

# 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 Superior Officers Council Retiree Health & Welfare Fund of the New York City Police Department**

*FL09-100A*

**September 30, 2009**



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

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WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**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 Retiree Health and Welfare Fund (Retiree Fund) for the period July 1, 2006, through June 30, 2007.

Under the terms of its agreement with the City, the Retiree Fund receives City contributions and provides health and welfare benefits to eligible New York City Police Officers who retired with the rank of Captain and Lieutenant and their eligible dependents. Audits such as this provide a means of ensuring that entities receiving public monies spend the funds appropriately, reasonably, and as intended and that they comply with applicable City procedures and reporting requirements.

The results of our audit, which are presented in this report, have been discussed with Retiree 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](mailto:audit@Comptroller.nyc.gov).

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

**Report: FL09-100A**  
**Filed: September 30, 2009**

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

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Financial and Operating Practices of the  
Superior Officers Council Retiree Health & Welfare Fund  
Of the New York City Police Department**

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**AUDIT REPORT IN BRIEF**

The Superior Officers Council Retiree Health & Welfare Fund (Retiree Fund) provides health and welfare benefits to New York City Police Officers who retired with the rank of Captain and Lieutenant, and their eligible dependents. It receives contributions from the City of New York. The Retiree 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 Retiree Fund for Fiscal Year 2007. As of June 30, 2007, the Retiree Fund reported \$6,785,884 in City contributions and *negative* net assets of \$707,150.

**Audit Findings and Conclusions**

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

- Substantial operating deficits have exhausted the Retiree Fund's reserves.
- Misclassified benefit and administrative expenses.
- Did not maintain documentation to support its Hospitalization and Catastrophic Benefit payments, totaling \$123,904—two percent of its benefit payments.
- Made questionable benefit payments totaling \$80,613.

- Paid claims for dependents whose eligibility was not documented.
- Owed \$1,473 by the unions.
- Does not maintain employee attendance records.

### **Audit Recommendations**

To address these issues, we make seven recommendations, that the Retiree Fund should:

- Take immediate action to reduce expenses to eliminate the Fund's operating deficit, thereby increasing fund reserves to 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 expenses.
- 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 member eligibility and benefit coverage. These documents should include, but not be limited to, complete lists of all participants recorded on hospitalization and catastrophic premium billings that were missing during our audit period.

## INTRODUCTION

### Background

The Superior Officers Council Retiree Health & Welfare Fund (Retiree Fund) was established on July 1, 1979, 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 Retiree Fund provides health and welfare benefits to New York City Police Officers who retired with the rank of Captain and Lieutenant. The Retiree Fund also provides benefits to members' spouses and dependents. The Retiree Fund received \$6,785,884 in City contributions for Fiscal Year 2007.

The Retiree 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 4,648 members of the Retiree Fund and the total amount reportedly paid for each type of benefit during Fiscal Year 2007.<sup>1</sup>

**Table I**

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

<b>Benefit</b>	<b>Amount</b>	<b>Coverage</b>
Prescription Drugs	\$4,768,086	Members and their dependents are entitled to a maximum benefit of \$7,000 per family per year less a \$150 annual deductible.
Dental	\$1,263,388	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 Retiree 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 with generally no out-of-pocket expense. However, some procedures require a co-payment of between \$75 and \$175. There is also a Comprehensive plan for members who live in Florida. This plan may require a co-payment of between \$5 and \$2,000.
Death	\$577,000	The Retiree Fund provides a \$5,000 death benefit to the designated beneficiary upon approval of the claim by the Trustees.

<sup>1</sup> According to the Trustees' Management Letter, the Retiree Fund had 4,648 members during Fiscal Year 2007. The number of members varies during the year because of new hires, retirements, suspensions, etc.

<b>Benefit</b>	<b>Amount</b>	<b>Coverage</b>
Health Rider Reimbursement	\$136,928	For Health Insurance Plan of New York/Health Maintenance Organization (HIP/HMO) subscribers and their eligible dependents. For those members that take the HIP/HMO optional rider for prescription drugs, private duty nursing, and appliances, the Retiree Fund will then reimburse the member up to a maximum of \$350 for the cost of the optional rider.
Catastrophic Benefit	\$41,961	For Group Health Incorporated (GHI) members only. Members and their eligible dependents are entitled to be reimbursed for medical and hospital charges—lifetime maximum of \$250,000 per person with a \$4,000 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. <ul style="list-style-type: none"> <li>• Private Nursing Care – GHI pays the first \$25,000 and thereafter, 50% of the remainder, with a lifetime cap of \$50,000 per person.</li> <li>• Mental Health – GHI pays for hospital mental health charges up to a lifetime maximum of \$10,000 per person.</li> </ul>
Hospitalization	\$81,943	For GHI members only. Members are entitled to a 365 Day Hospital Rider whether it is covered under the basic plan or by a rider purchased by the Retiree Fund.
Optical	\$68,255	Members and their eligible dependents are entitled to one eye examination and one pair of eyeglasses—member and spouse once every two years and dependent children once a year—from a participating optical provider. If member and eligible dependents reside outside of the area and do not have access to participating optical providers, the Retiree Fund will reimburse the member based on the allowances used to pay a participating optical provider.
Catastrophic Reimbursement	\$3,000	Members and their eligible dependents are entitled to be reimbursed \$1,000 for medical and hospital charges—after a \$4,000 annual family deductible—that are considered reasonable and customary by the Plan and that are not reimbursed by either the City Health Plan or by private insurers.
<b>Total</b>	<b>\$6,940,561</b>	

During Fiscal Year 2007, the Retiree Fund provided benefits through contracts with Empire Blue Cross and Blue Shield (prescription drugs, self-insured and comprehensive dental

plans), Dentcare Delivery Systems (comprehensive dental plan), CompBenefits (comprehensive dental plan), Group Health Incorporated (catastrophic health and hospitalization), and Health Insurance Plan of New York (health rider reimbursement). Optical benefits were provided through various optical providers.

As of June 30, 2007, the Retiree Fund reported *negative* net assets of \$707,150. Table II, below, summarizes the Retiree Fund's audited financial data, as reported by the Retiree Fund, for the years ending June 30, 2006, and June 30, 2007.

**Table II**

Summary of the Retiree Fund's Reported  
Revenues and Expenses

	<b>2006</b>	<b>% of Total Revenue</b>	<b>2007</b>	<b>% of Total Revenue</b>
City Contributions	6,932,291	98.46%	6,785,884	95.95%
Investment or Other Income	81,864	1.16%	261,569	3.70%
COBRA	26,376	0.37%	24,807	0.35%
Total Revenue	7,040,531	100.00%	7,072,260	100.00%
Benefit Expenses	7,670,240	108.94%	6,940,561	98.14%
Administrative Expenses	181,078	2.57%	196,897	2.78%
Total Expenses	7,851,318	111.52%	7,137,458	100.92%
Excess (Deficiency) of Revenue	(810,787)		(65,198)	
Fund Balance (Beginning of Year)	168,835		(641,952)	
Fund Balance (End of Year)	(641,952)		(707,150)	

We should note that we are also conducting a separate audit, Audit # FL09-099A, of the Superior Officers Council Health and Welfare Fund of the New York City Police Department (Active Fund). The results of that audit will be covered in a separate report.

## **Objective**

The objectives of the audit were to determine whether the Retiree 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 Retiree Fund had appropriately provided Hospitalization and Catastrophic 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 Retiree Fund reported payments of \$81,943 for Hospitalization Benefit premiums and \$41,961 for Catastrophic Benefits premiums, totaling \$123,904. The Retiree Fund was unable to provide us with complete lists of participants listed on the premium billings for Hospitalization and Catastrophic Benefits. We were therefore unable to test and determine whether the Retiree Fund had appropriately provided these benefits in accordance with its benefit-processing procedures.

To achieve our audit objectives, we reviewed the Retiree 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 Retiree 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 Retiree 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 Retiree 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 Retiree Fund internal controls.

To determine whether all revenues and expenses were properly recorded, we reconciled the Retiree 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 Retiree Fund's cash receipts journal and bank deposit slips. We also reviewed documentation related to the Retiree Fund's investments to determine the accuracy of the amounts reported in the financial statements.

We vouched all reported administrative expenses (\$196,897) from the Retiree 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 4,775 City employees listed on the contribution reports received from the New York City Office of Labor Relations 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 Retiree Fund's membership records.

To determine the accuracy of the Retiree Fund's bank reconciliations and to account for all checks paid, outstanding, and voided, we reviewed Retiree 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 Retiree Fund:

### **Prescription Drugs**

We traced 100 randomly sampled participants listed on the Pharmacy Billing Detail for Drug Mail Orders for the month of September 2006 from Empire Blue Cross and Blue Shield, the Retiree Fund's third-party administrator, to the City contribution reports to verify member eligibility.<sup>2</sup> 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 Benefit**

For self-insured dental benefits, we traced the participants of 100 randomly sampled dental claims listed on the May 2007 claims register from Empire Blue Cross and Blue Shield, the Retiree Fund's third-party administrator, to the City contribution reports to verify member eligibility.<sup>3</sup> 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.

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<sup>2</sup> For our tests of prescription drug benefit expenses, we judgmentally selected September 2006, based on the highest dollar amount the Retiree Fund paid in prescription drug claims during Fiscal Year 2007.

<sup>3</sup> For our tests of self-insured dental benefit expenses, we judgmentally selected May 2007, based on the highest dollar amount the Retiree Fund paid in self-insured dental claims during Fiscal Year 2007.

For comprehensive dental benefits, we traced 100 randomly sampled participants listed on the May 2007 billing invoices from Empire Blue Cross Blue Shield, CompBenefits, and DentCare Delivery Systems, the Retiree Fund's dental insurance providers, to the City contribution reports to verify member eligibility.<sup>4</sup>

### **Death Benefits**

We traced all 82 death claims processed during Fiscal Year 2007 to the general ledger, the beneficiary cards, the enrollment cards, and the City contribution reports to verify member eligibility. We also ascertained whether death certificates and designated beneficiary forms were on file to support the payments.

### **Health Rider Reimbursement**

We traced a sample of 100 randomly selected members listed on the 2006 billing invoice from HIP, the Retiree Fund's extended health insurance provider, to the City contribution reports to verify member eligibility. We also determined whether the premiums were calculated correctly and supported with proper documentation.

### **Hospitalization**

We intended to trace a sample of 100 participants listed on the June 2007 premium billings from GHI, the Retiree Fund's hospitalization benefit insurance provider, to the City contribution reports to verify the member eligibility.<sup>5</sup> However, the Retiree Fund was unable to provide us with a list of participants for whom the Retiree Fund paid premiums. As a result, we were unable to perform tests on this benefit.

### **Optical Benefits**

We traced all 301 optical vouchers processed by the Fund during March 2007 from the Retiree Fund's optical providers to the City contribution reports to verify member eligibility.<sup>6</sup> We also determined whether the reimbursements were correct and did not exceed the amounts specified in the Retiree 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.

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<sup>4</sup> For our tests of comprehensive dental benefit expenses, we judgmentally selected May 2007, based on the highest dollar amount the Retiree Fund paid in comprehensive dental premiums during Fiscal Year 2007.

<sup>5</sup> For our tests of hospitalization benefit expenses, we judgmentally selected June 2007, based on the highest dollar amount the Retiree Fund paid in hospitalization premiums during Fiscal Year 2007.

<sup>6</sup> For our tests of optical benefit expenses, we judgmentally selected March 2007, based on the highest dollar amount the Retiree Fund paid in optical claims during Fiscal Year 2007.

### **Catastrophic Benefit**

We intended to trace a sample of 100 participants listed on the April 2007 premium billings from GHI, the Retiree Fund's catastrophic benefit insurance provider, to the City contribution reports to verify member eligibility.<sup>7</sup> However, the Retiree Fund was unable to provide us with a complete list of participants listed on the premium billings. Specifically, the Retiree Fund was unable to provide us with participants whose last name starts with A through R. As a result we were unable to perform tests on this benefit.

### **Catastrophic Reimbursement**

We traced all three catastrophic reimbursements processed by the Retiree Fund during Fiscal Year 2007 from the claim forms to the City contribution reports to verify eligibility. We also determined whether the reimbursements were correct and did not exceed the amounts specified in the Retiree Fund's 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.

### **Discussion of Audit Results**

The matters covered in this report were discussed with Retiree Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Retiree 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 Retiree Fund officials with a request for comments. We received a written response from Retiree Fund officials August 24, 2009. While the Retiree Fund's response did not address the audit's recommendations, Retiree Fund officials described the actions they have taken to address the audit's findings.

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

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<sup>7</sup> For our tests of catastrophic benefit expenses, we judgmentally selected April 2007, based on the highest dollar amount the Retiree Fund paid in catastrophic premiums during Fiscal Year 2007.

## FINDINGS

The Retiree Fund generally complied with the procedures and reporting requirements of Directive #12. In addition, except for the Hospitalization Benefit and Catastrophic Benefit, the Retiree Fund generally complied with its benefit-processing and accounting procedures, and those procedures were adequate and proper. Furthermore, the Retiree Fund's administrative expenses were generally appropriate and reasonable.

However, we found some weaknesses in the Retiree Fund's financial and operating procedures as follows:

- *Substantial operating deficits have exhausted the Retiree Fund's reserves.* Fiscal Year 2003, 2004, 2005, 2006, and 2007, operating deficits of \$937,266, \$995,983 \$972,517, \$810,787 and \$65,198, respectively, have decreased Retiree Fund reserves by 123 percent, from \$3,012,115 on July 1, 2001, to negative net asset balance of \$707,150 on June 30, 2007. If Retiree Fund operating deficits continue, the Retiree 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 \$232,882—54 percent of the Retiree Fund's total administrative costs (after our adjustment), and benefit expenses were overstated by the same amount.
- *Did not maintain documentation to support its Hospitalization Benefit and its Catastrophic Benefit payments, totaling \$123,904—two 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 \$80,613.* Of the \$473,270 in claims we reviewed, \$80,613 (17 percent) in payments were made to individuals who are not listed on the City contribution reports and were made without supporting documentation.
- *Paid claims for dependents whose eligibility was not documented.* Of the 786 benefit claims reviewed, 250 claims were for services provided to individuals who were listed as dependents of eligible members. However, the Retiree Fund did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were, in fact, eligible dependents for 242 (96.80%) of the 250 claims.
- *Is owed \$1,473 by the unions.* The unions owe the Retiree 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 Retiree 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 that employees were paid for hours they actually worked.

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

### **Substantial Operating Deficits Have Exhausted the Retiree Fund's Reserves**

According to the Retiree Fund's certified financial statements, the Retiree Fund had operating deficits of \$937,266, \$995,983 \$972,517, \$810,787 and \$65,198, in Fiscal Years 2003, 2004, 2005, 2006, and 2007, respectively. As a result, Retiree Fund's has exhausted its reserves and has a negative net asset balance of \$707,150 as of June 30, 2007. If Retiree Fund operating deficits continue, the Retiree Fund could become insolvent, which would significantly affect its ability to provide benefits to its members.

It should be noted that according to the Retiree Fund's certified financial statements, the Retiree Fund owes \$552,921 to the Superior Officers Council Health and Welfare Fund of the New York City Police Department (Active Fund). In fact, the dollar amount the Retiree Fund owes the Active Fund has increased by 486 percent from \$94,283 on June 30, 2001, to \$552,921 on June 30, 2007. Given the Retiree Fund's financial condition, we question its ability to pay the \$552,921 due the Active Fund. However, if the amount due the Active Fund is not paid, the Active Fund may experience financial problems, making it difficult for the Active Fund to provide benefits to its members.<sup>8</sup>

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 Retiree Fund's negative fund balance leaves the Retiree Fund without any reserves. We believe that the Retiree Fund's reserve negative balance will, in time, affect the Retiree Fund's ability to provide benefits to its members.

The Retiree Fund needs to reduce its administrative and benefit expenses to ensure its financial viability.

***Retiree 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') 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

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<sup>8</sup> We also conducted an audit of the Superior Officers Council Health and Welfare Fund of the New York City Police Department (Active Fund). The results of that audit are discussed in a separate report (Audit #FL09-099A).

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 Retiree Fund Misclassified Benefit and Administrative Expenses**

The Retiree Fund did not accurately report benefit and administrative expenses for Fiscal Year 2007 on its Directive #12 filing. Administrative expenses were understated by \$232,882—54 percent of the Retiree 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 Retiree Fund’s operations were incorrect. For example, based on the information submitted on its Directive #12 filing and on the Retiree Fund’s financial statements, the percentage of revenue spent on administration was three percent. However, it should have been six percent, based on the appropriate classification of expenses. It is important that the Retiree 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 Retiree 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.

***Retiree 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 Retiree Fund Did Not Maintain Documentation To Support its Hospitalization and Catastrophic Benefit Payments.**

The Retiree Fund did not maintain documentation to support its Hospitalization Benefit and its Catastrophic Benefit payments, totaling \$123,904—two percent of its benefit payments. Specifically, the Retiree Fund was unable to provide us with complete lists of participants recorded on the hospitalization and 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.

**Retiree 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 Retiree Fund’s response, a move to a paperless system will not automatically ensure that the Retiree Fund will maintain documentation to support its Hospitalization Benefit and its Catastrophic Benefit payments. The Retiree Fund must maintain all supporting documentation to substantiate member eligibility and benefit coverage. These documents should include, but not be limited to, complete lists of all participants recorded on hospitalization and catastrophic premium billings that were missing during our audit period.

### **Improper Benefit Payments**

The Retiree Fund made improper benefit payments totaling \$80,613. Of the \$473,270 in claims we reviewed, \$80,613 (17 percent) in payments were made to ineligible individuals and made without supporting documentation. Specifically, the Retiree Fund:

- Paid \$75,579 for 30 claims without supporting documentation, such as medical receipts, death certificates, or enrollment and beneficiary cards.
- Paid \$5,034 for two claims on behalf of ineligible individuals. The benefits were paid for individuals who were not listed on the City contribution reports or PMS.

**Retiree 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 Retiree Fund’s response, a move to a paperless system will not automatically ensure that the Retiree Fund pays claims to only eligible individuals with adequate supporting documentation. As previously stated, the Retiree Fund must maintain all supporting documentation to substantiate member eligibility and benefit coverage. These documents should include, but not be limited to, complete lists of all participants recorded on hospitalization and catastrophic premium billings that were missing

during our audit period. It should be noted that while Retiree 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 786 benefit claims we reviewed, 250 claims, totaling \$9,788, were for services provided to individuals who were listed as dependents of eligible members. However, the Retiree Fund did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were in fact eligible dependents for 242 (96.80%) of the 250 claims.

***Retiree 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 Retiree Fund’s response, a move to a paperless system will not ensure that the Retiree 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 Retiree Fund officials stated all payments were appropriate, they did not provide us with any documentation to support this assertion.

### **The Unions Owe the Retiree Fund \$1,473**

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

***Retiree 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 Retiree Fund Does Not Maintain Employee Attendance Records**

The Retiree 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 Retiree 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.

***Retiree 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 Retiree Fund should:

1. Take immediate action to reduce expenses to eliminate the Fund's operating deficit, thereby increasing fund reserves to 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 expenses.
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 member eligibility and benefit coverage. These documents should include, but not be limited to, complete lists of all participants recorded on hospitalization and catastrophic premium billings that were missing during our audit period.

***Retiree Fund Response:*** While the Retiree Fund's response did not address the audit's recommendations, Retiree Fund officials described the actions they have taken to address the audit's findings.

# SUPERIOR OFFICERS COUNCIL

## CITY OF NEW YORK POLICE DEPARTMENT

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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

*The Superior Officers Council represents over 7,200  
Active and Retired Superior Officers of the  
New York City Police Department*

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.

**6. Is owed \$1,473 by the unions (both Active and Retiree Fund).**

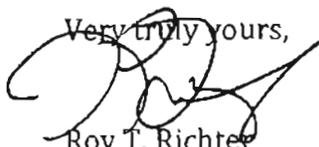
The amount owed is for payment of telephone charges incurred by the SOC Fund. These charges are required to be shared by the two member police union organizations pursuant to a joint trust agreement. It was an oversight of the SOC Fund Administrator not to bill each of the police unions and this oversight 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).**

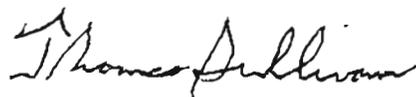
This quality assurance document (attendance record) was not prepared due to neglect of the previous SOC Fund Administrator. Corrective action is being taken by the SOC on a go-forward basis.

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