

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 Municipal Employees Welfare Fund of the International Union of Operating Engineers, Local Union 15, 15A, and 15C

FL05-088A

March 29, 2006



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

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 Local 15, 15A, 15C Operating Engineers Welfare Fund (Fund) for the period January 1, 2003, through December 31, 2003. Under the terms of its agreement with the City, the Fund provides health and welfare benefits to active and retired City employees in the following titles: Gasoline Roller Engineer, Hi Press Operator, Welder, Tractor Operator, and Basin. The Fund also provides benefits to members' spouses and dependents.

The results of our audit, which are presented in this report, have been discussed with Fund 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,

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

William C. Thompson, Jr.

WCT/fh

Report: FL05-088A
Filed: March 29, 2006

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

**Audit Report on the Financial and Operating Practices Of
the Municipal Employees Welfare Fund of the International
Union of Operating Engineers,
Local Union 15, 15A, and 15C**

FL05-088A

AUDIT REPORT IN BRIEF

We performed an audit on the financial and operating practices of the Municipal Employees Welfare Fund of the International Union of Operating Engineers, Local Union 15, 15A, and 15C (the Fund) for Calendar Year 2003. The Fund, which was established to receive contributions from the City of New York, provides health and welfare benefits to eligible active and retired City members and their dependents. The Fund 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 December 31, 2003, the Fund reported a fund balance of \$4,625,763.

Audit Findings and Conclusions

The audit disclosed that the Fund: complied with applicable procedures and reporting requirements set forth in Comptroller's Directive 12; generally complied with its benefit-processing and accounting procedures, and those procedures were adequate and proper; and paid administrative expenses that were appropriate and reasonable. In addition, the Fund had adequate and effective internal controls related to the processing and reporting of benefits and administrative expenses paid; and the Fund generally adhered to its benefit-payment guidelines.

However, we noted several weaknesses in the Fund's financial and operating practices. Specifically, benefit and administrative expenses were misstated on the Fund's financial statements and its Directive 12 filing; claim files did not always contain required documentation to substantiate the amounts paid to members; responsibilities for receiving, depositing, and accounting for City contributions were not segregated to ensure appropriate checks and balances and accountability for these funds; and employee attendance records were not maintained.

The audit also noted that in comparison to other, similarly-sized funds, the Fund maintained a high level of reserves relative to its annual City contributions and spent a high percentage of City contributions on administrative costs. These issues need to be addressed in light of the Fund's mission, which is to provide benefits to members.

Audit Recommendations

The Fund should:

- Ensure that administrative and benefit expenses and key ratios are recorded accurately on its financial statements, in accordance with Comptroller's Directive 12.
- Maintain copies of all documentation in members' permanent files to substantiate eligibility of dependents.
- Ensure that benefits are paid in accordance with Fund guidelines.
- Ensure proper checks and balances over City contributions by segregating responsibilities for receiving, depositing, and accounting for these funds.
- Improve its controls over cash by segregating responsibilities for receiving, depositing, and accounting for City contributions.
- Maintain daily attendance records for its employees.
- Review its benefits package and its financial position and determine whether it is providing the maximum amount of benefits to its members.
- Strive to accomplish its mission in an efficient and economical manner by bringing administrative costs more in line with those of other funds of a similar size.

INTRODUCTION

Background

The Municipal Employees Welfare Fund of the International Union of Operating Engineers, Local Union 15, 15A, and 15C (the Fund) was established on August 1, 1980 under the provisions of a Fund Agreement between the City of New York and the International Union of Operating Engineers, Local Union 15, 15A, and 15C (the Union), and a Declaration of Trust. The Fund provides health and welfare benefits to active and retired City employees in the following titles: Gasoline Roller Engineer, Hi Press Operator, Welder, Tractor Operator, and Basin. The Fund also provides benefits to members' spouses and dependents.

Table I, following, shows the benefits that were available and the amounts paid for these benefits for the 320 individuals¹ who were members during our audit period—January 1, 2003, through December 31, 2003.

TABLE I
Fund Benefits and Amounts Paid, Calendar Year 2003

BENEFIT ACTIVE & RETIRED	AMOUNT PAID	DESCRIPTION & COVERAGE
DENTAL	\$ 181,012	Each member selects either a managed care option or a reimbursement option. If the member selects managed care option, Healthplex/Dentcare Delivery Systems (Healthplex) bills the Fund \$40.00 per month per member to provide benefits to the members and dependents based on schedule of benefits. If the member selects the reimbursement option, Healthplex bills the Fund \$45.81 per member to reimburse members for benefits, based on a schedule of allowances. Members and eligible dependents are entitled to a maximum benefit of \$1,200 per family each benefit year—January through December.
LIFE INSURANCE	\$ 45,090	Beneficiaries receive \$10,000 on the death of an eligible member.
OPTICAL	\$ 16,169	Members and eligible dependents are entitled to an eye exam and one pair of eyeglasses or contact lenses every year from a participating optical provider. If a non-participating provider is used, members are reimbursed up to \$100 per benefit year.
LEGAL SERVICES	\$ 0	Members are entitled to consultation and preparation of a Last Will and Testament.
TOTAL FOR 2003	\$ 242,271	

During Calendar Year 2003, the Fund provided benefits through contracts with Healthplex, Inc/Dentcare Delivery Systems, Inc. (dental); and MetLife Group Insurance, Inc.

¹ According to its Directive 12 filing, the Fund had 320 active and retired City members as of December 30, 2003. It should be noted that the number of members fluctuates throughout the year.

(life insurance). Optical benefits were provided by the Fund through two carriers, General Vision Services, LLC and Vision Screening, Inc., or through direct reimbursement, according to a fee schedule.

As of December 31, 2003, the Fund reported net assets of \$4,625,763. Table II, following, summarizes audited financial data, as reported by the Fund, for the calendar years ending December 31, 2002, and December 31, 2003.

TABLE II

Summary of the Reported Fund
Revenues and Expenses

	2002	% of Total Revenues	2003	% of Total Revenues
Employer's Contributions				
Current Year	\$ 538,210	59%	\$ 449,854	70%
Retroactive	\$ 14,394	2%	\$ -	0%
Participants' Contributions (COBRA)	\$ -	0%	\$ 2,799	0%
Investments or Other Income	\$ 364,261	40%	\$ 187,229	29%
TOTAL Revenue	\$ 916,865	100%	\$ 639,882	100%
Benefit Expenses	\$ 293,514	32%	\$ 242,271	38%
Administrative Expenses	\$ 125,238	14%	\$ 126,550	20%
TOTAL Expenses	\$ 418,752	46%	\$ 368,821	58%
Excess (Deficiency) of Revenue	\$ 498,113		\$ 271,061	
Fund Balance (Beginning of year)	\$ 3,856,589		\$ 4,354,702	
Fund Balance (End of year)	\$ 4,354,702		\$ 4,625,763	

Objectives

Our audit objectives were to determine whether the Fund: 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 Fund's benefit-processing and accounting procedures, our objectives were to determine the adequacy and effectiveness of the Fund's internal controls related to the processing and reporting

of contributions received and benefit and administrative expenses paid; and to assess the Fund's adherence to its benefit-payment guidelines.

Scope and Methodology

To achieve our audit objectives, we reviewed the Fund's financial and operating practices for the period January 1, 2003, through December 31, 2003—the period covered by the latest Directive 12 filings available when we began the audit. We obtained the Fund'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 Fund complied with the significant terms and conditions of Directive 12, we determined whether the Fund filed;

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

We interviewed various Fund officials and reviewed the Fund's Trust Agreement. We prepared flowcharts and memoranda outlining contribution and benefit-processing procedures to document our understanding of these procedures and the internal controls in place. In addition, we reconciled the Fund's certified financial statements with its general ledgers, trial balance, and record of entry adjustments, cash receipts, and cash disbursements 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 cancelled checks to the Fund's cash receipts journals, bank deposit receipts, and bank statements to ascertain whether the Fund'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, expense and payroll allocation reports, and Employee Tracking Sheets, to determine whether the Fund'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 City employees and retirees were included on the Fund's eligibility database, we randomly selected a sample of 50 of the 194 City employees and 50 of the 209 City retirees listed on contribution reports received from the New York City Office of Labor Relations for the months of September 2003, and October 2003, respectively.² We compared the information contained on the contribution reports to the Fund's membership records. In addition, we compared the information for all ten active employees and all eight

² We judgmentally selected September 2003, and October 2003 since they represent the two months of the calendar year with the highest amount of City contributions made to the Fund for the year.

retirees listed on contribution reports from the New York City Health and Hospitals Corporation, the New York City Housing Authority, and the New York City Department of Education for the same two month period.

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 Fund:

- **Dental Benefits:** We traced all 394 and 391 participants listed, respectively, on the January 2003 and March 2003 premium billings from Healthplex, Inc. (the Fund's contracted dental company) to the City's contribution reports to verify member eligibility.³
- **Optical Benefits:** We traced all of the 127 claims during our audit period from the Fund's optical benefit providers—General Vision Services and Vision Screening—to optical vouchers. We also reviewed all 57 claims submitted directly by members during the audit period. We reviewed the names of individuals and the dates of service on the vouchers and verified member eligibility by reviewing the City's contribution reports. We also determined whether these reimbursements were calculated correctly, supported with proper documentation, and did not exceed the amounts specified in the Fund's fee schedule. For instances in which a member's child, between the ages of 18 and 23, received benefits, we determined whether proof of dependency was on file.
- **Life Insurance:** We traced all of the participants listed on the April 2003, July 2003, and September 2003 premium billings from MetLife Insurance, Inc. (the Fund's contracted life insurance company),⁴ to the City's contribution reports to verify member eligibility.

The results of the above tests, covering the sampled items, totaling \$61,095, while not projectable to all benefit expenses for the audit period, provided a reasonable basis to assess the Fund's compliance with its benefit-processing guidelines.

We reviewed the Fund's records for payments received in relation to the federal Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) for Calendar Year 2003 to verify participant eligibility and to determine whether the participants made the appropriate premium payments to the Fund.

To determine the accuracy of the Fund's bank reconciliations and to account for all checks paid, outstanding, and voided, we reviewed the Fund's bank statements for the operating account for Calendar Year 2003. We also reviewed documentation related to the Fund's

³ For our tests of benefit expenses, we judgmentally selected January 2003 and March 2003, based on the highest dollar amounts the Fund paid in dental premiums during Calendar Year 2003.

⁴We judgmentally selected April 2003, July 2003, and September 2003 since they represent the three months in which the Fund updated its membership eligibility lists.

investments (for Calendar Year 2003) to determine the accuracy of the dollar amounts reported in the financial statements.

This audit was conducted in accordance with generally accepted governmental 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 Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Fund officials and discussed at an exit conference held on December 6, 2005. On December 15, 2005, we submitted a draft report to officials of the Fund with a request for comments. We received a written response from the Fund Administrator on December 22, 2005, in which the Fund generally agreed with the audit's findings and recommendations. However, the Fund took exception with the audit finding and corresponding recommendation pertaining to the misstatement of benefit and administrative expenses on the Fund's financial statements and its Directive 12 filing. The full text of the Fund's comments is included as an addendum to this report

FINDINGS AND RECOMMENDATIONS

The audit disclosed that the Fund: complied with applicable procedures and reporting requirements set forth in Comptroller's Directive 12; generally complied with its benefit-processing and accounting procedures, and those procedures were adequate and proper; and paid administrative expenses that were appropriate and reasonable. In addition, the Fund had adequate and effective internal controls related to the processing and reporting of benefit and administrative expenses paid; and the Fund generally adhered to its benefit-payment guidelines.

However, we noted several weaknesses in the Fund's financial and operating practices. Specifically, benefit and administrative expenses were misstated on the Fund's financial statements and its Directive 12 filing; claim files did not always contain documentation to substantiate the amounts paid to members; responsibilities for receiving, depositing, and accounting for City contributions were not segregated to ensure appropriate checks and balances and accountability for these funds; and employee attendance records were not maintained;

The audit also noted that in comparison to other, similarly-sized funds, the Fund maintained a high level of reserves relative to its annual City contributions and spent a high percentage of City contributions on administrative costs. These issues need to be addressed in light of the Fund's mission, which is to provide benefits to members.

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

The Fund did not accurately report benefit and administrative expenses for Fiscal Year 2003 on its financial statements and its Directive 12 filing. Administrative expenses were understated by \$ 31,834—20.10 percent of the Fund's total administrative costs (after our adjustment), and benefit expenses were overstated by the same amount. These misclassified expenses pertained to insurance retention costs and administrative fees that were improperly 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.

Also, the Fund did not include \$11,208 in investment expenses as an administrative expense. Rather, the Fund used investment expenses to offset investment income understating revenue by the same amount. This error combined with the \$31,834 understatement discussed above resulted in an understatement to administrative expenses of \$43,042, representing approximately 34 percent of total reported administrative expenses as well as understating total revenue by \$11,208.

In addition, the Fund's Key Ratio Schedule, included in its Directive 12 filing, did not use total revenue when calculating its key ratios. It should be noted that the Fund submitted a revised Key Ratio Schedule on September 13, 2005. However, the revised Key Ratio Schedule was still incorrect because it did not correct the misstatements cited above. For example, the percentage of revenue spent on administration was reported as 19.78 percent rather than the 26.05 percent based on the appropriate classification of expenses.

It is important that the Fund accurately report its revenue and expenses and accurately calculate its key ratios so that the City can properly assess its financial activities.

Recommendation

1. The Fund should ensure that administrative and benefit expenses are recorded accurately on its financial statements, and accurately calculate its key ratios, in accordance with Comptroller's Directive 12.

Fund Response: "Kindly be advised that the Fund disagrees with the finding and recommendation that the Fund did not accurately report benefit and administrative expenses for fiscal year 2003 on its financial statements, since (1) it is standard practice in the industry to present all direct and indirect costs of providing benefits (including insurance retention charges) in benefits paid on the financial statements of employee benefit plans; and (2) it is also standard practice to report investment expenses as a reduction of gross investment income. Samples of financial statements can be found in the AICPA's Audit and Accounting Guide – Audit of Employee Benefit Plans.

"With regard to the 'finding' that the Fund did not accurately report benefit and administrative expenses for fiscal year 2003 on its Directive 12 filing, we will make the appropriate adjustments going forward. Additionally, we feel it is important to note that this finding relates only to reclassification differences and not errors in recorded amounts. Finally, the Fund requests that the comments relating to our revised Key Ratio Schedule be removed from your Report. The revised Key Ratio Schedule was submitted following a conversation with one of your audit team members. At that time, it was pointed out that the total revenue was incorrectly reported on the original filing, however, the retention charges and investment fees, were not mentioned. If these items had been brought to our attention, we certainly would have adjusted the schedule."

Auditor Comment: It appears that the Fund failed to review Comptroller's Directive 12, which sets forth detailed information reporting requirements for funds that receive contributions from the City. Comptroller's Directive 12 specifically states:

"Administrative Expenses are all those costs that are not Benefit Expenses, including, but not limited to:

- Salaries and allowances for the fund's administrative support staff.
- Rents and other occupancy costs.
- Insurance policies for offices, equipment and other general business purposes.
- Fees paid to third party or fund administrators for administrative purposes
- Miscellaneous fees and commissions.
- Insurance retention costs."

The errors identified in this report resulted in the Fund's financial statements and its Directive 12 filing being misleading to its users. Comptroller's Directive 12, which was developed to ensure that funds prepare their financial statements uniformly and in a manner that allows the City to track funds' use of City contributions. However, the errors made by the Fund prevents the City from accurately assessing the expenses of the Fund. Furthermore, the errors impacting Directive 12 are especially significant to the government financial managers who rely on this information to monitor the Fund's use of City contributions.

Improper Benefit Payments

The Fund made improper benefit payments totaling \$2,759. Of the \$61,095 in benefit payments reviewed, \$2,759 was not paid in accordance with Fund guidelines. Specifically, the Fund:

- Overpaid \$859 in premiums for life insurance. The Fund paid insurance premiums for six individuals who were not listed on the City's contribution report and for one deceased member.
- Paid \$1,900 for 21 optical claims for which the Fund lacked the optical voucher claim form on file, contrary to the Fund's guidelines.

Recommendation

2. The Fund should ensure that benefits are paid in accordance with Fund guidelines.

Fund Response: "The computer system upgrade that was implemented is designed to ensure that benefits are paid according to the guidelines of the plan. In addition, the Fund's representatives have commenced discussions with the staff and vendors to ascertain exactly how the benefits payments cited in the audit are made without supporting documentation."

Claims Paid for Dependents Whose Eligibility Was Not Documented

Of the 184 optical claims reviewed, 100 were for services provided to individuals who were listed as dependents of eligible members. The Fund, however, did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals were in fact eligible dependents for any of the 100 claims. Requiring such documentation from its members would help the Fund ensure that they provide benefits only to eligible individuals.

Recommendations

The Fund should:

3. Require that its members submit all documentation to substantiate eligibility of dependents.
4. Maintain copies of all documentation in members' permanent files.

Fund Response: "Since calendar year 2003, a new benefit software system was implemented by the Fund to maintain eligibility records and other permanent documentation. This process has included obtaining copies of the required information that was not previously in the Fund's possession. This process is always ongoing to ensure that the Fund has the necessary documentation to ensure proper eligibility from its participants."

Poor Controls over City Contributions Received

The Fund did not segregate responsibilities for receiving, depositing, and accounting for City contributions. Good internal controls dictate that these responsibilities be segregated to ensure that all City contributions received by the Fund are properly recorded and accounted for. In fact, the Fund's CPA cited the Fund for not segregating these duties in a letter that was included with its 2002 Directive 12 filing. Specifically, the CPA stated:

"A key element in a system of strong internal controls is segregation of duties. The access to assets, recording transactions, and reconciliation of records, should generally be assigned to different individuals, to provide a system of checks and balances.

"Due to the size of the Welfare Fund, one individual currently handles most aspects of all transactions, recordkeeping, and subsequent recordkeeping.

"Segregation of duties appears most limited in the handling of cash, where we noted that the bookkeeper handles incoming checks, prepares the deposit slip, posts receipts and receives and reconciles the monthly bank statement. The result is the danger that intentional or unintentional errors could be made and not detected."

Recommendation

5. The Fund should ensure proper checks and balances over City contributions by segregating responsibilities for receiving, depositing, and accounting for these funds.

Fund Response: “The Fund will evaluate the best manner in which to segregate duties to ensure proper checks and balances occur with regard to the receipt of, depositing of and reconciliation of these benefit contributions and payments.”

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

The Fund does not maintain employee attendance records for its five employees that detail time-in and time-out, employee absence or lateness to be charged against earned vacation or employee use of personal days and sick leave. Consequently, we could not determine whether Fund employees were paid for hours they actually worked.

The Office Manager maintains Employee Tracking Sheets that reflect use of vacation, sick, and personal days. However these forms do not reflect any accruals for vacation or personal days or daily attendance. According to the Office Manager, employees have an unlimited number of sick days.

Daily attendance records are necessary for effective payroll control since these records form the basis for calculating amounts paid to employees. They are also necessary to settle payroll disputes and, at times, to establish the validity of injury and disability claims.

Recommendation

6. The Fund should maintain daily attendance records for its employees.

Fund Response: “Since calendar year 2003, the Fund has restructured its personnel and established the use of attendance records to record hours worked.”

High Level of Reserves

The Fund maintains significantly larger percentage of reserves when compared to other funds of a similar size, as shown in Table III.⁵

⁵ The size of each fund was based on the amount of City contributions. As of December 31, 2003, four other funds submitted financial statements to the New York City Comptroller’s Office (in accordance with Comptroller’s Directive #12) showing that they had NYC revenue of between \$305,406 and \$494,822 in Fiscal Year 2003.

Table III
Comparison of Level of Reserves
Between the Fund and Other, Similarly-Sized Funds for Fiscal Year 2003

BENEFIT FUND	NYC REVENUE	FUND RESERVES	RESERVES/ NYC REVENUE
Local 15 A-C	\$449,854	\$4,625,763	1028.28%
Local 1181 Welfare Fund	\$494,822	\$447,980	90.53%
Local 333 Welfare Fund	\$428,078	\$370,902	86.64%
Local 333 Retiree Welfare Fund	\$337,121	\$714,305	211.88%
Local 1181 Retiree Welfare Fund	\$305,406	\$437,147	143.14%
Total (Excluding Local 15A-C)	\$1,565,427	\$1,970,334	125.87%
Average	\$391,357	\$492,584	

In addition, according to the Fund's certified financial statements, the Fund's reserves increased by 254.35 percent over the past seven years, from \$1,818,627 on July 1, 1997, to \$4,625,763 on June 30, 2003.

Reserves held by funds provide a cushion if claims for benefits exceed revenues in any given year. In the past, the Comptroller's Office has issued general guidelines stating that a reasonable reserve level for insured funds is 100 percent of annual City contributions. However, the Fund's reserves are more than ten times its annual City contributions, which indicates that members' benefits could be increased. It should be noted that over the past five years, the Comptroller's report entitled *Analysis of the Financial and Operating Practices of Union-Administered Benefit Funds* has cited the Fund for having excess reserves.

Recommendation

7. The Fund should review its benefits package and its financial position and determine whether it is providing the maximum amount of benefits to its members.

Fund Response: "As discussed at the exit meeting with the auditors, the Trustees are currently strategizing to economically maximize the benefits structure of the plan."

**High Percentage of City Contributions
Spent on Administrative Expenses**

The Fund spent a significantly larger percentage of its City contributions on administrative expenses when compared to other, similarly-sized funds, as shown in Table IV.⁶

Table IV
Comparison of Administrative Expenses
Between the Fund and Other, Similarly-Sized Funds for Fiscal Year 2003

BENEFIT FUND	NYC REVENUE	TOTAL ADMIN. EXP.	ADMIN. EXP / NYC REV.
Local 15 A-C Active/Retiree Fund	\$449,854	\$169,592	37.69%
Local 1181 Welfare Fund	\$494,822	\$81,691	16.51%
Local 333 Welfare Fund	\$428,078	\$50,143	11.71%
Local 333 Retiree Welfare Fund	\$337,121	\$42,546	12.62%
Local 1181 Retiree Welfare Fund	\$305,406	\$27,383	8.97%
Total (Excluding Local 15A-C)	\$1,565,427	\$201,763	12.89%
Average	\$391,357	\$50,441	

It should be noted that the above table identified total administrative expenses as \$169,592 based on the appropriate classification of expenses, rather than the \$126,550 reported on the Fund’s certified financial statements

As indicated above, the four similarly-sized funds spent between 8.97 percent and 16.51 percent of their total revenues on administrative expenses. Given the fact that the Fund’s mission is to provide benefits for its members, the Fund should attempt to bring its administrative expenses more in line with funds of a similar size.

Recommendation

8. The Fund should strive to accomplish its mission in an efficient and economical manner by bringing administrative costs more in line with those of other funds of a similar size.

Fund Response: “As previously stated above and also during the exit meeting, the restructuring of the Fund Office personnel coupled with the implementation of the new benefit system should dramatically reduce the administrative costs to be more inline with that of its peers.”

⁶ The size of each fund was based on the amount of City contributions. As of December 31, 2003, four other funds submitted financial statements to the New York City Comptroller’s Office (in accordance with Comptroller’s Directive #12) showing that they had NYC revenue of between \$305,406 and \$494,822 in Fiscal Year 2003.



MUNICIPAL EMPLOYEES WELFARE FUND

of the

International Union of Operating Engineers

Local 15, 15A, 15C & 15D, A.F.L.-C.I.O.

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Union Trustee

CHARLES R. GAMBINO



PATRICK J. KEENAN

Administrator

Union Trustees

AUGUSTINO MARTINELLO

December 22, 2005

Mr. William C. Thompson, Jr
Office of the New York City Comptroller
City of New York
One Centre Street
New York, N.Y. 10007-2341

Re: Audit Report on the Financial and Operating Practices of the
Municipal Employees Welfare Fund of the International Union
of Operating Engineers Local 15, 15A and 15C, AFL-CIO

Dear Sir or Madam:

On behalf of the Municipal Employees Welfare Fund, kindly allow the following to serve as the Fund's formal response to the Audit Report received on December 20, 2005. To begin with, we would like to thank the representatives from the Comptroller's Office for their diligent efforts in reviewing the Fund's financial and operating practices for the calendar year ending 2003. As we will review hereafter, certain of the recommendations identified in the Audit Report have already been implemented as a result of new processes put in place since the beginning of 2004. This will be brought to your attention as we make our formal comments to the report and its recommendations.

Ensure that administrative and benefit expenses and key ratios are recorded accurately on its financial statements, in accordance with Comptroller's Directive 12.

Kindly be advised that the Fund disagrees with the finding and recommendation that the Fund did not accurately report benefit and administrative expenses for fiscal year 2003 on its financial statements, since (1) it is standard practice in the industry to present all direct and indirect costs of providing benefits (including insurance retention charges) in benefits paid on the financial statements of employee benefit plans; and (2) it is also standard practice to report investment expenses as a reduction of gross investment income. Samples of financial statements can be found in the AICPA's Audit and Accounting Guide – Audits of Employee Benefit Plans.

With regard to the "finding" that the Fund did not accurately report benefit and administrative expenses for fiscal year 2003 on its Directive 12 filing, we will make the appropriate adjustments going forward. Additionally, we feel it is important to note that this finding relates only to reclassification differences and not errors in recorded amounts. Finally,

the Fund requests that the comments relating to our revised Key Ratio Schedule be removed from your Report. The revised Key Ratio Schedule was submitted following a conversation with one of your audit team members. At that time, it was pointed out that the total revenue was incorrectly reported on the original filing, however, the retention charges and investment fees, were not mentioned. If these items had been brought to our attention, we certainly would have adjusted the schedule.

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

Since calendar year 2003, a new benefit software system was implemented by the Fund to maintain eligibility records and other permanent documentation. This process has included obtaining copies of the required information that was not previously in the Fund's possession. This process is always ongoing to ensure that the Fund has the necessary documentation to ensure proper eligibility from its participants.

Ensure that benefits are paid in accordance with Fund guidelines.

As stated above, the computer system upgrade that was implemented is designed to ensure that benefits are paid according to the guidelines of the plan. In addition, the Fund's representatives have commenced discussions with the staff and vendors to ascertain exactly how the benefits payments cited in the audit were made without supporting documentation.

Ensure proper checks and balances over City contributions by segregating responsibilities for receiving, depositing and accounting for these funds.

The Fund will evaluate the best manner in which to segregate duties to ensure proper checks and balances occur with regard to the receipt of, depositing of and reconciliation of these benefit contributions and payments.

Improve its controls over cash by segregating responsibilities for receiving, depositing and accounting for City contributions.

The Fund will evaluate the best manner in which to segregate duties to ensure proper checks and balances occur with regard to the receipt of, depositing of and reconciliation of bank statements regarding benefit contributions and payments.

Maintain daily attendance records for its employees.

Since calendar year 2003, the Fund has restructured its personnel and established the use of attendance records to record hours worked.

Review its benefits package and its financial position and determine whether it is providing the maximum amount of benefits to its members.

As discussed at the exit meeting with the auditors, the Trustees are currently strategizing to economically maximize the benefits structure of the plan.

Strive to accomplish its mission in an efficient and economical manner by bringing administrative costs more in line with those of other funds of a similar size.

As previously stated above and also during the exit meeting, the restructuring of the Fund Office personnel coupled with the implementation of the new benefit system should dramatically reduce the administrative costs to be more inline with that of its peers.

* * *

Thank you for providing us with the opportunity to submit a formal response to the Audit Report. In the event that there are any further questions, please do not hesitate to contact me directly at 212-255-7657.

Additionally, it would be greatly appreciated if you would adjust your records so that all future correspondence from your Offices be addressed directly to the attention of Mr. Augustino Martiniello – Trustee and Mr. Charles Gambino – Trustee at 265 West 14th Street, New York N.Y. 10011.

Very truly yours,



Patrick J. Keenan
Fund Administrator

Cc: Board of Trustees
Fund Accountant - Schultheis & Panattieri
Fund Attorney – Brady McGuire & Steinberg