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 Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan

FL04-095A

June 30, 2004

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 Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan (the Retiree Plan), for the period July 1, 2001, through June 30, 2002. Under the terms of its agreement with the City, the Retiree Plan provides health and welfare benefits to eligible retired uniformed fire officers and their dependents.

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

Audits such as this provide a means of ensuring that benefit funds are spending moneys in the best interest of their members and are complying with applicable procedures and reporting requirements, as set forth in Comptroller's Internal Control and Accountability Directive 12, Employee Benefit Funds—Uniform Reporting and Auditing Requirements.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

William C. Thompson

William C. Thompson, Jr.

WCT/gr

Report: **FL04-095A**
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The City of New York
Office of the Comptroller
Bureau of Financial Audit

Audit Report on the Financial and Operating Practices of the Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan

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Audit Report In Brief

The Comptroller's Office performed an audit on the financial and operating practices of the Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan (the Retiree Plan) for Fiscal Year 2002. The Retiree Plan, which was established to receive contributions from the City of New York, provides health and welfare benefits to eligible retired uniformed fire officers and their dependents. The Retiree Plan is required to conform to Comptroller's Directive 12, which sets forth accounting, auditing and financial guidelines for City welfare funds and their boards of trustees. As of June 30, 2002, the Retiree Plan reported net assets of $7,188,409.

Audit Findings and Conclusions

The Retiree Plan generally complied with the procedures and reporting requirements of Directive 12. In addition, the Retiree Plan generally complied with its benefit-processing and accounting procedures, and those procedures were adequate and proper. Furthermore, the Retiree Plan's administrative expenses were generally appropriate and reasonable. All City contributions were accounted for and deposited in the Retiree Plan's bank account. Also, the Retiree Plan's expenses were accurately recorded in its trial balance and cash disbursements journal, and adequate supporting documentation was maintained for most expenses paid. However, we found some weaknesses in the Retiree Plan's financial and operating practices. Specifically, the Retiree Plan:

- Misstated benefit and administrative expenses on its financial statements and its Directive 12 filing.
- Made improper benefit payments totaling $18,173.
- Did not maintain complete and accurate records of those persons for whom it is paying COBRA benefits and of the premium payments received from these individuals to pay for the coverage.
- Did not solicit proposals from insurance companies to provide life insurance benefits to its members, as required by §3.9 of Directive 12. In addition, we have serious concerns

regarding the process used to award the contract. As a result, we question the veracity of the analysis and the award of the life insurance contract.
- Paid claims for dependents whose eligibility was not documented.

Audit Recommendations

To address these issues, we recommend that the Retiree Plan:

- Ensure that administrative and benefit expenses are recorded accurately on its financial statements, in accordance with Comptroller's Directive 12.
- Ensure that it pays for benefits only for eligible individuals, in accordance with its guidelines.
- Maintain complete and accurate records of COBRA premium payments received.
- Provide COBRA benefits only to individuals who make the required premium payments.
- Terminate its contract with Highmark and award a new contract for life insurance benefits based on a solicitation that is in compliance with Directive 12.
- Ensure that it follows the bidding requirements of Directive 12 for all insurance contracts.
- Maintain copies of all documentation in members' permanent files to substantiate eligibility of dependents.

INTRODUCTION

Background

The Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan (the Retiree Plan) was established on April 29, 1976, under the provisions of a Fund Agreement between the City of New York and Uniformed Fire Officers Association (the Union), as well as a Declaration of Trust. The Retiree Plan provides health and welfare benefits to each individual who retired from the titles of Lieutenant, Captain, Battalion Chief, Deputy Chief, Deputy Chief Fire Dept., Assistant Chief Dept., Deputy Assistant Chief, Assistant Chief Designated, Fire Medical Officer, Medical Officer, Chief Medical Officer, Supervising Chief Medical Officer, Administrative Fire Marshal, and Supervising Fire Marshal. The Retiree Plan also provides benefits to members' spouses and dependents.

Table I, on the following page, shows the benefits that were available and the amounts paid for these benefits for the 4,070[1] Retiree Plan's members during Fiscal Year 2002—our audit period.

[1] Approximate number of retirees at the end of Fiscal Year 2002, according to the Trustees' Representation Letter.

TABLE I

Retiree Plan's Benefits and Amounts Paid, Fiscal Year 2002

Benefit	Amount	Coverage
Prescription Drugs	$3,848,647	Members and their eligible dependents are entitled to a maximum benefit of $5,000 per family per year. For prescriptions filled at participating pharmacies, National Medical Health Card (NMHC) reimburses members at a rate of 75 percent of a schedule of approved drugs, after exceeding a $100 per year per individual deductible, with a maximum of $200 per family. If non-participating pharmacies are used, members are reimbursed according to a fee schedule.
Dental	$1,222,343	Each member selects either an insured or self-insured plan.[2] If the member selects the insured plan, Dentcare Delivery Systems (Dentcare) bills the Retiree Plan $32 per month per member to provide benefits to the members and dependents based on a schedule of benefits. For those members living in Florida, insured dental benefits are provided by American Dental (American). American bills the Retiree Plan $11.46 for an individual, $21.36 for a couple, or $27.80 for a family per month to provide benefits to members and dependents. If the member selects the self-insured plan, the member is reimbursed by the Retiree Plan's third party administrator, Healthplex, based on a schedule of allowances. Members and eligible dependents are entitled to a maximum benefit of $1,500 per family each benefit year—September through August.
Life Insurance	$230,415	If a member dies before reaching the age of 70, beneficiaries receive $10,000 to $25,000, based on the member's age.
Optical	$128,976	Members and eligible dependents are entitled to an eye exam and one pair of prescription eyeglasses every two years from a participating optical provider. If a non-participating provider is used, members are reimbursed according to a fee schedule.
Death Benefit	$93,298	When a member over the age of 70 dies, beneficiaries receive $2,000.
GHI Behavioral Management Program	$45,951	For GHI members only. GHI bills the Retiree Plan $0.92 per individual and $1.52 per family per month to provide outpatient mental health visits to members and eligible dependents.

[2] For insured benefits, the Retiree Plan pays a premium to an insurance company to provide covered benefits to members. For self-insured benefits, the Retiree Plan directly provides covered benefits through a third-party administrator rather than through an insurance company.

Benefit	Amount	Coverage
Hearing Aid	$25,244	Members and eligible dependents are entitled to a maximum reimbursement of $300 per ear for hearing aid purchases and hearing aid repairs every five years.
Expanded Medical	$20,828	For HIP members only. Members are reimbursed according to a fee schedule for durable medical equipment, prosthetic/orthopedic devices, and private nursing services.
	$5,615,702	

During Fiscal Year 2002, the Retiree Plan provided benefits through contracts with National Medical Health Card (prescription drugs); Healthplex, Inc.; Dentcare Delivery Systems; American Dental (dental); Highmark Life Insurance Company (life insurance and death benefits); GHI (behavioral management program); and HIP (expanded medical insurance). Optical benefits were provided by the Retiree Plan through various carriers or through direct reimbursement, according to a fee schedule. Hearing aid benefits were through direct reimbursement.

As of June 30, 2002, the Retiree Plan reported net assets of $7,188,409. Table II, following, summarizes audited financial data, as reported by the Retiree Plan, for the fiscal years ending June 30, 2001, and June 30, 2002.

TABLE II

Summary of the Reported Retiree Plan's
Revenues and Expenses

	2001	% of Total Revenue	2002	% of Total Revenue
Employer Contributions	$5,516,887	92.43 %	$5,614,606	92.09 %
COBRA	49,830	0.84 %	45,818	0.75 %
Investment or Other Income	401,743	6.73 %	436,483	7.16 %
Total Revenue	5,968,460	100.00 %	6,096,907	100.00 %
Benefit Expenses	5,234,417	87.70 %	5,795,964	95.06 %
Administrative Expenses	219,875	3.68 %	220,150	3.61 %
Total Expenses	5,454,292	91.38 %	6,016,114	98.67 %
Excess (Deficiency) of Revenue	514,168		80,793	
Plan Balance (Beginning of Year)	6,593,448		7,107,616	
Plan Balance (End of Year)	$7,107,616		$7,188,409	

Objectives

Our audit objectives were to determine whether the Retiree Plan complied with applicable procedures and reporting requirements, set forth in Comptroller's Directive 12; complied with its benefit-processing and accounting procedures and whether those procedures were adequate and proper; and paid administrative expenses that were appropriate and reasonable. With regard to the Retiree Plan's benefit-processing and accounting procedures, our objectives were to determine the adequacy and effectiveness of the Retiree Plan's internal controls related to the processing and reporting of contributions received and benefit and administrative expenses paid; and to assess the Retiree Plan's adherence to its benefit-payment guidelines.

Scope and Methodology

To achieve our audit objectives, we reviewed the Retiree Plan's financial and operating practices for the period July 1, 2001, through June 30, 2002–the period covered by the latest Directive 12 filings available when we began the audit. We obtained the Retiree Plan's Directive 12 filings with the Comptroller's Office, which included its financial statements, federal tax returns, and other required schedules. Directive 12 establishes uniform reporting and auditing requirements for City-funded employee benefit plans. To determine whether the Retiree Plan complied with the significant terms and conditions of Directive 12, we determined whether the Retiree Plan filed:

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

We interviewed the various Retiree Plan officials and reviewed the Retiree Plan's Trust Agreement. We prepared a flowchart and memorandum outlining contribution and benefit-processing procedures to document our understanding of these procedures and the internal controls in place. In addition, we reconciled the Retiree Plan's certified financial statements with its general ledgers, trial balance, and record of entry adjustments, cash receipts, and cash disbursement journals, and other related documentation to determine whether all revenues and expenses were properly recorded.

Specifically, we traced revenue amounts for the audit period from New York City payment vouchers and copies of canceled checks to the Retiree Plan's cash receipts journals and bank deposit slips to ascertain whether the Retiree Plan's internal controls over revenue were adequate and effective and whether it accurately reported and deposited contributions received.

We also traced all administrative expenses from the cash disbursement journals to supporting documentation, which included vendor invoices and expense allocation reports, to determine whether the Retiree Plan's internal controls over administrative expenses were adequate and effective and whether these expenditures were properly recorded, reasonable, and appropriate.

To determine whether all eligible retirees were included on the Retiree Plan's eligibility database, we sampled the records of 100 of 4,102 retirees listed on contribution reports received from the New York City Office of Labor Relations. We compared the retirement information contained in these records to the Retiree Plan's membership records.

In addition, we performed the following tests of benefit payments to determine whether the internal controls over benefit payments were adequate and effective and whether only eligible members and their dependents received benefits from the Retiree Plan:[3]

- Dental Benefits: For self-insured dental benefits, we traced the individuals listed for 695 dental claims from two Claim Utilization Reports dated May 9 and 23, 2002, from Healthplex, Inc., (the Retiree Plan's third party administrator) to the City's contribution report to confirm member eligibility. We also determined whether reimbursements were correct and did not exceed the amounts specified in the Retiree Plan'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. In addition, we traced all 3,019 participants listed on the May 2002 administrative fee invoice from Healthplex to the City's contribution report to verify member eligibility. For insured dental benefits, we traced all 1,188 participants and 192 participants listed on the May 2002 premium billing from Dentcare Delivery Systems and American Dental (the Retiree Plan's insurance companies), respectively, to the City's contribution report to verify member eligibility.

- Prescription Drugs Benefit: We traced all 8,095 processed claims on the biweekly Detail Billing Report for the period May 1–15, 2002, from NMHC (the Retiree Plan's third party administrator) to the City's contribution report to verify member eligibility. We also determined whether reimbursements were correct and did not exceed the amounts specified in the Retiree Plan'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.

- Optical Benefit: We traced all 25 claims and all 94 claims from the May 2002 invoices from the Retiree Plan's optical benefits providers—General Vision and Comprehensive Professional Systems, respectively—to optical vouchers. We also reviewed all 245 claims submitted directly by members during the audit period. We traced the individuals on the vouchers to the City's contribution reports to verify eligibility of members. We also determined whether these reimbursements were calculated correctly, supported with proper documentation, and did not exceed the amounts specified in the Retiree Plan'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.

- Hearing Aid Benefit: We reviewed all 56 claims submitted directly from members or dependents during the audit period. Specifically, we traced the members on the vouchers to the City's contribution report to verify eligibility. We also determined whether the reimbursements were calculated correctly, supported with proper documentation, and did not exceed the amounts specified in the Retiree Plan's fee schedule. For instances in which a member's spouse or child received benefits, we

[3] For our tests of benefit expenses, we judgmentally selected May 2002, based on the high dollar amount of City contributions received by the Retiree Plan during that month.

determined whether a marriage certificate, child's birth certificate, or other proof of dependency was on file.

- Death Benefit: We reviewed all 46 claims processed during the audit period. Specifically, we traced the deceased members to the contribution report to confirm eligibility and verified whether death certificates and designated beneficiary forms were on file to support the payments. We also determined whether the payments were reasonable and properly reported.

- Expanded Medical Benefit: We traced all 377 members listed on the May 2002 invoice from HIP, the Retiree Plan's insurance company, to the City's contribution report to verify member eligibility.

- Life Insurance: We intended to review the eligibility of individuals covered under the life insurance benefit. However, the invoices from the insurance company do not specify who is covered by the Retiree Plan's life insurance policy. We did, however, determine whether the Retiree Plan solicited proposals from insurance companies to provide life insurance benefits to its members, as required by § 3.9 of Directive 12.

- Behavioral Management Program: We intended to review the eligibility of individuals covered under the program. However, the invoices from the GHI do not specify who is covered by the Retiree Plan's program.

The results of the above tests, covering the sampled items, while not projectable to all benefit expenses for the audit period, provided a reasonable basis to assess the Retiree Plan's compliance with its benefit processing guidelines.

We reviewed the Retiree Plan's records for payments received in relation to the federal Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) for the period July 2001 to June 2002 to verify participant eligibility and to determine whether the participants made the appropriate premium payments to the Retiree Plan.

To determine the accuracy of the Retiree Plan's bank reconciliations and to account for all checks paid, outstanding, and voided, we reviewed the Retiree Plan's bank statements for the operating account for October 2001 and June 2002. We also reviewed documentation related to the Retiree Plan's investments (for June 2002) to determine the accuracy of the dollar amounts reported in the financial statements.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. The audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, § 93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with Retiree Plan officials during and at the conclusion of this audit. A preliminary draft report was sent to Retiree Plan officials and was discussed at an exit conference. We submitted a draft report to officials of the Retiree Plan with a request for comments. On June 15, 2004, we received a response from the Retire Plan. The Retiree Plan generally agreed with the audit findings and seven of the report's eight recommendations. The Retiree Plan did not agree with the recommendation to terminate its life insurance contract with Highmark stating that such action would not benefit the participants. The full text of the Plan's comments is included as an addendum to this report.

FINDINGS

Overall, the Retiree Plan generally complied with the procedures and reporting requirements of Directive 12. In addition, the Retiree Plan generally complied with its benefit-processing and accounting procedures, and those procedures were adequate and proper. Furthermore, the Retiree Plan's administrative expenses were generally appropriate and reasonable. All City contributions were accounted for and deposited in the Retiree Plan's bank account in a timely manner. Also, the Retiree Plan's expenses were accurately recorded in its trial balance and cash disbursements journal, and adequate supporting documentation was maintained for most expenses paid.

However, there were some minor weaknesses in the Retiree Plan's financial and operating practices, as follows:

- *The Retiree Plan misstated benefit and administrative expenses on its financial statements and its Directive 12 filing.* Administrative expenses were understated by $206,347—48 percent of the Plan's total administrative costs (after our adjustment), and benefit expenses were overstated by the same amount. As a result, the Retiree Plan's Key Ratio Schedule, included in its Directive 12 filing, was incorrect. For example, the percentage of revenue spent on administration was reported as 3.61 percent rather than 7 percent based on the appropriate classification of expenses. The majority of the misclassified expenses pertained to insurance retention costs and administrative fees that were improperly reported as a benefit expense rather than an administrative expense.

- *The Retiree Plan made improper benefit payments.* Of $438,971 in benefit payments reviewed, $18,173 was not paid in accordance with the Retiree Plan's guidelines.

- *The Retiree Plan does not maintain complete and accurate records of those persons for whom it is paying COBRA benefits and of the premium payments received from these individuals to pay for the coverage.* Consequently, it is impossible to determine who is entitled to COBRA benefits and whether the Retiree Plan is receiving the appropriate premium payments for these benefits.

- *The Retiree Plan did not solicit proposals from insurance companies to provide life insurance benefits to its members, as required by §3.9 of Directive 12.* In addition, we have serious concerns regarding the process used to award the contract. As a result, we question the veracity of the analysis and the award of the life insurance contract.

- *The Retiree Plan paid claims for dependents whose eligibility was not documented*. Of the 9,238 claims reviewed, 4,405 were for services provided to individuals who were listed as dependents of eligible members. However, for 4,359 (99%) of the 4,405 claims, the Retiree Plan had no documentation in its files (i.e., birth certificates, marriage licenses) showing that these individuals were in fact eligible dependents. Requiring such documentation from its members would help the Retiree Plan ensure that it provides benefits only to eligible individuals.

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

The Retiree Plan Misstated Benefit and Administrative Expenses On Its Financial Statements and Its Directive 12 Filing

The Retiree Plan did not accurately report benefit and administrative expenses for Fiscal Year 2002 on its financial statements and its Directive 12 filing. Administrative expenses were understated by $206,347—48 percent of the Plan's total administrative costs (after our adjustment), and benefit expenses were overstated by the same amount. As a result, the Retiree Plan's Key Ratio Schedule, included in its Directive 12 filing, was incorrect. For example, the percentage of revenue spent on administration was reported as 3.61 percent rather than 7 percent based on the appropriate classification of expenses. These misclassified costs pertained to insurance retention costs and administrative fees that were classified as benefit expenses rather than as administrative expenses. According to Directive 12, insurance retention costs and administrative fees should be classified as administrative expenses. In addition, the Retiree Plan did not include on its financial statements $850 in administrative fees paid to Highmark Life Insurance Company for death benefits. This error, combined with the $206,347 understatement discussed above, resulted in a $207,197 understatement of administrative expenses.

With regard to benefit expense, $6,160 in death benefits were included twice on the financial statements and the Retiree Plan failed to record $32,245 in payments for dental benefits—$28,289 paid to Healthplex on June 20, 2002 and $3,956 paid to American Dental for October 2001. These errors combined with the $206,347 overstatement to benefit expense discussed above resulted in a net overstatement to benefit expense of $180,262 representing approximately 3 percent of total reported benefit expense.

It is important that the Retiree Plan accurately report its revenue and expenses so that the City can properly assess its financial activities.

Recommendation

1. The Retiree Plan should ensure that administrative and benefit expenses are recorded on its financial statements, in accordance with Comptroller's Directive 12.

Plan Response: "After a review of the findings and Comptroller's Directive 12, the Fund [Plan] agrees with findings of the audit that the ratio of expenses to benefits was understated. There was misinterpretation of the Directive and consequently some expenses were applied to benefits. The Fund will take steps to insure that administrative and benefit expenses are recorded in accordance with Directive 12 in the future."

Improper Benefit Payments

The Retiree Plan made improper benefit payments totaling $18,173. Specifically, of the $438,971 in benefit payments reviewed, $18,173 was not paid in accordance with the Retiree Plan's guidelines. Specifically, the Retiree Plan:

- Paid $12,093 for 77 claims for ineligible drugs. These drugs were on the NMHC (prescription drug benefit provider) list of ineligible drugs.

- Paid $2,096 for one death benefit claim for an individual who was not on the City's contribution report.

- Paid $833 in dental premiums on behalf of 29 ineligible individuals. Specifically, the Retiree Plan improperly paid premiums for a member of the Uniformed Fire Officers Association Family Protection Plan that covers active employees. In addition, premiums were paid for 21 individuals who are deceased and seven individuals not listed on the City's contribution reports.

- Paid $1,917 for 31 prescription drugs claims for six individuals who were not listed on the City's contribution reports.

- Paid $700 for 18 optical vouchers that did not included social security numbers. Without the social security numbers, we were unable to verify the individuals eligibility.

- Paid $125 for four optical benefits claims that exceeded the Retiree Plan's fee schedule.

- Paid $266 for eight optical benefits claims for which the Retiree Plan did not have required supporting documentation.

- Paid $100 in improper administrative fees on self-insured dental benefits for 80 ineligible individuals. These fees were paid for individuals who were deceased or not listed on City's contribution reports, or who were paid twice.

- Paid $43 in HIP Rider premiums for eight ineligible individuals. These premiums were paid for individuals who were not listed on the City's contribution reports.

Recommendation

2. The Retiree Plan should ensure that it pays for benefits for eligible individuals only and makes payments in accordance with its guidelines.

Plan Response: "The Fund agrees in substance with findings of the audit, and will reassess its systems to prevent this from recurring."

Inadequate Controls over Accounting of COBRA Payments

Under the terms of the federal Consolidated Omnibus Budget Reconciliation Act of 1986 (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 Retiree Plan. We found that the Retiree Plan does not maintain complete and accurate records of those

persons for whom it is providing COBRA benefits and of the premium payments it receives from these individuals to pay for the COBRA coverage.

The list of COBRA participants that Retiree Plan officials provided us indicated that the Retiree Plan received $42,726 during Fiscal Year 2002 in premiums for COBRA coverage. The Retiree Plan's financial statements, however, showed payments totaling $45,818, a difference of $3,092. This difference would be considered insignificant if either of the amounts were supported by other Retiree Plan books and records. However, we found that the Retiree Plan's member files contained documentation for only $3,490 of the payments and contained evidence of $17,219 in payments to individuals who were not included on the list of COBRA participants provided by the Retiree Plan. In addition, we noted that the Retiree Plan provided various benefits to 174 individuals who, according to the Retiree Plan's list, did not pay the required premiums.

Recommendations

The Retiree Plan should:

3. Maintain complete and accurate records of COBRA premium payments received.

4. Provide COBRA benefits only to individuals who make the required premium payments

Plan Response: "The Fund agrees with findings of the audit, and has undertaken a thorough revamping of its eligibility, billing and recordkeeping systems. The Fund expects the new system will be fully operational by July 1, 2004."

Failure to Follow Directive 12 Bidding Requirements for Life Insurance Benefits

The Retiree Plan did not solicit proposals from insurance companies to provide life insurance benefits to its members, as required by § 3.9 of Directive 12. Instead Travers, Okeefe, its insurance broker, purportedly performed a Market Study Analysis, which resulted in the award of the Retiree Plan's life insurance contract to Highmark Life Insurance Company of New York.

Besides not complying with Directive 12, we have serious reservations about the process used in awarding this contract. The Retiree Plan had no documentation showing how the award analysis was done, the authenticity of the analysis, or the validity of the award. In addition, we believe that the insurance broker the Retiree Plan used should not have been involved in this process because of a conflict of interest—the broker was a director or trustee of Highmark at the time of the analysis and award. This leads us to question the veracity of his analysis and the legitimacy of the award.

Recommendations

The Retiree Plan should:

5. Terminate its contract with Highmark and award a new contract based on a solicitation that is in compliance with Directive 12.

6. Ensure that it follows the bidding requirements of Directive 12 for all insurance contracts.

Plan Response: "The Fund requested Travers, O'keefe to solicit bids on behalf of the Fund. More than three major life insurance carriers responded to bid and the results were assembled in a format called 'market analysis.' In addition to the responses to Travers, O'keefe, the Trustees requested an informal proposal from Amalgamated Life Insurance Company and the premium was not less than those reported in the 'market analysis.' Richard Travers was Director on the board of Highmark Insurance, but the Fund believes that the Trustees did perform due diligence beyond Mr. Travers' report and placing the contract with Highmark did not provide any financial or other incentive to him. Richard Travers no longer sits on the boards of any insurance carrier. Further, the Fund does not agree that terminating the contract at this time would accrue to the benefit of the participants. In a separate bid process for a similar life insurance product, using the same experience and demographics, the best premium from any carrier was 14% higher than the current policy with Highmark. The Fund will follow the bidding requirements of Directive 12 and provide the necessary documentation of the process."

Auditor Comment: While we are pleased that the Plan stated that it will follow "the bidding requirements of Directive 12 and provide necessary documentation of the process," we are still concerned about the process used in awarding this contract. As previously stated, the insurance broker was a director or a trustee of the company that was ultimately awarded the contract at the time he performed a purportedly fair market analysis. In addition, although the Plan stated that "the Trustees did perform due diligence beyond Mr. Travers' report" and that "the contract with Highmark did not provide any financial or other incentive to him," it did not provide any documentation to support these claims.

Furthermore, even if Mr. Travers is no longer on Highmark's board, we still believe that the Plan's current contract with Highmark should be terminated since the company was given an unfair advantage over the other bidders for the contract—Highmark was allowed to reduce its bid to match the lowest bid submitted. No other company was afforded this opportunity.

Claims Paid for Dependents Whose Eligibility Was Not Documented

Of the 9,238 claims reviewed, 4,405 were for services provided to individuals who were listed as dependents of eligible members. However, for 4,359 (99%) of the 4,405 claims, the Retiree Plan had no documentation in its files (i.e., birth certificates, marriage licenses) showing that these individuals were in fact eligible dependents. Requiring such documentation from its members would help the Retiree Plan ensure that it provides benefits only to eligible individuals.

Recommendation

7. The Retiree Plan should maintain copies of all documentation in members' permanent files to substantiate eligibility of dependents.

Plan Response: "The Fund agrees that it has not kept an adequate record of the documentation for eligibility of dependents and is in the process of improving its system to require and maintain records of eligibility documents."

UNIFORMED
FIRE DEPARTMENT, CITY OF NEW YORK
FIRE OFFICERS
LOCAL 854, INTERNATIONAL ASSN. OF FIRE FIGHTERS, AFL-CIO
ASSOCIATION
RETIRED FIRE OFFICERS
FAMILY PROTECTION PLAN
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Chairman
Peter L. Gorman

June 15, 2004

Greg Brooks, Deputy Comptroller
Policy, Audits, Accountancy and Contracts
The City of New York, Office of the Comptroller
1 Centre Street
New York NY 10007-2341

Re: Draft of the Audit Report on the Financial and Operating Practices of the Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan
FL04-095A

Dear Mr. Brooks:
We received a draft of the above named audit and supporting documents and hereby reply to the findings and recommendations.

Misstatement of Benefit and Administrative Expenses
After a review of the findings and Comptroller's Directive 12, the Fund agrees with findings of the audit that the ratio of expenses to benefits was understated. There was misinterpretation of the Directive and consequently some expenses were applied to benefits. The Fund will take steps to insure that administrative and benefit expenses are recorded in accordance with Directive 12 in the future.

Improper Benefit Payments
The Fund agrees in substance with findings of the audit, and will reassess its systems to prevent this from recurring.

Inadequate Controls over Accounting of COBRA Payments
The Fund agrees with findings of the audit, and has undertaken a thorough revamping of its eligibility, billing and recordkeeping systems. The Fund expects the new system will be fully operational by July 1, 2004.

Failure to Follow Directive 12 Bidding Requirements for Life Insurance Benefits
The Fund requested Travers, O'keefe to solicit bids on behalf of the Fund. More than three major life insurance carriers responded to bid and the results were assembled in a format called "market analysis". In addition to the responses to Travers, O'keefe, the Trustees requested an informal proposal from Amalgamated Life Insurance Company and

the premium was not less than those reported in the "market analysis". Richard Travers was Director on the board of Highmark Insurance, but the Fund believes that the Trustees did perform due diligence beyond Mr. Travers' report and placing the contract with Highmark did not provide any financial or other incentive to him. Richard Travers no longer sits on the boards of any insurance carrier. Further, the Fund does not agree that terminating the contract at this time would accrue to the benefit of the participants. In a separate bid process for a similar life insurance product, using the same experience and demographics, the best premium from any carrier was 14% higher than the current policy with Highmark. The Fund will follow the bidding requirements of Directive 12 and provide the necessary documentation of the process.

Eligibility Documentation for Dependents
The Fund agrees that it has not kept an adequate record of the documentation for eligibility of dependents and is in the process of improving its system to require and maintain records of eligibility documents.

If there is any question, please call me, Kevin Sullivan or Richard Goldstein.

Sincerely,

Peter L. Gorman
Chairman