

CITY OF LOS ANGELES

Revised Audit Report

FIREFIGHTER'S CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2000, through June 30, 2003



JOHN CHIANG
California State Controller

August 2007



JOHN CHIANG
California State Controller

August 17, 2007

Laura N. Chick, Controller
City of Los Angeles
200 N. Main Street, Suite 300
Los Angeles, CA 90012

Dear Ms. Chick:

The State Controller's Office audited the costs claimed by the City of Los Angeles for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2000, through June 30, 2003. This final report supersedes the original final report issued June 16, 2006.

The city claimed \$987,990 for the mandated program. Our audit disclosed that \$804,335 is allowable and \$183,655 is unallowable. The unallowable costs occurred primarily because the city claimed unallowable, unsupported, and duplicated costs. The State paid the city \$309,253. Allowable costs claimed exceed the amount paid by \$495,082.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb:jj:smr

cc: William T. Fujioka
City Administrative Officer
City of Los Angeles
Margaret M. Whelan
General Manager
City of Los Angeles
Lois Pace Bailey
Chief of Workers' Compensation
City of Los Angeles
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance

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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Los Angeles for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2000, through June 30, 2003. The last day of fieldwork was January 23, 2006, except for Finding 1, which is dated November 29, 2006.

The city claimed \$987,990 for the mandated program. Our audit disclosed that \$804,335 is allowable and \$183,655 is unallowable. The unallowable costs occurred primarily because the city claimed unallowable, unsupported, and duplicated costs. The State paid the city \$309,253. Allowable costs claimed exceed the amount paid by \$495,082.

Background

Chapter 1568, Statutes of 1982, added and amended Labor Code section 3272.1, which states that cancer that has developed or manifested itself in firefighters will be presumed to have arisen out of and in the course of employment, unless the presumption is controverted by other evidence. The presumption is extended to a firefighter following termination of service for a period of three calendar months for each year of requisite service, but not to exceed 60 months in any circumstance, commencing with the last date actually worked in the specified capacity.

On February 23, 1984, the Board of Control, (now the Commission on State Mandates [CSM]) determined that Chapter 1568, Statutes of 1982, imposed a reimbursable mandate under Government Code section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. CSM adopted the *Parameters and Guidelines* on October 24, 1985, and last amended it on March 26, 1987. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Firefighter's Cancer Presumption Program for the period of July 1, 2000, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the City of Los Angeles claimed \$987,990 for costs of the Firefighter's Cancer Presumption Program. Our audit disclosed that \$804,335 is allowable and \$183,655 is unallowable.

For fiscal year (FY) 2000-01, the State paid the city \$209,510. Our audit disclosed that \$202,634 is allowable. The State will offset \$6,876 from other mandated program payments due to the city. Alternatively, the city may remit this amount to the State.

For FY 2001-02, the State paid the city \$99,460. Our audit disclosed that \$346,656 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$247,196, contingent upon available appropriations.

For FY 2002-03, the State paid the city \$283. Our audit disclosed that \$255,045 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$254,762, contingent upon available appropriations.

Views of Responsible Official

We issued a draft audit report on April 5, 2006. Margaret M. Whelan, General Manager, responded by letter dated May 1, 2006 (Attachment 1), agreeing with the audit results in general. We issued our original final audit report on June 16, 2006. Ms. Whelan responded by letter dated November 29, 2006, disagreeing with Finding 1. This revised final audit report includes the city's responses. Based on additional documentation submitted, we revised Finding 1 to increase allowable costs by \$1,029.

Restricted Use

This report is solely for the information and use of the City of Los Angeles, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

**Revised Schedule 1—
Summary of Program Costs
July 1, 2000, through June 30, 2003**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 3,740	\$ 3,740	\$ —	
Benefits	3,379	3,379	—	
Disability benefit costs	410,193	398,149	(12,044)	Finding 1
Total direct costs	417,312	405,268	(12,044)	
Indirect costs	1,708	—	(1,708)	Finding 2
Total direct and indirect costs	419,020	405,268	(13,752)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 209,510</u>	202,634	<u>\$ (6,876)</u>	
Less amount paid by the State		(209,510)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (6,876)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 6,669	\$ 6,669	\$ —	
Benefits	6,059	6,059	—	
Disability benefit costs	855,030	680,584	(174,446)	Finding 1
Total direct costs	867,758	693,312	(174,446)	
Indirect costs	5,932	—	(5,932)	Finding 2
Total direct and indirect costs	873,690	693,312	(180,378)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 436,845</u>	346,626	<u>\$ (90,189)</u>	
Less amount paid by the State		(99,460)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 247,196</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 9,773	\$ 9,773	\$ —	
Benefits	8,718	8,718	—	
Disability benefit costs	660,723	491,599	(169,124)	Finding 1
Total direct costs	679,214	510,090	(169,124)	
Indirect costs	4,056	—	(4,056)	Finding 2
Total direct and indirect costs	683,270	510,090	(173,180)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 341,635</u>	255,045	<u>\$ (86,590)</u>	
Less amount paid by the State		(283)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 254,762</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2000, through June 30, 2003</u>				
Salaries	\$ 20,182	\$ 20,182	\$ —	
Benefits	18,156	18,156	—	
Disability benefit costs	<u>1,925,946</u>	<u>1,570,332</u>	<u>(355,614)</u>	Finding 1
Total direct costs	1,964,284	1,608,670	(355,614)	
Indirect costs	<u>11,696</u>	<u>—</u>	<u>(11,696)</u>	Finding 2
Total direct and indirect costs	1,975,980	1,608,670	(367,310)	
Reimbursable percentage	<u>× 0.50</u>	<u>× 0.50</u>	<u>× 0.50</u>	
Total program costs	<u>\$ 987,990</u>	804,335	<u>\$ (183,655)</u>	
Less amount paid by the State		<u>(309,253)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 495,082</u>		

¹ See the Findings and Recommendations section.

Revised Findings and Recommendations

**FINDING 1—
Overstated disability
benefit costs**

For the audit period, the city overstated disability benefit costs by \$355,614. The overstated costs occurred because the city claimed unallowable costs totaling \$593,216, and underclaimed costs totaling \$237,602.

Unallowable Costs Claimed

The city claimed unsupported costs, non-mandate-related costs, and duplicate costs. In many cases, the unsupported costs were costs that did not reconcile to the city’s payment system, referred to as LINX. The duplicate costs occurred because the city claimed the same costs in two fiscal years, claimed travel expenses as both medical costs and travel costs, and claimed multiple-year cumulative costs rather than costs applicable to a single fiscal year. The city claimed the same costs in two fiscal years because the city’s contracted administrator did not use a consistent methodology to identify reimbursable costs. The contractor’s employees identified some costs by the date service was provided and others by the payment date. In some cases, these dates occurred in different fiscal years, causing the city to claim associated costs twice.

Underclaimed Costs

For the audit period, the city erroneously excluded reimbursable costs totaling \$237,602. City representatives were unable to explain why the city excluded the reimbursable costs from its mandated cost claims. We allowed these underclaimed costs to offset unallowable costs identified during the audit.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Disability benefit costs:				
Unallowable	\$ (12,044)	\$ (363,929)	\$ (217,243)	\$ (593,216)
Underclaimed	—	189,483	48,119	237,602
Audit adjustment	\$ (12,044)	\$ (174,446)	\$ (169,124)	\$ (355,614)

Parameters and Guidelines states, “For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs.”

Recommendation

We recommend that the city develop and implement an adequate recording and reporting system to ensure that all claimed costs are properly supported and reimbursable under the mandated program. Specifically, the city should ensure that:

- Costs claimed reconcile with the city’s LINX payment system;
- It claims only mandate-reimbursable costs (i.e., those medical and disability costs specifically related to cancer ailments);

- It consistently identifies reimbursable costs by the payment date to avoid duplicated costs;
- It does not claim reimbursable travel costs as both travel and medical expenses;
- It claims only those costs applicable to the fiscal year, rather than cumulative costs; and
- It includes all mandate-reimbursable costs on its mandate reimbursement claims.

City’s Response

After SCO issued the final audit report dated June 16, 2006, the city submitted documentation supporting costs totaling \$5,161.

SCO’s Comment

We revised the audit report to increase allowable costs by \$1,029. The remaining costs, totaling \$4,132, are unallowable. The unallowable costs include \$2,932 that we previously allowed for FY 2000-01 and \$1,201 that we previously identified as unallowable because the costs are not mandate-related.

The \$1,201 cost was related to permanent disability payments for a claimant with cancer-related and non-cancer-related ailments. We concluded that the cost was unallowable based on a claim adjuster’s note dated February 11, 1994, located in the claimant’s file. The note stated that the city should take no credit for the permanent disability amounts paid when reporting expenses to the State. As part of its response to the final audit report, the city provided documentation of a subsequent notation in the claimant’s file. The subsequent notation, dated February 23, 2006, stated that the previous notation 12 years earlier was erroneous. However, the city provided no other documentation to support that the original notation was erroneous.

**FINDING 2—
Unallowable indirect costs**

During the audit period, the city claimed unallowable indirect costs totaling \$11,696. The city erroneously applied its indirect cost rate to its contracted employees’ salary and benefit costs. The city’s indirect cost rate is not applicable to the contracted employees, as they are not city employees.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Unallowable indirect costs	\$ (1,708)	\$ (5,932)	\$ (4,056)	\$ (11,696)

Parameters and Guidelines states, “For auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs.”

Recommendation

We recommend that the city claim only those indirect costs applicable to city employees' salary and benefit costs.

City's Response

The city did not respond to this audit finding.

**OTHER ISSUE—
Amounts paid by the
State**

The city's response included comments regarding amounts paid by the State. The city's response and SCO's comment are as follows.

City's Response

The city's representative stated that the city has no record of a \$283 state payment for fiscal year (FY) 2002-03. The city also requested that the State credit future reimbursements for the \$6,876 overpayment applicable to FY 2000-01.

SCO's Comment

On September 23, 2003, the State notified the city of a \$283 payment offset applicable to the city's FY 2002-03 Firefighter's Cancer Presumption Program claim. We e-mailed a copy of the remittance advice to the city's representative on May 11, 2006.

Regarding the amount due to the State for FY 2000-01, the Legislature funds each fiscal year's costs through separate appropriations. Therefore, the FY 2000-01 overpayment cannot be used to offset other fiscal year underpayments.

**Attachment 1—
City's Response to
Draft Audit Report**

**BOARD OF CIVIL SERVICE
COMMISSIONERS**

Room 360, PERSONNEL BUILDING

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JOHN PATRICK PEREZ

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CITY OF LOS ANGELES
CALIFORNIA



ANTONIO R. VILLARAIGOSA
MAYOR

PERSONNEL DEPARTMENT
PERSONNEL BUILDING
700 EAST TEMPLE STREET
LOS ANGELES, CA 90012

Margaret M. Whelan
GENERAL MANAGER

May 1, 2006

Jeffrey V. Brownfield
Chief, Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

**RESPONSE TO YOUR DRAFT AUDIT REPORT ON FIREFIGHTER'S CANCER PRESUMPTION
PROGRAM**

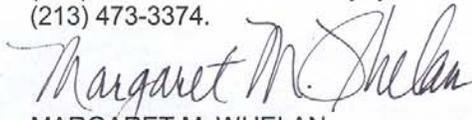
I am in receipt of your draft audit report dated April 2006. In response to your request for comments concerning the draft report, the following is submitted.

Although the City is in agreement with your findings in general, there are three items that we would like to address:

1. Your *Conclusion* notes that the City was reimbursed \$283 for fiscal year (FY) 2002-03. We have no record of this reimbursement.
2. Your *Conclusion* notes that the City should return \$6,876 in adjustments for FY 2000-01. Given that the audit found that the City has not yet been reimbursed for allowable costs in the amount of \$246,682 in FY 2001/02 and \$254,762 in FY 2002-03, we hereby request that the \$6,876 amount be credited to the City towards the next reimbursement.
3. The City is researching approximately \$5,000 in disallowed items that we may resubmit for your reconsideration. These items are for reimbursements in FY 2001-02 and FY 2002-03.

Additionally, I would like to note that the City is taking action to correct the deficiencies identified in your audit. We appreciate your thoroughness, as well as your fairness, in identifying under-claimed costs and including those amounts in your allowable costs.

Thank you for the opportunity to respond to the draft report. If you have any questions regarding this correspondence, please do not hesitate to contact me or Assistant General Manager Tom Coultas, at (213) 847-9746. Additionally, your staff may contact Lois Pace, Workers' Compensation Division, at (213) 473-3374.


MARGARET M. WHELAN
General Manager

C: Laura N. Chick, Controller's Office

**Attachment 2—
City's Response to
Original Final Audit Report**

**BOARD OF CIVIL SERVICE
COMMISSIONERS**

Room 360, PERSONNEL BUILDING

SYLVIA DREW IVIE
PRESIDENT

NANCY P. MCCLELLAND
VICE PRESIDENT

PROSERPINA ABARQUEZ-DELACRUZ
JOHN P. PEREZ
YOLANDA VERA

VICTORIA SCHOOLS
COMMISSION EXECUTIVE ASSISTANT

**CITY OF LOS ANGELES
CALIFORNIA**



ANTONIO R. VILLARAIGOSA
MAYOR

16212
PERSONNEL DEPARTMENT

PERSONNEL BUILDING
700 EAST TEMPLE STREET
LOS ANGELES, CA 90012

Margaret M. Whelan
GENERAL MANAGER

November 29, 2006

Elaine Scott
State Auditor
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94258-5874

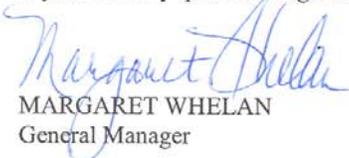
RE: CANCER PRESUMPTION – FIREFIGHTER'S PROGRAM (JULY 1, 2000 - JUNE 30, 2003)

After a careful review of your preliminary finding on the City of Los Angeles Firefighter's Cancer Presumption Reimbursement Program, we discovered that an additional \$5,161.47 is due to the City based on the cost expended on behalf of the following claimants:

David Dominguez
Don Hoffman
Christopher Irons
Donald Dahlstein

Attached is a spreadsheet with claimants' names and amount due to the City, along with LINX records and invoices to substantiate our findings.

If you have any questions regarding this matter, please contact Sola Oniyide at (213) 473-3341.


MARGARET WHELAN
General Manager

cc The Honorable Laura N. Chick, Controller
Thomas Saenz, Mayor's Office

Attachments

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>