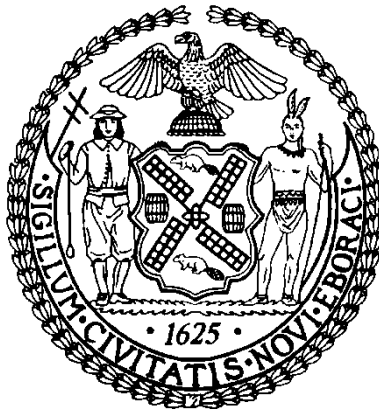


**CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER**

*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 Administrative Fund**

*FL10-124A*

**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 Administrative Fund (Administrative 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 Administrative Fund complied with the procedures and reporting requirements of Directive #12; in addition, the Administrative Fund complied with its accounting procedures, and those procedures were adequate and proper—except for the lack of written policies and procedures requiring that complete time records be maintained. Also, the Administrative Fund paid administrative expenses that were appropriate and reasonable—except for payroll expenses. Due to the lack of complete employee time records, the auditors could not be assured that employees were paid for hours actually worked. Furthermore, the Administrative Fund did not properly authorize checks issued from its operating account for Fiscal Year 2008 as required by §7.8 of the Administrative Fund's Trust Agreement.

The audit recommends that the Administrative Fund should create and implement written timekeeping procedures and ensure that only authorized personnel sign checks.

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

If you have any questions concerning this report, please e-mail my audit bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov).

Sincerely,

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

John C. Liu

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*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 Administrative Fund**

**FL10-124A**

**AUDIT REPORT IN BRIEF**

The Social Service Employees Union Local 371 Administrative Fund (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 Administrative 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 Administrative Fund for Fiscal Year 2008. As of June 30, 2008, the Administrative Fund reported \$27,825,797 in City contributions and net assets of \$9,409,531.

**Audit Findings and Conclusions**

The audit found that the Administrative Fund complied with the procedures and reporting requirements of Directive #12; in addition, the Administrative Fund complied with its accounting procedures, and those procedures were adequate and proper—except for the lack of written policies and procedures requiring that complete time records be maintained. Also, the Administrative Fund paid administrative expenses that were appropriate and reasonable—except for payroll expenses. Due to the lack of complete employee time records, we could not be assured that employees were paid for hours actually worked. Furthermore, the Administrative Fund did not properly authorize checks issued from its operating account for Fiscal Year 2008 as required by §7.8 of the Administrative Fund's Trust Agreement.

### **Audit Recommendations**

The audit makes two recommendations. The Administrative Fund should:

- Create and implement written timekeeping procedures requiring formal recording of each employee's time and maintain accurate daily attendance records and records of leave balances for its employees.
- Ensure that only authorized personnel sign checks.

### **Fund Response**

In their response, Administrative 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 Administrative Fund was established on July 19, 1973, 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 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—the Welfare Fund, the Legal Services Fund, and the Educational Fund. These funds provide welfare, legal, and educational services to the 17,130 employees currently working in one of the approximately 160 eligible titles.<sup>1</sup>

The Administrative Fund received \$27,825,797 in contributions from members' employers for Fiscal Year 2008. The Administrative Fund allocated \$25,187,910 to its benefit funds and paid \$2,571,109 in administrative expenses. As of June 30, 2008, the Administrative Fund reported net assets of \$9,409,531.

The Administrative 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.

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 Welfare Fund (Audit #FL10-123A) and the Legal Services Fund and the Educational Fund (Audit #FL10-125A) will be issued under separate cover. This audit discusses the results of our review of the Social Services Employees Union Local 371 Administrative Fund.

Table I summarizes the Administrative Fund's audited financial statements, as reported by the Administrative Fund, for the years ended June 30, 2007, and June 30, 2008.

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<sup>1</sup> According to the Trustees' Management Letter, the Administrative 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****Summary of the Administrative Fund's Reported Revenues and Expenses**

	<b>2007</b>	<b>Percent of Total Revenue</b>	<b>2008</b>	<b>Percent of Total Revenue</b>
Employer's Contributions	\$30,248,445	99.36%	\$27,825,797	98.51%
Other Contributions	81,696	0.27%	70,520	0.25%
Investment Income	112,094	0.37%	351,214	1.24%
<b>Total Revenue</b>	<b>\$30,442,235</b>	<b>100.00%</b>	<b>\$28,247,531</b>	<b>100.00%</b>
Social Services Employees Union Local 371 Welfare Fund	\$19,210,654	63.11%	\$20,955,120	74.18%
Social Services Employees Union Local 371 Legal Services Fund	3,679,648	12.09%	3,900,521	13.81%
Social Services Employees Union Local 371 Educational Fund	346,368	1.14%	332,269	1.18%
Administrative Expenses	2,420,101	7.95%	2,571,109	9.10%
<b>Total Expenses</b>	<b>\$25,656,771</b>	<b>84.28%</b>	<b>\$27,759,019</b>	<b>98.27%</b>
Excess (Deficiency) of Revenue	\$4,785,464		\$488,512	
Beginning Administrative Fund Balance	\$4,135,555		\$8,921,019	
Ending Administrative Fund Balance	\$8,921,019		\$9,409,531	

**Objectives**

The objectives of the audit were to determine whether the Administrative Fund complied with applicable procedures and requirements of Comptroller's Directive #12, had adequate and proper 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). 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.

To achieve our audit objectives, we reviewed the Administrative 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 Administrative 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 Administrative 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 various Administrative Fund officials and reviewed the Trust Agreement to gain an understanding of the internal controls in place to record revenues and expenses, and prepared flowcharts and memoranda outlining our understanding of these procedures and Administrative Fund internal controls.

To determine whether all revenues and expenses were properly recorded, we reconciled the Administrative Fund's certified financial statements with its trial balance, records of adjusting entries, general ledger, cash receipts, disbursements journals, and other related documentation. Specifically, we traced revenue amounts for the audit period from the New York City and Health and Hospitals Corporation (HHC) payment vouchers and copies of canceled checks to the Administrative Fund's cash receipts journal and bank deposit slips. We also reviewed documentation related to the Administrative Fund's investments to determine the accuracy of the amounts reported in the financial statements.

We vouched \$965,048 of the \$2,571,109 reported administrative expenses from the Administrative Fund's cash disbursements journal to supporting documentation, which included expense allocation reports and vendor invoices, to determine whether reported administrative expenditures were properly recorded, reasonable, and appropriate.

We randomly sampled the records of 167 of the 16,290 City employees listed on the contribution reports for the period ending February 19, 2010, received from the Health and Hospitals Corporation, Housing Authority, Police Pension Fund, and 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 Administrative Fund's membership records.

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



for the commercial checking account for Fiscal Year 2008.

To determine whether the Administrative Fund had adequate controls over its timekeeping function, we reviewed the December 2007 and January 2008 time records of all 39 employees on payroll for those months. We verified whether the hours recorded on the payroll register corresponded with the hours recorded on the employees' daily and weekly timesheets as well as the employees' time cards. We also verified that employees' leave balances were charged for vacation or sick leave time used based on their time cards or timesheets.

Finally, we verified whether distributions made by the Administrative Fund in Fiscal Year 2008 to its benefit funds were appropriate. In that regard, we traced distributions from the financial statements to the general ledger. We also verified that the amounts distributed were within each benefit fund's budget.

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

### **Discussion of Audit Results**

The matters covered in this report were discussed with Administrative Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Administrative 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 Administrative Fund officials with a request for comments. We received a written response from Administrative Fund officials on March 30, 2011.

In their response, Administrative 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 Administrative Fund's response is included as an addendum to this report.

## FINDINGS AND RECOMMENDATIONS

The Administrative Fund complied with the procedures and reporting requirements of Directive #12; in addition, the Administrative Fund complied with its accounting procedures, and those procedures were adequate and proper—except for the lack of written policies and procedures requiring that complete time records be maintained. Also, the Administrative Fund paid administrative expenses that were appropriate and reasonable—except for payroll expenses. Due to the lack of complete employee time records, we could not be assured that employees were paid for hours actually worked. Furthermore, the Administrative Fund did not properly authorize checks issued from its operating account for Fiscal Year 2008, as required by §7.8 of the Administrative Fund’s Trust Agreement.

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

### **The Administrative Fund Does Not Maintain Complete Employee Attendance Records**

During Fiscal Year 2008, the Administrative Fund reported \$2,571,109 in administrative expenses. Of the \$1,328,903 in payroll salaries, we reviewed the payroll records for December 2007 and January 2008, totaling \$359,794 (27 percent). We found that the Administrative Fund does not maintain complete employee attendance records.

Specifically, it does not track the hours employees worked or the time of daily departure. In addition, other Fund employees (e.g. Fund Administrator, Assistant Fund Administrator, Controller, and part-time office workers) are not required to record their arrival and departure times. Consequently, we could not confirm whether employees were paid for hours they actually worked. The City Comptroller’s Internal Control and Accountability Directive #12, §3.8, “Cost and Expense Allocations,” states: “Staff salaries should be apportioned based on records which document the efforts devoted to each entity.”

The Administrative Fund has no written policies and procedures requiring that timekeeping records be maintained. Timekeeping 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 each employee. They are also necessary to settle payroll disputes and, at times, to establish the validity of injury and disability claims.

**Administrative Fund Response:** “Attendance Records: Each Fund employee is required to sign a daily attendance sheet upon arriving at work. In addition, the Fund maintains a master attendance card for each employee, where the employee’s leave balances are maintained.”

**Auditor Comment:** Fund officials are being somewhat dismissive of our audit finding and recommendation regarding the importance of maintaining complete and accurate

time records of all fund employees. Currently, most fund employees are only required to sign in upon arrival while others do not sign in or sign out. Consequently, there is no record or accountability indicating whether fund employees are working the required number of hours for which they are being paid. Because complete attendance records form the basis for calculating payroll or dealing with payroll disputes, Fund officials have a fiduciary responsibility to ensure that members' funds are being spent appropriately.

Therefore, we reiterate our position and hope that Fund officials will reconsider their position and establish written procedures requiring the formal recording (time in and time out) for all employees.

### **Improper Check Authorization**

The Administrative Fund did not properly authorize checks issued from its checking account for Fiscal Year 2008. The Administrative Fund's Trust Agreement §7.8 states that the checks should only be signed by Fund Trustees or any other employee of the Fund Trustees; however, out of the 46 checks reviewed, 20 (43 percent) of the 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 Administrative Fund, he/she should not be authorizing the Administrative Fund checks.

***Administrative 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 Administrative Fund may be in violation of the Fund's Trust Agreement. A union official is not a trustee or employee of the Administrative 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.

Administrative 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 Administrative Fund. 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 Administrative Fund should:

1. Create and implement written timekeeping procedures requiring formal recording of each employee's time and maintain accurate daily attendance records and records of leave balances for its employees.
2. Ensure that only authorized personnel sign checks.

SOCIAL SERVICE EMPLOYEES UNION LOCAL 371

# Administrative Fund

March 29, 2011



817 BROADWAY • NEW YORK, N.Y. 10003 • (212) 777 - 9000  
FAX : (212) 673 - 3813

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

TRUSTEES

Rosemary Ciulla-Frisone  
Stephanie Meyer  
Adrienne Miller  
Faryce B. Moore

RE: Audit Report on the Financial and Operating  
Practices of the Social Service Employees Union  
Local 371 Administrative Fund  
FL10-124A

Administrator  
John D. Brown

Associate  
Administrator  
Helen C. Wilson

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:

- *Attendance Records:* Each Fund employee is required to sign a daily attendance sheet upon arriving at work. In addition, the Fund maintains a master attendance card for each employee, where the employee's leave balances are maintained.
- *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