

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 Local 444 S.E.I.U. Sanitation Officers' Association Security Benefits Fund

FL03-151A

June 30, 2003



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 444 S.E.I.U. Sanitation Officers' Association Security Benefits Fund (Active Fund) for the period January 1, 2001, through December 31, 2001. Under the terms of its agreement with the City, the Fund provides health and welfare benefits to eligible City employees in various titles and their spouses and dependents.

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

Report: **FL03-151A**
Filed: **June 30, 2003**

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

**Audit Report on the
Financial and Operating Practices of the
Local 444 S.E.I.U. Sanitation Officers' Association
Security Benefits Fund**

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AUDIT REPORT IN BRIEF

We performed an audit on the financial and operating practices of the Local 444 S.E.I.U. Sanitation Officers' Association Security Benefits Fund (Active Fund). The Active Fund, which was established to receive contributions from the City of New York, provides health and welfare benefits to eligible City employees and their dependents. The Active Fund is required to conform to Comptroller's Directive 12, which set forth accounting, auditing and financial guidelines for funds and their boards of trustees. As of December 31, 2001, the Active Fund reported contributions of \$1,808,848 from the City of New York and net assets of \$1,223,001.

Audit Findings and Conclusions

The Active Fund generally complied with the procedures and reporting requirements of Directive 12 and its benefit processing and accounting procedures. Furthermore, the Active Fund's administrative expenses were appropriate and reasonable.

However, we found that the Active Fund paid claims for dependents whose eligibility was not documented. Despite requiring members to submit birth certificates and marriage licenses to support a dependent's eligibility when initially enrolling or when adding or deleting dependents, such documentation was not evident in the Active Fund's files. In addition, the Active Fund did not report an estimated liability amount for benefits on its financial statements, contrary to Generally Accepted Accounting Principles (GAAP).

Audit Recommendations

To address these issues, we recommend that:

- The Active Fund should maintain copies of all documentation in members' permanent files to substantiate eligibility of dependents.

- The Fund Trustees should ensure that the Fund reports its benefit liability on its financial statements, in accordance with Generally Accepted Accounting Principles.

INTRODUCTION

Background

The Local 444 Sanitation Officers' Association Security Benefits Fund (Active Fund) was established in 1964, under the provisions of a Fund Agreement between the City of New York and the Sanitation Officers' Association. The Active Fund provides health and welfare benefits to eligible City employees in various titles, including Supervisor and General Superintendent (Level 1). The Active Fund also provides benefits to members' spouses and dependents.

Table I shows the benefits that were available and the amounts paid for these benefits for the Active Fund's 1,212¹ members during our audit period, Fiscal Year 2001.

TABLE I
Active Fund Benefits, Fiscal Year 2001

Benefit	Amount	Coverage
Prescription Drugs	\$761,210	Members and their eligible dependents are entitled to a maximum benefit of \$5,000 for each covered individual. Members are reimbursed according to the Fund fee schedule.
Dental	\$530,347	Members and their eligible dependents are entitled to coverage under this program. If members use a participating dentist, the dentist is reimbursed according to a fee schedule. If they use a non-participating dentist, members are reimbursed according to the Fund fee schedule. Other than the \$2,200 maximum payment for orthodontics, there is no annual limitation.
Optical	\$45,532	Members and eligible dependents are entitled to a maximum benefit of \$65 every 15 months for each covered individual. Members are reimbursed for eye examinations, prescription glasses, and contact lenses according to the Fund fee schedule.
Death and Dismemberment	\$34,000	Beneficiaries receive \$10,000 for the death of a member. Members receive \$2,000 for the death of a spouse, and \$1,000 for the death of a dependent. In addition, members are entitled to a maximum benefit of \$10,000 for dismemberment. Members are paid according to the Fund fee schedule.

¹ According to the Trustees' Management Letter, the Active Fund had 1,212 members during Fiscal Year 2001.

Benefit	Amount	Coverage
Legal	\$16,400	Members are entitled to consultation and preparation of a Last Will and Testament. Members are also entitled, at a reduced charge, to representation in certain criminal and civil proceedings.
Supplemental Medical	\$3,112	Members and eligible dependents are covered for the following benefits: <u>Supplement Anesthesia</u> : Members are reimbursed up to a maximum benefit of \$1,000 for costs incurred above the amount covered by their base medical plan. <u>Hearing Aid</u> : Members are reimbursed up to a maximum benefit of \$400 every four years for each covered individual. <u>Ambulance</u> : Members are reimbursed \$25 for each emergency service call.
	\$1,390,601	

During Fiscal Year 2001, the Active Fund provided benefits through contracts with Administrative Services, Inc. d.b.a. SIDS (dental and prescription drugs,² optical, death, and supplemental medical benefits), Express Scripts (prescription drugs) and the law firm of Biaggi & Biaggi (legal services).

As of December 31, 2001, the Active Fund reported net assets of \$1,223,001. Table II, below, summarizes the Active Fund's audited financial data, as reported by the Active Fund, for the fiscal years ending December 31, 2000, and December 31, 2001.

TABLE II
Summary of the Active Fund's Reported
Revenues and Expenses, Fiscal Years 2000 and 2001

	2000	% of Total Revenue	2001	% of Total Revenue
Employer's Contributions	\$1,364,079	95.56%	\$1,808,848	97.19%
COBRA	9,090	0.64%	7,670	0.41%
Investment or Other Income	54,347	3.80%	44,721	2.40%
Total Revenue	\$1,427,516	100.00%	\$1,861,239	100.00%
Benefit Expenses	\$1,526,851	106.96%	\$1,390,601	74.71%
Administrative Expenses	113,672	7.96%	86,369	4.64%
Total Expenses	\$1,640,523	114.92%	\$1,476,970	79.35%
Excess (Deficiency) of Revenue	(\$213,007)		\$384,269	

² As of October 2001 the administration of the prescription drug benefit changed from SIDS to Express Scripts.

Fund Balance (Beginning of Year)	\$1,051,739		\$838,732	
Fund Balance (End of Year)	\$838,732		\$1,223,001	

Objective

Our audit objective was to determine whether the Active 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 whether the Active Fund’s administrative expenses were appropriate and reasonable. With regard to the Active Fund’s benefit processing and accounting procedures, we determined the adequacy and effectiveness of the Active Fund’s internal controls related to the processing and reporting of contributions received and benefit and administrative expenses paid; and we assessed the Active Fund’s adherence to its benefit payment guidelines.

Scope and Methodology

To achieve our audit objectives, we reviewed the Active Fund’s financial and operating practices for the period January 1, 2001, through December 31, 2001—the period covered by the latest Directive 12 filing available when we began the audit. We obtained the Active Fund’s Directive 12 filings with the Comptroller’s Office, which included its financial statement, federal tax return, and other required schedules. Directive 12 establishes uniform reporting and auditing requirements for City-funded employee benefit plans. To determine whether the Active Fund complied with the significant terms and conditions of Directive 12, we determined whether the Active Fund filed:

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

We interviewed various Active Fund officials and reviewed the Active Fund’s Trust Agreement. We prepared a flowchart and memorandum of the Active Fund’s contribution and benefit processing procedures to document our understanding of these procedures and the internal controls in place. In addition, we reconciled the Active Fund’s certified financial statements with its general ledgers, trial balance, and records of adjusting entries, cash receipts and 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 City payment vouchers and copies of checks to the Active Fund’s cash receipts journal and bank deposit slips to ascertain whether the Active Fund accurately reported and deposited contributions received.

We also traced all administrative expenses (\$86,369) from the cash disbursements journal to supporting documentation, which included vendor invoices, expense allocation reports, and

payroll records, to determine whether these expenditures were properly recorded, reasonable, and appropriate.

To determine whether all eligible employees were included on the Active Fund's membership records, we sampled the records of 50 employees from the Payroll Management System (PMS), the City's computerized payroll system. For each employee, we compared the employment information contained in PMS to the information recorded on the Fund's membership records.

In addition, we performed the following tests of the Active Fund's benefit payments to determine whether only eligible members and their dependents received benefits from the Active Fund:

- **Prescription Drugs Benefit:** We traced 100 claims listed on Utilization Reports for July 2001 from SIDS (the Active Fund's third party administrator) to the Active Fund's membership files. In addition, we traced members listed on the claim forms to the City's PMS to verify employment. For instances in which a member's spouse or child received benefits, we determined whether a marriage certificate, child's birth certificate, or other proof of dependency was on file.
- **Dental Benefits:** We traced 100 claims from Activity Reports for March 2001 from SIDS to the Active Fund's membership files to confirm member eligibility. In addition, we traced members listed on the claim forms to PMS to verify employment. 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. We also determined whether the reimbursements were correct and did not exceed the amounts specified in the Active Fund fee schedule.
- **Optical Benefit:** We reviewed all 63 optical vouchers processed in June 2001. Specifically, we traced the members listed on the vouchers to the Active Fund membership files, and PMS to verify eligibility of members and dependents. We also determined whether the reimbursements were calculated correctly, supported with proper documentation, and did not exceed the amounts specified in the Active Fund fee schedule. For instances in which a member's spouse or child received benefits, we determined whether a marriage certificate, child's birth certificate, or other proof of dependency was on file.
- **Death Benefit:** We traced the members listed on all five claims processed during Fiscal year 2001 to the Active Fund's membership files to confirm eligibility. We then traced the payments made from the SIDS Activity Report to the cash disbursement journal, bank statements, and canceled checks. We also determined whether death certificates and designated beneficiary forms were on file to support the payments.
- **Legal Benefit:** We traced all 190 individuals who used the legal benefit during Fiscal Year 2001 to the Active Fund's membership cards and files to confirm eligibility.

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 Active Fund officials during and at the conclusion of this audit. A preliminary draft report was sent to Active Fund officials and discussed at an exit conference held on May 15, 2003. On June 2, 2003, we submitted a draft report to officials of the Active Fund with a request for comments. We received a written response from the Active Fund on June 12, 2003, in which the Trustees of the Fund disagreed with the audit findings. The specific issues raised by the Trustees and our rebuttals are included in the respective sections of this report. The full text of the Active Fund's comments is included as an addendum to this report.

FINDINGS

Overall, the Active Fund generally complied with the procedures and reporting requirements of Directive 12. In addition, the Active Fund generally complied with its benefit processing and accounting procedures, and those procedures were adequate and proper. Furthermore, the Active Fund's administrative expenses were appropriate and reasonable.

However, we found that the Active Fund paid claims for dependents whose eligibility was not documented. Despite requiring members to submit birth certificates and marriage licenses to support a dependent's eligibility when initially enrolling or when adding or deleting dependents, such documentation was not evident in the Active Fund's files. In addition, the Active Fund did not report an estimated liability amount for benefits on its financial statements, contrary to Generally Accepted Accounting Principles (GAAP).

Claims Paid for Dependents Whose Eligibility Was Not Documented

Of the 274 claims reviewed, 188 were for services provided to individuals who were listed as dependents of eligible members. The Active Fund did not have documentation in its files (i.e., birth certificates, marriage licenses) showing that the individuals involved in 123 of those claims were eligible dependents. These 123 claims totaled \$11,674.

According to the Active Fund's Benefit Plan booklet, members are required to submit all necessary documents to prove eligibility of their dependents when they initially enroll or when they want to add or delete dependents.³ Despite this requirement, in 65 percent of the cases reviewed the Active Fund had no copies of dependents' birth certificates or marriage certificates. Requiring such documentation from its members would help the Active Fund ensure that the provide benefits only to eligible members.

Recommendation

1. The Active Fund should maintain copies of all documentation in members' permanent files to substantiate eligibility of dependents.

Active Fund Response: "In 1997, the Trustees began requiring new Members of the Fund to provide birth certificates, marriage licenses, and all other required documents for eligible dependents. The Trustees believe with the existing procedures the Fund will move towards full documentation, with limited disruptions and inconveniences to the members. This has worked for the Fund. Your audit made no finding of any payment to a dependent who was not eligible. Based on the above, the Trustees believe this is not to be a fair criticism. The Fund is more moving rapidly toward full documentation of dependants. The Trustees believe the existing procedure to be the best for the Members and the Fund."

³ According to the Fund Trustees this requirement was implemented in 1997.

Auditor Comment: Contrary to its response, the Active Fund is not moving rapidly towards full documentation of dependents. The existing policy, which has been in effect for six years, does not require members who joined the Active Fund before 1997 to provide documentation for their dependents. As a result, the Active Fund has documentation for only 35 percent of its member's dependents. Without such documentation, it is impossible for us or the Active Fund to determine whether dependents are eligible for the benefits they receive.

**Issue Related to the
Active Fund's Financial Statements**

Comptroller's Directive 12 requires that benefit funds prepare their annual financial statements in accordance with GAAP. GAAP requires that these funds include an actuarial estimate of benefits in their financial statements. The Active Fund did not include such an estimate in its Fiscal Year 2001 financial statements. According to the Active Fund's certified financial statements, "the Fund provides benefits from current income instead of estimating the liability for the benefits on an actuarially determined basis." It should be noted that because of this issue the Active Fund received a qualified opinion on its financial statements from its Certified Public Accountant.

Recommendation

2. The Fund Trustees should ensure that the Fund reports its benefit liability on its financial statements, in accordance with Generally Accepted Accounting Principles.

Active Fund Response: "On the use of a licensed actuary to estimate future liability for benefits, the Trustees have evaluated this issue by getting price quotes for the cost of such actuarial services. Such costs would sizably increase administrative expenses for the Fund, and any benefit would be far outweighed by the cost. The Trustees monitor the benefit costs of the Fund on a monthly basis, so that cost adjustments can be made immediately if needed. To take money away from benefits, and possibly even decrease benefits, to hire a licensed actuary so an estimated future benefit amount can appear on a financial statement, does not appear to be in the best interest of the Members or the Fund. Based on the above we also believe this not to be a fair criticism."

Auditor Comment: We are not recommending that the Fund hire a licensed actuary. Rather, we are recommending that the Fund ensure that its benefit liability is reported on its financial statements in accordance with Generally Accepted Accounting Principles, as required by Comptroller's Directive 12. We question why the Fund cannot comply with this basic reporting requirement, which is routinely followed by almost all of the other benefit funds that receive money from the City.

Sanitation Officers Association SECURITY BENEFITS FUND



Prescription Benefit Administrator
Express Scripts Inc
P.O. Box 390873
Bloomington, MN 55439-0873
Member Service 800-233-8065
Pharmacist Help Desk 800-824-0898



All Other Benefits Administrator
Self Insured Dental Services
303 Merrick Road
Lynbrook, N.Y. 11563-9005
(516) 396-5500 / (718) 204-7172
800-537-1238



JOSEPH MANNION
Chairman



GLENN FERBER
Trustee

FRANK MAZZOCCHI
Trustee

GENNARO SAPORITO
Trustee

JOSEPH CASTAGNO
Trustee

June 12, 2003

Mr. Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, New York 1007-2341

Re: Audit Report on the Financial
and Operating Practices of the Local
444, S.E.I.U. Sanitation Officers'
Association Security Benefits Fund
FL03-151A

Dear Mr. Brooks:

The Trustees have reviewed the Comptroller's proposed audit of the Sanitation Officers Association Security Benefits Fund. The two areas that you appear to find fault relate to the payment of benefits to dependents, certain of which were not documented by birth certificates or marriage licenses, and the failure to retain a licensed actuary to evaluate future liability for benefits on the Fund's financial statements. The Trustees take exception to these findings, have reviewed both these areas prior to your audit and believe the manner in which they are handling these matters is in the best interests of the

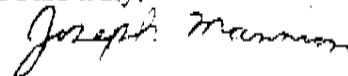
Fund and its Members.

In 1997, the Trustees began requiring new Members of the Fund to provide birth certificates, marriage licenses, and all other required documents for eligible dependents. The Trustees believe with the existing procedures the Fund will move towards full documentation, with limited disruptions and inconveniences to the members. This has worked for the Fund. Your audit made no finding of any payment to a dependent who was not eligible. Based on the above, the Trustees believe this not to be a fair criticism. The fund is more moving rapidly toward full documentation of dependants. The Trustees believe the existing procedure to be the best for the Members and the Fund.

On the use of a licensed actuary to estimate future liability for benefits, the Trustees have evaluated this issue by getting price quotes for the cost of such actuarial services. Such costs would sizably increase administrative expenses for the Fund, and any benefit would be far outweighed by the cost. The Trustees monitor the benefit costs of the Fund on a monthly basis, so that cost adjustments can be made immediately if needed. To take money away from benefits, and possibly even decrease benefits, to hire a licensed actuary so an estimated future benefit amount can appear on a financial statement, does not appear to be in the best interest of the Members or the Fund. Based on the above we also believe this not to be a fair criticism

Please incorporate this response into your report.

Yours truly,



Joseph Mannion
Chairman