on its Directive #12 filing. Administrative expenses were understated by $97,268—36 percent of the Active Fund’s total administrative costs (after our adjustment), and benefit expenses were overstated by the same dollar amount. The inaccuracies pertained to misclassified administrative fees, which were classified as a benefit expense rather than as an administrative expense. According to Directive #12, administrative fees should be classified as an administrative expense.

As a result, key financial ratios that are indicators used to assess aspects of the Active Fund’s operations were incorrect. For example, based on the information submitted on its Directive #12 filing and on the Active Fund’s financial statements, the percentage of revenue spent on administration was four percent. However, it should have been seven percent, based on the appropriate classification of expenses. It is important that the Active Fund accurately report its expenses so that the City can properly assess the fund’s financial activities and monitor its degree of solvency.

It should be noted that for each of the last two years, the Active Fund did not submit its Key Ratio Schedule—a comparative analysis of certain benefit fund indicators—as part of its annual reporting submission as required by Directive #12.

Active Fund Response: “These expenses were deemed appropriate by the Trustees of the SOC Fund and have been discussed with the SOC Fund accountants, who will make appropriate changes to the reporting mechanism.”

The Active Fund Did Not Maintain Documentation To Support its Prescription Drug and Catastrophic Benefit Payments.

The Active Fund did not maintain documentation to support its Prescription Drug Benefit and its Catastrophic Benefit payments, totaling $3,123,171—71 percent of its benefit payments. Specifically, the Active Fund was unable to provide us with the Pharmacy Billing Detail for Drug Mail Orders and a complete list of participants recorded on the catastrophic premium billings. As a
result, we were unable to determine whether these payments were reasonable, appropriate, and for only eligible members and their dependents.

**Active Fund Response:** “The previous SOC Fund Administrator had an aversion to any type of electronic filing of records and, instead, resorted to the paper filing of all claim information. This, of course, created a system where bona fide claims information are not readily accessible and can be misfiled. The SOC Fund has gone ‘paperless’ with its Prescription Drug Benefit and is next going to incorporate a computerized record of Dental Claims. It is the goal of our Fund to operate with greater efficiency by utilizing a computerized records database. This process is ongoing and the SOC Funds have begun the transition to an overall computerized records system that would make accessing the documentation requested by the Comptroller auditors quick and simplified.”

**Auditor Comment:** Contrary to the Active Fund’s response, a move to a paperless system will not automatically ensure that the Active Fund will maintain documentation to support its Prescription Drug Benefit and its Catastrophic Benefit payments. The Active Fund must maintain all supporting documentation to substantiate City contributions, member eligibility, and benefit use. These documents should include, but not be limited to, the City contribution reports, Pharmacy Billing Detail for Drug Mail Orders, and a complete list of participants recorded on the catastrophic premium billings that were missing during our audit period.

**Improper Benefit Payments**

The Active Fund made improper benefit payments totaling $3,330. Of the $40,072 in claims we reviewed, $3,330 (8 percent) in payments were made to ineligible individuals and made without supporting documentation. Specifically, the Active Fund:

- Paid $2,981 for 33 claims for which no medical receipts was on file.
- Paid $349 for 4 claims on behalf of ineligible individuals. The benefits were paid for individuals who were not listed on the City’s PMS.

**Active Fund Response:** “The SOC Fund trustees have reviewed the benefit payments the Comptroller auditors’ have noted as questionable and determined that all payments were appropriate. This finding again highlights the deficiencies of the previous Fund Administrator’s paper filing system and we believe that a move to a ‘paperless’ filing system will prevent this deficiency from occurring in the future.”

**Auditor Comment:** Contrary to the Active Fund’s response, a move to a paperless system will not automatically ensure that the Active Fund pays claims to only eligible individuals with adequate supporting documentation. As previously stated, the Active Fund must maintain all supporting documentation to substantiate City contributions, member eligibility, and benefit use. These documents should include, but not be limited to, the City...
contribution reports, Pharmacy Billing Detail for Drug Mail Orders, and a complete list of participants recorded on the catastrophic premium billings that were missing during our audit period. It should be noted that while Active Fund officials stated all payments were appropriate, they did not provide us with any documentation to support this assertion.

**Claims Paid for Dependents Whose Eligibility Was Not Documented**

Of the 900 benefit claims we reviewed, 247 claims, totaling $19,355, were for services provided to individuals who were listed as dependents of eligible members. However, the Active Fund did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were in fact eligible dependents for 216 (87%) of the 247 claims.

**Active Fund Response:** “The SOC Fund trustees have reviewed the dependant claim payments the Comptroller auditors’ have noted as questionable and determined that all payments were appropriate. This finding again highlights the deficiencies of the previous Fund Administrator’s paper filing system and we believe that a move to a ‘paperless’ filing system will prevent this deficiency from occurring in the future.”

**Auditor Comment:** Contrary to the Active Fund’s response, a move to a paperless system will not ensure that the Active Fund pays claims for only eligible dependents. Without the supporting documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were in fact eligible dependents, it is impossible to determine dependents’ eligibility. It should be noted that while Active Fund officials stated all payments were appropriate, they did not provide us with any documentation to support this assertion.

**The Unions Owes the Active Fund $1,473**

The unions owe the Active Fund $1,473. Specifically, the unions owe the Active Fund $1,473 for their share of shared telephone expenses—the Captains Union owes $736.50, and the Lieutenants Union owes $736.50.

**Active Fund Response:** “The amount owed is for payment of telephone charges incurred by the SOC Fund. These charges are required to be shared by the two member police union organizations pursuant to a joint trust agreement. It was an oversight of the SOC Fund Administrator not to bill each of the police unions and this oversight is being corrected by payment of the identified amount to the SOC Fund.”
The Active Fund Does Not Maintain 
Employee Attendance Records

The Active Fund does not maintain time records for its employees. It does not track the hours employees work, nor the time of their daily arrival and departure. Consequently, we could not confirm whether employees were paid for hours they actually worked.

The Active Fund has no written procedures requiring that time-keeping records be maintained. Time-keeping records are important to determine whether Fund employees are earning and using the leave time to which they are entitled, and to calculate payments to employees upon termination of employment. 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.

Active Fund Response: “This quality assurance document (attendance record) was not prepared due to neglect of the previous SOC Fund Administrator. Corrective action is being taken by the SOC on a go-forward basis.”
RECOMMENDATIONS

The Active Fund should:

1. Take immediate action to eliminate the Fund’s operating deficit and thereby ensure its financial viability.

2. Ensure that administrative and benefit expenses are recorded accurately on its Directive #12 filing and accurately calculate and submit its key ratios, in accordance with Comptroller’s Directive #12.

3. Recoup $1,473 from the unions for their share of the telephone expense.

4. Ensure that it pays for benefits only for eligible individuals, in accordance with its guidelines.

5. Maintain copies of all documentation in members’ permanent files to substantiate eligibility of dependents.

6. Create and implement written time-keeping procedures and maintain daily attendance records for its employees.

7. Maintain all supporting documentation to substantiate City contributions, member eligibility, and benefit use. These documents should include, but not be limited to, the City contribution reports, Pharmacy Billing Detail for Drug Mail Orders, and a complete list of participants recorded on the catastrophic premium billings that were missing during our audit period.

**Active Fund Response:** While the Active Fund’s response did not address the audit’s recommendations, Active Fund officials described the actions they have taken to address the audit’s findings.
August 21, 2009

John Graham  
Audits, Accountants & Contracts  
City of New York Office of the Comptroller  
1 Centre Street  
New York, NY 10007-2341

Audit Report – Response of the SOC

Dear Deputy Comptroller Graham,

I am writing you in response to your office’s audit of the Superior Officers Council (“SOC”) Health & Welfare Fund for both active and retired members of the New York City Police Department. Thank you for the time your staff invested in reviewing our welfare fund financial and operating practices. None of the current trustees of the SOC Fund were serving as a trustee during the period reviewed and are appreciative of the information you provided in the noted weaknesses described in your report. We are well aware of the serious financial crisis facing both the Active and Retiree SOC Fund and have taken a number of steps to reduce the deficit spending that Funds have experienced over the last six years. We will discuss many of these steps in responding to your findings below. It should also be noted that many of the deficiencies you have noted in Fund operations as well as other findings made independently by the Trustees of the SOC have led to the termination of the SOC Fund Administrator in March of 2009.

Comptroller Findings (detailed in italics):

1. Operating deficits are depleting the Active Fund’s reserves / Substantial operating deficits have exhausted the Retiree Fund’s reserves. 
When the current trustees of the SOC Fund assumed their current role during the calendar year of 2008 it became apparent that the funds were operating at a substantial deficit. As a result of this deficit spending, all facets of Fund operations
are being reviewed. The first area the current trustees looked into was the Prescription Drug Benefit. The SOC embarked on a "Request for Proposal" ("RFP") process to determine whether our current Prescription Benefit Manager ("PBM") was operating in a manner that was cost effective to the Fund. As a result of this RFP process, the SOC Fund PBM was changed. This change in PBM was coupled with a modification of the co-payment structure for participants in the Prescription Drug Benefit. These changes were implemented for both the Active and Retiree Fund on January 1, 2009 and the Funds have realized a substantial decrease in drug cost expenditures. The SOC Fund is currently performing a comprehensive analysis of our Dental Benefit and is planning to make a number of cost saving changes on January 1, 2010.

2. **Misclassified benefit and administrative expenses (both Active and Retiree Fund).**

   These expenses were deemed appropriate by the Trustees of the SOC Fund and have been discussed with the SOC Fund accountants, who will make appropriate changes to the reporting mechanism.

3. **Did not maintain documentation to support its Prescription Drug Benefit (Active Fund), Hospitalization Benefit and its Catastrophic Benefit (Retiree Fund) payments.**

   The previous SOC Fund Administrator had an aversion to any type of electronic filing of records and, instead, resorted to the paper filing of all claim information. This, of course, created a system where bona fide claims information are not readily accessible and can be misfiled. The SOC Fund has gone "paperless" with its Prescription Drug Benefit and is next going to incorporate a computerized record of Dental Claims. It is the goal of our Fund to operate with greater efficiency by utilizing a computerized records database. This process is ongoing and the SOC Funds have begun the transition to an overall computerized records system that would make accessing the documentation requested by the Comptroller auditors quick and simplified.

4. **Made questionable benefit payments (both Active and Retiree Fund).**

   The SOC Fund trustees have reviewed the benefit payments the Comptroller auditors' have noted as questionable and determined that all payments were appropriate. This finding again highlights the deficiencies of the previous Fund Administrator's paper filing system and we believe that a move to a "paperless" filing system will prevent this deficiency from occurring in the future.

5. **Paid claims for dependants whose eligibility was not documented (both Active and Retiree Fund).**

   The SOC Fund trustees have reviewed the dependant claim payments the Comptroller auditors' have noted as questionable and determined that all payments were appropriate. This finding again highlights the deficiencies of the previous Fund Administrator's paper filing system and we believe that a move to a "paperless" filing system will prevent this deficiency from occurring in the future.

The Superior Officers Council represents over 7,200
Active and Retired Superior Officers of the
New York City Police Department
6. **Is owed $1,473 by the unions (both Active and Retiree Fund).**
   The amount owed is for payment of telephone charges incurred by the SOC Fund. These charges are required to be shared by the two member police union organizations pursuant to a joint trust agreement. It was an oversight of the SOC Fund Administrator not to bill each of the police unions and this oversight is being corrected by payment of the identified amount to the SOC Fund.

7. **Does not maintain employee attendance records (both Active and Retiree Fund).**
   This quality assurance document (attendance record) was not prepared due to neglect of the previous SOC Fund Administrator. Corrective action is being taken by the SOC on a go-forward basis.

The Trustees of the SOC Fund hope our answers address your findings and recommendations and look forward to cooperating with you again in the future.

Very truly yours,

Roy T. Richter  
Co-Chairman & Trustee

Thomas Sullivan  
Co-Chairman & Trustee

C: SOC Fund Administrative Staff

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Active and Retired Superior Officers of the  
New York City Police Department