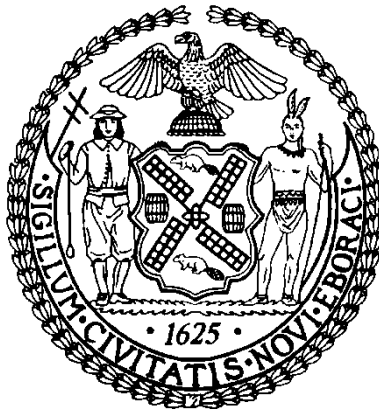


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
COMPTROLLER**

FINANCIAL AUDIT

**Tina Kim
Deputy Comptroller for Audit**



**Audit Report on the
Financial and Operating Practices of the
Social Service Employees Union
Local 371 Welfare Fund**

FL10-123A

April 29, 2011



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

John C. Liu
COMPTROLLER

April 29, 2011

To the Residents of the City of New York:

My office has audited the financial and operating practices of the Social Service Employees Union Local 371 Welfare Fund (Welfare Fund) for the period July 1, 2007, through June 30, 2008. We audit agencies such as these to ensure 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.

The audit found that the Welfare Fund had weaknesses in its financial, operating, and benefit processing procedures. Specifically, it paid \$100,925 for questionable expenses, made improper benefit payments totaling \$31,025, did not maintain documentation to support its podiatry and pension-counseling benefit payments (totaling \$27,930), did not maintain complete and accurate records of those persons for whom it is providing Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) benefits, paid claims for dependents whose eligibility was not documented, and did not properly authorize checks.

The audit recommends that the Welfare Fund ensure that: all expenses incurred are reasonable and necessary for the operation of the Welfare Fund; benefits are provided in accordance with their guidelines; and only authorized personnel sign checks.

The results of the audit have been discussed with Welfare Fund officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "John C. Liu".

John C. Liu

Table of Contents

AUDIT REPORT IN BRIEF

Audit Findings and Conclusions 1
Audit Recommendations 2
Fund Response 2

INTRODUCTION 3

Background 3
Objectives 6
Scope and Methodology 6
Discussion of Audit Results 10

FINDINGS AND RECOMMENDATIONS 11

The Welfare Fund Paid \$100,925 for Questionable Expenses 12
Improper Benefit Payments 12
The Welfare Fund Does Not Maintain Supporting Documentation to
Support Podiatry and Pension Counseling Benefit Payments 13
Inadequate Controls Over Its COBRA Benefit 13
Claims Paid for Dependents Whose Eligibility Was Not Documented 14
Improper Check Authorization 14

RECOMMENDATIONS 16

ADDENDUM Welfare Fund Response

The City of New York
Office of the Comptroller
Financial Audit

**Audit Report on the
Financial and Operating Practices of the
Social Service Employees Union
Local 371 Welfare Fund**

FL10-123A

AUDIT REPORT IN BRIEF

The Social Service Employees Union Local 371 Welfare Fund (Welfare Fund) receives its funding from the Social Service Employees Union Local 371 Administrative Fund (Administrative Fund). The Administrative Fund was created to receive the negotiated contributions from its members' employers and to allocate and distribute the monies received to the Social Service Employees Union Local 371 Benefit Funds—Social Service Employees Union Local 371 Welfare Fund (Welfare Fund), Social Service Employees Union Local 371 Legal Services Fund (Legal Services Fund), and Social Service Employees Union Local 371 Educational Fund (Educational Fund). The Welfare Fund receives an allocation of funds from the Administrative Fund that is equivalent to its net cost of operations. The Welfare 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 its boards of trustees.

We performed an audit on the financial and operating practices of the Welfare Fund for Fiscal Year 2008. As of June 30, 2008, the Welfare Fund had received \$20,955,119 for health benefits and administrative expenses that were paid through the Administrative Fund.

Audit Findings and Conclusions

The audit found that the Welfare Fund complied with the procedures and reporting requirements of Directive #12; in addition, the Welfare Fund complied with its accounting procedures, and those procedures were adequate and proper. Although the Welfare Fund paid benefit expenses that were mostly appropriate and reasonable, we found some weaknesses in the Welfare Fund's financial, operating, and benefit processing procedures as follows:

- Paid \$100,925 for questionable expenses (\$100,637 to the union for its health and safety benefit and \$288 to two dental assistants to reimburse them for sneakers).
- Made improper benefit payments totaling \$31,025.

- Did not maintain documentation to support its podiatry and pension-counseling benefit payments, totaling \$27,930.
- Did not maintain complete and accurate records of those persons for whom it is providing Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) benefits.
- Paid claims for dependents whose eligibility was not documented.
- Did not properly authorize checks.

Audit Recommendations

The audit makes eight recommendations including:

- Discontinue its practice of subsidizing the Union’s health and safety benefit until the Welfare Fund receives timekeeping records, expense reports, or utilization reports so it can assess the reasonableness and appropriateness of this benefit.
- Ensure that all expenses incurred are reasonable and necessary for the operation of the Welfare Fund.
- Pay for benefits for eligible individuals only and make payments in accordance with their guidelines.
- 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, HHC contribution reports, claim forms, and medical receipts.
- Maintain complete and accurate records for COBRA benefits. These documents should include the *COBRA Election* form and the *ARRA Premium Reduction Request* forms.
- Create and maintain procedures to record and track COBRA eligibility, coverage ranges, and premium payments.
- Ensure that benefits are provided only to eligible dependents.
- Ensure that only authorized personnel sign program checks.

Fund Response

In their response, Welfare Fund officials generally did not specifically address the audit’s findings or recommendations and did not indicate how they will implement the necessary corrective actions to remediate the findings discussed in this report.

INTRODUCTION

Background

The Welfare Fund was established on January 28, 1966, under the provisions of the Fund Agreement among the City of New York and the Social Service Employees Union Local 371 (Union) and the Declarations of Trust. The Welfare Fund receives its funding from the Social Service Employees Union Local 371 Administrative Fund.¹ The Welfare Fund receives an allocation of funds from the Administrative Fund that is equivalent to its net cost of operations. The Welfare Fund provides health benefits to employees currently working in one of the approximately 160 eligible titles.

Specifically, the Welfare Fund is mandated by its agreement to provide health benefits (prescription drugs, dental, optical, prosthetic appliances, diagnostic examinations, podiatry, and hearing aids); disability, pension and health-insurance counseling; and burial and life insurance benefits to its eligible members and their dependents.

The Welfare Fund received \$20,955,119 for health benefits for Fiscal Year 2008. Administrative expenses were paid through the Administrative Fund.

The Welfare 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 its boards of trustees.

Table I shows the benefits that were available to the 17,130 members of the Welfare Fund and the total amount reportedly paid for each type of benefit during Fiscal Year 2008.²

¹ The Administrative Fund was created to receive the negotiated contributions from its members' employers and to allocate and distribute the monies received to provide welfare, education, and legal service benefits to eligible employees.

² According to the Trustees' Management Letter, the Welfare Fund had 17,130 members during Fiscal Year 2008. The number of members varies during the year because of new hires, retirements, suspensions, etc.

Table I

Welfare Fund Benefits and Amounts Paid as Reported by the Welfare Fund
Fiscal Year 2008

Benefit	Amount	Coverage
Prescription Drugs	\$8,820,881	Members and their dependents are entitled to a maximum family benefit of \$4,000 per calendar year.
Dental	\$6,368,940	Members and their dependents are entitled to a maximum reimbursement of \$2,000 per person per calendar year. If the member selects a participating dentist, there is no out-of-pocket expense to the member. If the member selects a non-participating dentist, the member will be reimbursed according the Welfare Fund's Fee Schedule of Dental Benefits.
Dental Facility	\$3,138,242	Members and their dependents are entitled to receive covered dental services at no out-of-pocket expense at the Welfare Fund's dental offices.
Disability	\$1,376,415	Members are entitled to a weekly benefit of \$200 for a maximum of 26 weeks if they become totally disabled and unable to work because of a non-occupational accident or sickness not covered by Workers' Compensation.
Life Insurance	\$467,533	Beneficiaries receive \$10,000 for the death of an eligible member. Members are entitled to receive \$5,000 each for the loss of one hand, one foot, or sight of one eye, up to maximum coverage of \$10,000 for the accidental dismemberment.
Optical	\$277,536	Members and their spouses are entitled to receive maximum reimbursement up to \$90 per person for full benefits (eye examination, lenses, and frames) once every 24 months. Dependent children are entitled to receive maximum reimbursement up to \$45 per person for full benefits once every 12 months. There is no out-of-pocket expense when services are rendered by a participating provider. The no-expense package has a retail value in excess of \$100.
Health & Safety	\$100,637	This benefit is not listed in the Welfare Fund's benefit book.
Prosthetic Appliances	\$55,331	Members and eligible dependents are entitled to a maximum reimbursement of \$2,500 per person per calendar year for prosthetic appliances benefits. Except wigs and one pair of orthotics, the Welfare Fund reimburses up to \$75 and \$150, respectively, for out-of-pocket expenses every two calendar years.
Podiatry	\$24,130	Members and eligible spouses are entitled to receive podiatry benefits at no out-of-pocket expense at the Welfare Fund's offices.
Burial	\$18,500	The Welfare Fund provides a reimbursement of \$500 toward the funeral expenses of an eligible member.
Diagnostic Exams	\$5,250	Members and eligible spouses, who are covered under the City-provided GHI/CBP health insurance plan, are entitled to receive the annual diagnostic examination benefit at Manhattan Internal Medicine Associates, P.C. at no out-of-pocket cost.
Hearing Aids	\$4,800	Members and eligible dependents are entitled to a maximum reimbursement of \$600 per person for hearing aid purchases every 36 months.
Pension Counseling	\$3,800	Members are entitled to receive covered pension counseling services at no out-of-pocket expense at the Welfare Fund's offices.
Abortion	\$850	Members and eligible spouses are entitled to a maximum reimbursement of \$400 for out-of-pocket expenses that are not covered by a member's insurance.
Total	\$20,662,845	

During Fiscal Year 2008, the Welfare Fund provided benefits through contracts with Medco Health Solutions, Inc. (prescription drugs), Prudential Insurance Company (death and burial), Jeffrey Stark (podiatry and prosthetic appliances – orthotics appliances only), Manhattan Internal Medicine Associates, P.C. (diagnostic exam), and Charles Kaplan (pension counseling). Optical benefits were provided through various carriers or through direct reimbursement by the Welfare Fund according to a fee schedule.

As of June 30, 2008, the Welfare Fund reported net assets of \$20,993,936. Table II summarizes the Welfare Fund’s audited financial data, as reported by the Welfare Fund, for the years ending June 30, 2007, and June 30, 2008.

Table II

Summary of the Welfare Fund’s Reported
Revenues and Expenses

	2007	Percent of Total Revenue	2008	Percent of Total Revenue
Contributions—Allocation from Social Service Employees Union Local 371 Administrative Fund	\$19,210,654	99.67%	\$20,955,119	99.82%
Other Contributions	21,452	0.11%	25,667	0.12%
Investment Income	42,030	0.22%	13,150	0.06%
Total Revenue	\$19,274,136	100.00%	\$20,993,936	100.00%
Total Benefit Paid	\$19,570,106	101.54%	\$20,662,845	98.42%
Third Party Benefit Provider Fees	68,505	0.36%	86,220	0.41%
Net Increase (Decrease) in Benefit Obligations	(364,475)	(1.89%)	244,871	1.17%
Total Expenses	\$19,274,136	100.00%	\$20,993,936	100.00%
Excess (Deficiency) of Revenue	\$0		\$0	
Welfare Fund Balance (Beginning of Year)	\$0		\$0	
Welfare Fund Balance (End of Year)	\$0		\$0	

This audit report is one of three reports our office issued on the Social Service Employees Union benefit funds. The Social Service Employees Union has four benefit funds—the Administrative Fund, the Welfare Fund, the Legal Services Fund, and the Educational Fund. The audits of the financial and operating practices of the Administrative Fund (Audit # FL10-124A) and the Legal Services Fund and Education Fund (Audit #FL10-125A), will be issued under separate cover. This audit discusses the results of our review of Social Services Employees Union Local 371 Welfare Fund.

Objectives

The objectives of the audit were to determine whether the Welfare Fund complied with applicable procedures and requirements of Comptroller's Directive #12, had adequate and proper accounting procedures and complied with them, and paid benefit expenses that were appropriate and reasonable.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS 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, except for our inability to obtain sufficient evidence to test and determine whether the Welfare Fund had appropriately provided health and safety, podiatry, and pension counseling benefits to its members in accordance with its benefit-processing procedures. This issue is more fully disclosed in the subsequent paragraph. 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 Welfare Fund reported payments of \$100,637 for health and safety benefits, \$24,130 for podiatry benefits, and \$3,800 for pension counseling benefits, totaling \$128,567. The Welfare Fund was unable to provide us with utilization reports or any supporting documentation for these benefits. We were therefore unable to test and determine whether the Welfare Fund had appropriately provided these benefits in accordance with its benefit-processing procedures.

To achieve our audit objectives, we reviewed the Welfare Fund's financial and operating practices for the period July 1, 2007, through June 30, 2008—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 Welfare 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 Welfare 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 Welfare Fund officials and reviewed the Welfare Fund's Trust Agreement to gain an understanding of the contribution and benefit-processing procedures. We prepared flowcharts and memoranda outlining our understanding of these procedures and the Welfare Fund's internal controls.

To determine whether all revenues and expenses were properly recorded, we reconciled the

certified financial statements with their trial balance, records of adjusting entries, cash receipts, disbursements journals, and other related documentation for the Welfare Fund. Specifically, we traced revenue amounts for Fiscal Year 2008 from the Administrative Fund's bank transfer notices to the bank statements and general ledgers of the Welfare Fund.

We also traced the \$285,866 in dental facility expenses listed on the August 2007 check register of the operating account to supporting documentation, which included dentist-payroll records, expense-allocation reports, and vendor invoices, to determine whether the dental-facility expenses were properly recorded, reasonable, and appropriate.³

To determine the accuracy of bank reconciliations and to account for all checks paid, outstanding, and voided by the Welfare Fund, we reviewed the Welfare Fund's bank statements for the operating, benefit, dental, optical, and disability checking accounts for Fiscal Year 2008.

In addition, we performed tests of the benefit payments to members to determine whether only eligible members and their dependents received benefits from the Welfare Fund. For all benefits, we intended to trace selected participants listed on the utilization reports or benefit check registers for Fiscal Year 2008 to the City and the City's Health and Hospitals Corporation (HHC) contribution reports to verify member eligibility. However, the Administrative Fund was unable to provide us with these contribution reports. Therefore, as an alternative procedure, we traced the selected participants to either the City's Payroll Management System (PMS) or contribution reports that we retrieved from HHC to determine whether members were working in covered titles and eligible for benefits. However, without the City contribution reports, we were unable to determine whether the Welfare Fund received contributions for these members.

We performed additional benefit testing as discussed in detail in the following sections of this report.

Prescription Drugs

To verify member eligibility, we traced 100 randomly sampled participants—with claims totaling \$4,024—of the 20,144 participants listed on the Medco Health Solutions, Inc. Billing Detail Reports for the month of May 2008 to the City's PMS or the contribution reports that we retrieved from HHC.⁴ 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 verify member eligibility, we traced 100 randomly sampled participants—with claims totaling \$14,330—of the 3,145 participants listed on the Welfare Fund Dental Check Register for

³ For our tests of dental-facility expenses, we judgmentally selected August 2007, based on the highest dollar amount the Welfare Fund spent on dental facility expenses during Fiscal Year 2008.

⁴ For our tests of prescription-drug benefit expenses, we judgmentally selected May 2008, based on the highest dollar amount the Welfare Fund paid in prescription drug claims during Fiscal Year 2008.

the month of May 2008 to the City's PMS or the contribution reports we retrieved from HHC.⁵ 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.

Disability Benefits

To verify member eligibility, we traced all 157 participants—with claims totaling \$137,417—listed on the Welfare Fund Disability Check Register for the month of August 2007 to the City's PMS or contribution reports that we retrieved from HHC.⁶ We also determined whether the claims were supported with proper documentation and whether payments were calculated correctly and did not exceed the timeframe limit specified by the Welfare Fund.

Life Insurance Benefits

We compared the number of participants listed on all Fiscal Year 2008 premium billing from Prudential Insurance Company (the Welfare Fund's contracted life insurance company), totaling \$468,619, to the number of individuals listed on the City contribution vouchers to determine whether premium payments were made for the correct number of members.

Optical Benefits

To verify member eligibility, we traced 100 randomly sampled optical claims, totaling \$4,695, of the 1,025 claims processed by the Welfare Fund for the month of May 2008 from the optical-check registers to the City's PMS or the contribution reports we retrieved from HHC.⁷ 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.

Health and Safety Benefits

To verify member eligibility, we intended to trace a sample of participants who received the Health and Safety Benefits during Fiscal Year 2008 to the City's PMS or the contribution reports we retrieved from HHC. However, the Welfare Fund did not maintain utilization reports or any supporting documentation for this benefit. As a result, we were unable to perform eligibility tests on this benefit.

Prosthetic Appliances

To verify member eligibility for prosthetic appliances, we traced all 61 claims, totaling

⁵ For our tests of dental-benefit expenses, we judgmentally selected May 2008, based on the highest dollar amount the Welfare Fund paid in dental claims during Fiscal Year 2008.

⁶ For our tests of disability-benefit expenses, we judgmentally selected August 2007, based on the highest dollar amount the Welfare Fund paid in disability claims during Fiscal Year 2008.

⁷ For our tests of optical-benefit expenses, we judgmentally selected May 2008, based on the highest dollar amount the Welfare Fund paid in optical claims during Fiscal Year 2008.

\$14,730, listed on the Welfare Fund Benefit Check Register for the Fiscal Year 2008 to the City's PMS or the contribution reports we retrieved from HHC. In addition, we determined whether the reimbursements were calculated correctly, supported with proper documentation, and met the amounts specified in the Welfare 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.

To verify member eligibility for orthotic reimbursements paid to Jeffrey Stark (the Welfare Fund's podiatry benefit provider), we traced the participants listed on all 55 claims, totaling \$8,250, recorded on the Welfare Fund Benefit Check Register for the month of June 2008 to the City's PMS or the contribution reports we retrieved from HHC. The Welfare Fund did not maintain any supporting documentation for this benefit.

Podiatry Benefits

To verify member eligibility, we intended to trace a sample of participants who received the podiatry benefit during Fiscal Year 2008 to the City's PMS or the contribution reports we retrieved from HHC. However, the Welfare Fund did not maintain utilization reports or any supporting documentation for this benefit. As a result, we were unable to perform eligibility tests on this benefit.

Burial Benefits

To verify member eligibility, we traced all 38 burial claims, totaling \$19,000, listed on the Welfare Fund Benefit Check Register for Fiscal Year 2008 to the City's PMS or the contribution reports we retrieved from HHC. Furthermore, we determined whether the reimbursements were calculated correctly, supported with proper documentation, and met the amounts specified in the Welfare Fund's fee schedule.

Diagnostic Examination Benefits

To verify member eligibility, we traced all 30 participants—with claims totaling \$5,250—listed on the Welfare Fund Benefit Check Register for the Fiscal Year 2008 to the City's PMS or the contribution reports we retrieved from HHC. Moreover, we determined whether the reimbursements were calculated correctly, supported with proper documentation, and met the amounts specified in the Welfare Fund's fee schedule. For instances in which a member's spouse received benefits, we determined whether a marriage certificate was on file.

Hearing Aid Benefits

To verify member eligibility, we traced all 11 participants—with claims totaling \$6,600—listed on the Welfare Fund Benefit Check Register for the Fiscal Year 2008 to the City's PMS or the contribution reports we retrieved from HHC. In addition, we determined whether the reimbursements were calculated correctly, supported with proper documentation, and met the amounts specified in the Welfare 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.

Pension Counseling Benefits

To verify member eligibility, we intended to trace a sample of participants who received the pension counseling benefit during Fiscal Year 2008 to the City's PMS or the contribution reports we retrieved from HHC. However, the Welfare Fund did not maintain utilization reports or any supporting documentation for this benefit. As a result, we were unable to perform eligibility tests on this benefit.

Abortion Benefits

To verify member eligibility, we traced all six participants—with claims totaling \$1,200—listed on the Welfare Fund Benefit Check Register for the Fiscal Year 2008 to the City's PMS and the contribution reports we retrieved from HHC. We also determined whether the reimbursements were calculated correctly, supported with proper documentation, and met the amounts specified in the Welfare Fund's fee schedule. For instances in which a member's spouse received benefits, we determined whether a marriage certificate was on file.

Overall, we reviewed \$684,115 in benefit payments, which include 658 claims (totaling \$215,496) and life insurance premium payments (totaling \$468,619).

The results of the above tests, while not statistically projected to the various populations from which they were drawn, provided a reasonable basis for us to satisfy our audit objectives.

Discussion of Audit Results

The matters covered in this report were discussed with Welfare Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Welfare Fund officials on January 28, 2011, and was discussed at an exit conference held on February 15, 2011. On March 18, 2011, we submitted a draft report to Welfare Fund officials with a request for comments. We received a written response from Welfare Fund officials on March 30, 2011.

In their response, Welfare Fund officials generally did not specifically address the audit's findings or recommendations and did not indicate how they will implement the necessary corrective actions to remediate the findings discussed in this report.

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

FINDINGS AND RECOMMENDATIONS

The Welfare Fund complied with the procedures and reporting requirements of Directive #12. In addition, the Welfare Fund complied with its accounting procedures, and those procedures were adequate and proper. Although the Welfare Fund paid benefit expenses that were mostly appropriate and reasonable, we found some weaknesses in the Welfare Fund's financial, operating, and benefit-processing procedures as follows. The Welfare Fund:

- Paid \$100,925 for questionable expenses. These expenses lack adequate supporting documentation or are unrelated to the operations of the Welfare Fund.
- Made improper benefit payments totaling \$31,025. Of the \$684,115 in benefit payments we reviewed, \$31,025 (5 percent) in payments were made to ineligible individuals and made without supporting documentation.
- Did not maintain documentation to support its podiatry and pension-counseling benefit payments, totaling \$27,930. The Welfare Fund was unable to provide us with utilization reports for these benefits. Specifically, the Fund did not provide us with timekeeping records and appointment sheets for its pension-counseling benefit payments. As a result, we were unable to determine whether these payments were reasonable and appropriate and for eligible members and their dependents.
- Did not maintain complete and accurate records of those persons for whom it is providing COBRA benefits. As a result, we were unable to determine whether COBRA coverage was provided to only eligible members and their dependents within the maximum coverage range and whether members paid the appropriate premiums to the Welfare Fund.
- Paid claims for dependents whose eligibility was not documented. Of the 658 benefit claims we reviewed, 133 claims, totaling \$14,876, were for services provided to individuals who were listed as dependents of eligible members. However, the Welfare Fund did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were, in fact, eligible dependents for 133 (100 percent) of the 133 claims.
- Did not properly authorize checks. Checks issued from its operating account for Fiscal Year 2008 were not properly authorized.

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

The Welfare Fund Paid \$100,925 for Questionable Expenses

The Welfare Fund paid \$100,925 for questionable expenses. These expenses lack adequate supporting documentation or are unrelated to the operations of the Welfare Fund. Specifically, the Welfare Fund paid:

- \$100,637 to the union for its health and safety benefit. The Welfare Fund was unable to provide us with timekeeping records, expense reports, or utilization reports for this benefit. As a result, we were unable to determine whether this payment was reasonable and appropriate and for only eligible members and their dependents. This benefit is not included in the Welfare Fund's benefit book, which informs Welfare Fund members of all the benefits available to them and their eligible dependents and gives instructions on claiming these benefits. If benefits are not included in the Welfare Fund's benefit book, members do not know that these benefits are available to them.
- \$288 to two dental assistants to reimburse them for sneakers.

Welfare Fund Response: *“Health and Safety:* The Fund established a Health and Safety office as a resource for members who are worried about workplace health hazards, OSHA compliance, etc. While this benefit is not described in the Welfare Fund section of the benefit book, the activities of the Health and Safety office are publicized in the Union's newspaper and are well known to the membership. We will add a description of the Health and Safety office to the Fund's section of the Benefit Fund's website, and we will include this description in the next edition of the benefit book. We will also require timekeeping records, expense reports, and utilization reports.”

Improper Benefit Payments

The Welfare Fund made improper benefit payments totaling \$31,025. Of the \$684,115 in benefit payments we reviewed, \$31,025 (5 percent) in payments were made to ineligible individuals and made without supporting documentation. Specifically, the Welfare Fund:

- Paid \$28,674 for 128 claims for which no supporting documentation, such as claim forms and medical receipts, was on file.
- Paid \$2,351 for six claims on behalf of ineligible individuals. The benefits were paid for individuals who were not listed on the City's PMS or HHC contribution reports.

Welfare Fund Response: *“Benefit Payments:* The Fund provides benefits only to eligible participants. It receives monthly electronic member eligibility updates from the City, and this electronic file is a mirror image of the hard copy.”

Auditor Comment: Contrary to the Welfare Fund's response, monthly electronic member eligibility updates from the City will not automatically ensure that the Welfare Fund pays

claims to only eligible individuals with adequate supporting documentation. The Welfare 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, claim forms, and supporting medical receipts. These documents are important because they ensure that the Welfare Fund is maximizing the amount of benefits paid on behalf of eligible members.

The Welfare Fund Does Not Maintain Supporting Documentation to Support Podiatry and Pension-Counseling Benefit Payments

The Welfare Fund did not maintain documentation to support its podiatry and pension-counseling benefit payments, totaling \$27,930. The Welfare Fund was unable to provide us with utilization reports for these benefits. Specifically, the Fund did not provide us with timekeeping records and appointment sheets for its pension-counseling benefit payments. As a result, we were unable to determine whether these payments were reasonable and appropriate and for only eligible members and their dependents.

Welfare Fund Response: “*Podiatry:* The Fund maintains a computerized appointment schedule of members utilizing the Podiatry benefit, along with a hard copy of the appointments for each day of service. In addition, a medical history file is maintained for each member-patient, detailing dates of service and procedures performed. This documentation was made available to the Comptroller’s office for review.

“*Pension Counseling:* Pension Counseling appointment sheets are now filed with the records of payments made to the Pension Counselor.”

Auditor Comment: Contrary to the Welfare Fund’s response, our review of the patients’ medical history files only indicates the dates of service and the podiatrist’s initials. There was no detail of procedures performed by the podiatrist. No claim forms or supporting medical receipts were provided to support the existence of these appointments. The Welfare Fund needs to maintain adequate supporting documentation to substantiate benefits provided and who received the benefits.

Inadequate Controls Over Its COBRA Benefit

Under the terms of COBRA, certain former employees, retirees, spouses, and dependent children, upon payment of a premium, are entitled to temporarily continue the group health coverage provided by the Welfare Fund. We found that the Welfare Fund does not maintain complete and accurate records of those persons for whom it is providing COBRA benefits.

According to the Welfare Fund’s financial statements, the Welfare Fund received \$25,667 in premiums for COBRA coverage during Fiscal Year 2008. However the Welfare Fund did not provide us with any supporting documentation such as the *COBRA Election* form, the *American Recovery and Reinvestment Act of 2009 (ARRA) Premium Reduction Request For Treatment As An*

Assistance Eligible Individual form, or any documentation to support member and dependent eligibility, COBRA coverage period, and premium amount. As a result, we were unable to determine whether COBRA coverage was provided to only eligible members and their dependents within the maximum coverage range and whether members paid the appropriate premiums to the Welfare Fund.

Welfare Fund Response: “*Cobra:* The Fund maintains detailed Cobra files, which include applications, benefit choices and premium rates. These files are kept on site for one year, then filed at a storage facility.”

Auditor Comment: Although the Welfare Fund claims to maintain sufficient documentation of dependent status, it could not provide us with any of the COBRA files for individuals it is providing COBRA benefits. Without supporting documentation, it is impossible to verify that COBRA coverage was provided only to eligible members and their dependents within the maximum coverage range and whether appropriate premiums were paid to the Welfare Fund.

Claims Paid for Dependents Whose Eligibility Was Not Documented

We reviewed 658 benefit claims, totaling \$215,496, of which 133 claims, totaling \$14,876, were for services provided to individuals who were listed as dependents of eligible members. However, the Welfare Fund did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were, in fact, eligible dependents for 133 (100 percent) of the 133 claims.

Welfare Fund Response: “*Dependent Eligibility:* Documentation of dependent status such as birth and marriage certificates is required by the Fund and noted in the eligibility record; it is then filed in the year received.”

Auditor Comment: The Welfare Fund could not provide us with any birth and marriage certificates to support its claim. Without supporting documentation, it is impossible to determine dependents’ eligibility. These documents are necessary to ensure that the Welfare Fund is maximizing the amount of benefits paid on behalf of eligible dependents.

Improper Check Authorization

The Welfare Fund did not properly authorize checks issued from its checking account for Fiscal Year 2008. The Welfare Fund’s Trust Agreement Section 7.9 states that the checks should only be signed by Fund Trustees or any other employee of the Fund Trustees. However, 70 of 94 (74 percent) canceled checks from these accounts were signed by a Fund employee and a Union officer. Because the Union officer is not a Trustee or employee of the Trustees of the Welfare Fund, he or she should not be authorizing the Welfare Fund checks.

Welfare Fund Response: “*Check Authorization:* In 1992, the Fund’s Trustees approved a two-signature policy on all disbursements; this policy decision is set forth in the minutes of the Board of Trustees meeting, and is designed to strengthen internal controls. The policy is not set forth in the Fund’s Trust Document, and the Trustees will make every effort to have the Trust Document amended to include the two-signature policy.”

Auditor Comment: By allowing a union official to sign checks on behalf of the Fund, the Welfare Fund may be in violation of the Fund’s Trust Agreement. A union official is not a trustee or employee of the Welfare Fund. The Trust Agreement only allows fund trustees or fund employees the authority to sign checks. Although fund officials claim that having a two-signature policy on all disbursements strengthens internal controls, allowing an unaffiliated union officer to sign checks significantly weakens the controls over disbursements.

Welfare Fund trustees have a fiduciary responsibility to their members and are expected to comply with the terms and provisions of the Trust Agreement and, therefore, must ensure that *only* Trustees, the Administrator, or designated employees of the Trustees are allowed to sign checks issued by the Welfare Fund. Welfare Fund officials need to reconsider their position and designate a trustee or Fund employee to co-sign checks on behalf of the Fund.

Recommendations

The Welfare Fund should:

1. Discontinue its practice of subsidizing the Union's health and safety benefit until the Welfare Fund receives timekeeping records, expense reports, or utilization reports so it can assess the reasonableness and appropriateness of this benefit.
2. Ensure that all expenses incurred are reasonable and necessary for the operation of the Welfare Fund.
3. Pay for benefits for eligible individuals only and make payments in accordance with their guidelines.
4. 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, HHC contribution reports, claim forms, and medical receipts.
5. Maintain complete and accurate records for COBRA benefits. These documents should include the *COBRA Election* form and the *ARRA Premium Reduction Request* forms.
6. Create and maintain procedures to record and track COBRA eligibility, coverage ranges, and premium payments.
7. Ensure that benefits are provided only to eligible dependents.
8. Ensure that only authorized personnel sign program checks.

SOCIAL SERVICE EMPLOYEES UNION LOCAL 371

Welfare Fund



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March 29, 2011

H. Tina Kim
Deputy Comptroller, City of New York
One Centre Street, Room 1100
New York, New York 10007-2341

RE: Audit Report on the Financial and Operating
Practices of the Social Service Employees Union
Local 371 Welfare Fund
FL10-123A

TRUSTEES

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Willie Tomlin
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John D. Brown

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Dear Ms. Kim:

Thank you for your letter dated March 18, 2011, and for the above-cited draft Audit Report of the same date. We appreciate the observations and recommendations set forth in the *Audit Report in Brief* section of the draft Audit Report, and to the extent that they are applicable we will implement the recommendations as soon as possible. As requested in your letter, the following are our responses to the observations and recommendations set forth in the *Audit Report in Brief* section:

- ⓐ *Health and Safety*: The Fund established a Health and Safety office as a resource for members who are worried about workplace health hazards, OSHA compliance, etc. While this benefit is not described in the Welfare Fund section of the benefit book, the activities of the Health and Safety office are publicized in the Union's newspaper and are well known to the membership. We will add a description of the Health and Safety office to the Fund's section of the Benefit Fund's website, and we will include this description in the next edition of the benefit book. We will also require timekeeping records, expense reports, and utilization reports.
- ⓑ *Podiatry*: The Fund maintains a computerized appointment schedule of members utilizing the Podiatry benefit, along with a hard copy of the appointments for each day of service. In addition, a medical history file is maintained for each member-patient, detailing dates of service and procedures performed. This documentation was made available to the Comptroller's office for review.
- ⓒ *Pension Counseling*: Pension Counseling appointment sheets are now filed with the records of payments made to the Pension Counselor.
- ⓓ *Cobra*: The Fund maintains detailed Cobra files, which include applications,

benefit choices and premium rates. These files are kept on site for one year, then filed at a storage facility.

- o *Benefits Payments:* The Fund provides benefits only to eligible participants. It receives monthly electronic member eligibility updates from the City, and this electronic file is a mirror image of the hard copy.
- o *Dependent Eligibility:* Documentation of dependent status such as birth and marriage certificates is required by the Fund and noted in the eligibility record; it is then filed in the year received.
- o *Check Authorization:* In 1992, the Fund's Trustees approved a two-signature policy on all disbursements; this policy decision is set forth in the minutes of the Board of Trustees meeting, and is designed to strengthen internal controls. The policy is not set forth in the Fund's Trust Document, and the Trustees will make every effort to have the Trust Document amended to include the two-signature policy.

Again, we would like to thank you, and, in particular Ms. Irene Lam, Audit Supervisor, for the professionalism and courtesy demonstrated during the audit process, and for the recommendations for improving the Fund's policies resulting from the audit.

Very truly yours,



John D. Brown

Cc: Board of Trustees