

AUDIT REPORT

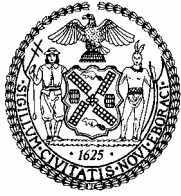


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Administration of The Employee Blood Credit Program Fiduciary Account by the Department of Citywide Administrative Services

FM06-083A

May 24, 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 audited the Administration of the Employee Blood Program Fiduciary Account by the Department of Citywide Administrative Services.

The City's Employee Blood Credit Program fiduciary account received deposits from City employees who participated by paying annual program membership fees. We audit the finances of City programs such as this to ensure that they are accountable for public funds and use them in accordance with applicable rules and regulations.

The results of our audit, which are presented in this report, have been discussed with Department officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

Report: FM06-083A
Filed: May 24, 2006

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

**Audit Report on the
Administration of the Employee Blood Credit
Program Fiduciary Account by the
Department of Citywide Administrative Services**

FM06-083A

AUDIT REPORT IN BRIEF

The audit determined whether the Department of Citywide Administrative Services (Department) accurately accounted for the revenues and expenses of the fiduciary account for the Employee Blood Credit Program and ensured that all funds were used in accordance with New York City's Blood Credit Program (Program) rules and related guidelines.

Fiduciary accounts are used to record financial resources held and administered in trust by the City of New York. The principal and income of these accounts are intended to benefit individuals, private organizations, or other non-City government entities. The Department is responsible for administering the Program's fiduciary account, which received deposits from City employees who joined and paid annual membership fees to the Program's Limited Plan in order to participate. The Program was established in 1964 to cover the cost of blood supplies and certain blood-related needs to eligible participants. Funds in the account were used to pay for certain Program costs and supplementary membership benefits, such as use of blood derivatives and pharmaceuticals, and for special processing fees. As a result of changes to the blood distribution system throughout the New York City area, the Program was revised in July 1980 by eliminating the Limited Plan and its requirement to pay membership fees. Accordingly, since 1980 the fiduciary account has been funded by interest only. As of Fiscal Year 2005, the Department reported a fund balance of approximately \$1.8 million.

Audit Findings and Conclusions

The Department properly accounted for the revenues and expenses of the fiduciary account and used account funds in accordance with Program rules and related guidelines. However, as a result of changes in the manner in which blood is supplied in the New York City area and the termination of the Program's Limited Plan, the fiduciary account is no longer fulfilling the primary purpose for which it was established. Accordingly, the Department should

consult the Law Department to determine the rightful owner of the fiduciary funds and whether the funds are needed to achieve the original purpose of the account. Should the Law Department advise that the funds are no longer needed, the Department should close the account and dispose of the funds in accordance with Comptroller's Directive #27; should the funds be deemed needed, the Department should develop a plan for their use.

Further, in Fiscal Year 2003, the Department did not reimburse the General Fund approximately \$119,000 in account funds to pay for salaries of Program employees as it did in Fiscal Years 2002, 2004, and 2005. Accordingly, the Department should transfer this funding from the fiduciary account to the General Fund to satisfy disbursements incurred for Program expenses in Fiscal Year 2003.

Audit Recommendations

To address these issues, we recommend that the Department should:

- Seek an opinion from the Law Department to determine the rightful owner of the fiduciary funds and whether the funds are needed to achieve the original purpose for which the account was established under Executive Order No. #89.

If the Law Department opines that the funds are no longer necessary, the Department should consult the Comptroller's Bureau of Accountancy, closing the fiduciary account and disposing of the funds in accordance with Comptroller's Directive #27. However, if the Law Department opines that the funds are needed to achieve the original purpose for which the account was established, the Department should develop a plan about how surplus funds should be used (e.g., to step up donor recruitment activities, allocate funds for special incentives, or obtain professional assistance on recruitment drives).

- Transfer \$119,000 in funding from the fiduciary account to the General Fund to satisfy disbursements incurred for Program expenses in Fiscal Year 2003.

INTRODUCTION

Background

Fiduciary accounts are used to record financial resources held and administered in trust by the City of New York. The principal and income of these accounts is intended to benefit individuals, private organizations, or other non-City government entities. The Comptroller's Office, in conjunction with the Office of Management and Budget (OMB), establishes fiduciary accounts at the request of various organizations, including City agencies and public benefit corporations.

The Department of Citywide Administrative Services (Department) is responsible for administering the fiduciary account of the City's Employee Blood Credit Program (Program), which received deposits from City employees who joined and paid annual membership fees to the Program's Limited Plan in order to participate. The Program was established on May 27, 1964, in accordance with Executive Order No. 89, as authorized by New York State Consolidated Laws (Article 2-A). The Program was intended to cover the cost of blood supplies and certain blood-related needs to eligible participants. Funds in the account were used to pay for certain Program costs and for supplementary membership benefits, such as use of blood derivatives and pharmaceuticals, and for special processing fees.

As a result of changes to the blood distribution system throughout the New York City area, the Program was revised in July 1980 by eliminating the Limited Plan and its requirement to pay membership fees.¹ Accordingly, since 1980 the fiduciary account has been funded by interest only. For the period July 1, 2001, through June 30, 2005, \$259,475 in interest income was deposited in the account and \$402,932 (\$396,905 in salaries and \$6,027 in other expenses) was disbursed for Program expenses. As of Fiscal Year 2005, the Department reported a fund balance of approximately \$1.8 million.

Objectives

Our audit objectives were to determine whether the Department:

- accurately accounted for the revenues and expenses of the fiduciary account; and
- ensured that all funds were used in accordance with Program rules and related guidelines.

Scope and Methodology

The audit period covered Fiscal Years 2002 to 2005.

¹Program membership was restricted to the "Extended Plan," which required individuals to donate blood.

We interviewed Department officials and Program staff to gain an understanding of the Program's purpose and internal controls over disbursements of account funds. We evaluated internal controls to determine whether disbursements were properly recorded and whether funds were used in accordance with Program rules and related guidelines. In addition, we reviewed two previous examinations of the fiduciary account: one by the Comptroller's Office in December 1979 and one by the Office of Management and Budget in 1992.

To gain an understanding of the regulations for the reporting and accounting of funds deposited in fiduciary accounts, we reviewed Comptroller's Directive #27, "Fiduciary Accounts Procedures for Requesting, Controlling and Monitoring." To understand why the Program was established, we reviewed Article 2-A of the New York State Consolidated Laws and Executive Order No. 89. We also reviewed Program rules for administration, which describe membership benefits and the financial management of Program funds.

To determine whether the Department accurately accounted for revenues, we reviewed the City's Financial Management System (FMS) reports that describe account transactions. Since account revenues for our audit period consisted only of earned interest, we consulted the Comptroller's Office Bureau of Accountancy to verify that revenue transactions reported in FMS were indeed funded by interest from the account.

To determine whether the \$402,932 disbursed from the fiduciary account were used in accordance with Program rules, we traced the amounts to transactions recorded in FMS. We reviewed file documentation to determine whether all transactions were made in accordance with the Program's intended purposes. We also obtained Payroll Management System (PMS) records for Program staff employed during our audit period, to verify their status.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. This 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 Department officials during and at the conclusion of this audit. A preliminary draft report was sent to Department officials and discussed at an exit conference held on February 16, 2006. On March 17, 2006, we submitted a draft report to those officials with a request for comments. A written response was received on March 31, 2006. In their response, Department officials agreed with the report's recommendations and responded that they "have, in fact, asked for an opinion from the Office of the Corporation Counsel" with respect to the possible dissolution of the fiduciary account, and "will be charging the fiduciary account for the \$119,000" to reimburse the City for salaries of Program employees incurred during Fiscal Year 2003.

The full text of the response from the Department is included as an addendum to this report.

FINDINGS

The Department properly accounted for the revenues and expenses of the fiduciary account, and used account funds in accordance with Program rules and related guidelines. However, as a result of changes in the manner in which blood is supplied in the New York City area and the termination of the Program's Limited Plan, the fiduciary account is no longer fulfilling the primary purpose for which it was established. Consequently, the account's \$1.8 million surplus is not required to support the Program at its currently reduced level of operations.

Further, in Fiscal Year 2003, the Department did not reimburse the General Fund approximately \$119,000 in account funds to pay for salaries of Program employees.

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

Fiduciary Account No Longer Required

The fiduciary account is no longer fulfilling the primary purpose for which it was established. Under the Program's Limited Plan, the account was used to collect annual fees from participating City employees to cover the costs of obtaining blood supplies. However, as the Program's Chairman stated in a January 1980 memorandum to the Director of the Office of Management and Budget, "Important changes introduced recently by the Greater New York Blood Program . . . have combined to nullify the benefits we have previously offered to our program members. The Greater New York Blood Program now guarantees to provide blood, as needed, for any patient in this area." As a result of these changes, the Program's Board in 1980 "authorized termination of the Limited Plan on the grounds that City employees should not be charged for coverage that is now freely available in this area." Since 1980 the fiduciary account has been funded by interest only, a total of \$540,940 in accumulated interest.

Clearly, the termination of the Limited Plan by the Program's Board indicates that the fiduciary account is no longer required to cover the cost of blood supplies. The Program does continue to provide other services, such as donor recruitment and mailing release authorizations to the Greater New York Blood Program. However, these services are incidental to the primary purpose for which the fiduciary account was established. In fact, the incidental nature of these services became apparent in our review of account expenses, which indicated that annually, the Department only disburses about \$150,000 to pay for Program staff salaries and related expenses. The account's \$1.8 million surplus far exceeds the funding required to continue supporting the Program at its reduced level of operations.

Accordingly, the Department should consult the Law Department to determine the rightful owner of the fiduciary funds and whether the funds are needed to achieve the original purpose of the account. Should the Law Department advise that the funds are no longer needed, the Department should close the account and dispose of the funds in accordance with Comptroller's Directive #27; should the funds be deemed needed, the Department should develop a plan for their use. Comptroller's Directive #27 (Fiduciary Accounts) states, "If an agency determines that a Fiduciary Account is no longer necessary and the account is no longer

legally required, the agency should immediately recommend its closure to the Assistant Comptroller for Accounting, Bureau of Accountancy, New York City Office of the Comptroller.”

\$119,000 in Salaries Not Reimbursed to the City

The Program’s administrative rules state that account funds are “available for program expenses.” In addition, Directive #27 stipulates that each City agency that establishes a fiduciary account must “be responsible for recording all cash receipts and disbursements in FMS.” While the Department generally recorded account disbursements used to pay for Program expenses, it did not disburse account funds in Fiscal Year 2003 to pay for salaries of Program employees as it did in Fiscal Years 2002, 2004, and 2005. As a result, the City was not reimbursed for the cost of these salaries, which we estimate to be approximately \$119,000. Accordingly, the Department should transfer this funding from the fiduciary account to the General Fund to satisfy disbursements incurred for Program expenses in Fiscal Year 2003.

RECOMMENDATIONS

The Department should:

1. Seek an opinion from the Law Department to determine the rightful owner of the fiduciary funds and whether the funds are needed to achieve the original purpose for which the account was established under Executive Order No. #89.

If the Law Department opines that the funds are no longer necessary, the Department should consult the Comptroller's Bureau of Accountancy, closing the fiduciary account and disposing of the funds in accordance with Comptroller's Directive #27. However, if the Law Department opines that the funds are needed to achieve the original purpose for which the account was established, the Department should develop a plan about how surplus funds should be used (e.g., to step up donor recruitment activities, allocate funds for special incentives, or obtain professional assistance on recruitment drives).

Department Response: "With respect to the possible dissolution of this fiduciary account . . . we have, in fact, asked for an opinion from the Office of the Corporation Counsel [Law Department] on this issue.

"While we await the opinion of the Corporation Counsel, we would like to emphasize that while the fiduciary account may not be fulfilling its original primary purposes, this account continues to fund extraordinary important activities with respect to blood donation in the City. . . . Accordingly, until such time as the Corporation Counsel provides an opinion authorizing the dissolution of the account and alternative funding arrangements are made in consultation with the City's Office of Management and Budget, we will continue to use the account in the fashion that we have been for the last several years."

Auditor Comment: We are pleased that the Department sought an opinion from Corporation Counsel on the possible dissolution of the fiduciary account; however it should be noted that with the exception of salaries, the cost for their extraordinary activities has been minimal given that the fiduciary account had a fund balance of \$1.8 million at the end of Fiscal Year 2005. Moreover, the annual cost of these activities has decreased from approximately \$3,000 in Fiscal Year 2002 to \$600 in Fiscal Year 2005. Nevertheless, since the need for blood donations remains an important issue, the Department should enhance its outreach efforts towards increasing donor awareness by stepping up donor recruitment activities, allocating funds for special incentives, or obtaining professional assistance on recruitment drives.

2. Transfer \$119,000 in funding from the fiduciary account to the General Fund to satisfy disbursements incurred for Program expenses in Fiscal Year 2003.

Department Response: "We will be charging the fiduciary account for the \$119,000 recommended by the Audit."



DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES
OFFICE OF THE COMMISSIONER

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Martha K. Hirst
Commissioner

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March 31, 2006

Mr. John Graham
Deputy Comptroller for Audits,
Accountancy & Contracts
Office of the City Comptroller
1 Centre Street
New York, NY 10007-2341

Re: Audit Report on Citywide
Administrative Services'
Administration of the
Employee Blood Program
Fiduciary Account (FM06-
083A)

Dear Mr. Graham:

We welcome the opportunity to respond to the above-captioned report.

At its inception in 1964, the City Blood Program membership consisted of City employees who became members by either donating blood or by paying toward the expenses of the Program. Membership in the Blood Program provided for blood coverage for the member and his or her immediate family. At that time, membership in the Blood Program represented the surest way to guarantee an employee and his or her family access to blood, when needed. The funds that were collected were placed in a fiduciary account to be utilized solely for the expenses of the Blood Program.

In 1980, the health insurance options provided by the City began to cover most blood-related needs for City employees. Because most of an employee's blood-related needs would be met through his or her health insurance (and not through membership in the Blood Program), it was anticipated, with some concern, that the volume of blood donations to the City's Blood Program, and blood programs in general, would decline. The City's Blood Program, therefore, shifted its focus from managing what was essentially a blood bank toward emphasizing the importance of blood donation through aggressive advertising campaigns, usually in connection with numerous blood drives conducted at City agencies.

John Graham
March 31, 2006
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The Audit has recommended that, because "(t)he fiduciary account is no longer fulfilling the primary purpose for which it was established," serious consideration should be given to dissolving this fiduciary account or increasing donation activities so that increased costs will eliminate this fiduciary account over some period of time. With respect to the possible dissolution of this fiduciary account, the Audit recommends consulting with the Office of the Corporation Counsel. Please be advised that we have, in fact, asked for an opinion from the Office of the Corporation Counsel on this issue.

While we await the opinion of the Corporation Counsel, we would like to emphasize that, while the fiduciary account may not be fulfilling its original primary purposes, this account continues to fund extraordinarily important activities with respect to blood donations in the City. City employees who donate blood are the single most important source of donors for the New York City Blood Center. This has been accomplished, in large part, through the efforts of the Blood Program. The Audit itself acknowledges that the expenses of the Blood Program, including all donation-related activities, are legitimately funded from this account. Accordingly, until such time as the Corporation Counsel provides an opinion authorizing the dissolution of the account and alternative funding arrangements are made in consultation with the City's Office of Management and Budget, we will continue to use the account in the fashion that we have been for the last several years.

Finally, we will be charging the fiduciary account for the \$119,000 recommended by the Audit.

Sincerely,



Martha K. Hirst

C: Lewis S. Finkelman
Joseph DeMarco
Andrea Wrubel
Chris Lane