

CITY OF TORRANCE

Audit Report

FIREFIGHTERS CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2001, through June 30, 2004



STEVE WESTLY
California State Controller

October 2006



STEVE WESTLY
California State Controller

October 4, 2006

Eric Tsao
Finance Director
City of Torrance
3031 Torrance Boulevard
Torrance, CA 90503

Dear Mr. Tsao:

The State Controller's Office audited the costs claimed by the City of Torrance for the legislatively mandated Firefighters Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2001, through June 30, 2004.

The city claimed \$1,168,491 for the mandated program. Our audit disclosed that \$706,361 is allowable and \$462,130 is unallowable. The unallowable costs occurred because the city claimed unallowable costs and did not report offsetting revenue. The State paid the city \$238. The State will pay allowable costs claimed that exceed the amount paid, totaling \$706,123, contingent upon available appropriations.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Ken Flewellyn, Assistant Finance Director
City of Torrance
Randy Sellers, Risk Manager
City of Torrance
Donna Rizzo, Workers Compensation Administrator
City of Torrance
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Torrance for the legislatively mandated Firefighters Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2001, through June 30, 2004. The last day of fieldwork was July 25, 2006.

The city claimed \$1,168,491 for the mandated program. Our audit disclosed that \$706,361 is allowable and \$462,130 is unallowable. The unallowable costs occurred because the city claimed unallowable costs and did not report offsetting revenue. The State paid the city \$238. The State will pay allowable costs claimed that exceed the amount paid, totaling \$706,123, contingent upon available appropriations.

Background

Chapter 1568, Statutes of 1982, added *Labor Code* Section 3212.1, 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 extends 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 [COSM]) 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. COSM adopted the *Parameters and Guidelines* on October 24, 1985 (last amended on March 26, 1987). In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Firefighters Cancer Presumption Program for the period of July 1, 2001, through June 30, 2004.

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 Torrance claimed \$1,168,491 for costs of the Firefighters Cancer Presumption Program. Our audit disclosed that \$706,361 is allowable and \$462,130 is unallowable.

For fiscal year (FY) 2001-02, the State made no payment to the city. Our audit disclosed that \$107,713 is allowable, which the State will pay contingent upon available appropriations.

For FY 2002-03, the State paid the city \$238. Our audit disclosed that \$552,923 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$552,685, contingent upon available appropriations.

For FY 2003-04, the State made no payment to the city. Our audit disclosed that \$45,725 is allowable, which the State will pay contingent upon available appropriations.

Views of Responsible Officials

We discussed our audit results with the city's representatives during an exit conference conducted on July 25, 2006. Ken Flewellyn, Assistant Finance Director; Joyce Reyes, Accounting Manager; and Donna Rizzo, Workers Compensation Claims Administrator, agreed with the audit results. Mr. Flewellyn declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of the City of Torrance, 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

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2004**

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustment | Reference ¹ |
|--|-------------------------|------------------------|---------------------|------------------------|
| <u>July 1, 2001, through June 30, 2002</u> | | | | |
| Salaries | \$ 5,875 | \$ 5,875 | \$ — | |
| Benefits | 1,525 | 1,525 | — | |
| Services and supplies | 63,518 | 19,198 | (44,320) | Finding 1 |
| Disability benefit costs | 260,285 | 188,089 | (72,196) | Finding 2 |
| Total direct costs | 331,203 | 214,687 | (116,516) | |
| Indirect costs | 740 | 740 | — | |
| Total direct and indirect costs | 331,943 | 215,427 | (116,516) | |
| Less offsetting savings/reimbursements | — | — | — | Finding 3 |
| Subtotal | 331,943 | 215,427 | (116,516) | |
| Reimbursable percentage | × 50% | × 50% | × 50% | |
| Total program costs | <u>\$ 165,971</u> | 107,713 | <u>\$ (58,258)</u> | |
| Less amount paid by the State | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 107,713</u> | | |
| <u>July 1, 2002, through June 30, 2003</u> | | | | |
| Salaries | \$ 5,993 | \$ 5,993 | \$ — | |
| Benefits | 1,550 | 1,550 | — | |
| Services and supplies | 19,809 | 13,564 | (6,245) | Finding 1 |
| Disability benefit costs | 1,482,913 | 1,340,077 | (142,836) | Finding 2 |
| Total direct costs | 1,510,265 | 1,361,184 | (149,081) | |
| Indirect costs | 754 | 754 | — | |
| Total direct and indirect costs | 1,511,019 | 1,361,938 | (149,081) | |
| Less offsetting savings/reimbursements | — | (256,092) | (256,092) | Finding 3 |
| Subtotal | 1,511,019 | 1,105,846 | (405,173) | |
| Reimbursable percentage | × 50% | × 50% | × 50% | |
| Total program costs | <u>\$ 755,510</u> | 552,923 | <u>\$ (202,587)</u> | |
| Less amount paid by the State | | (238) | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 552,685</u> | | |

Schedule 1(continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustment | Reference ¹ |
|--|-------------------------|------------------------|---------------------|------------------------|
| <u>July 1, 2003, through June 30, 2004</u> | | | | |
| Salaries | \$ 1,969 | \$ 1,969 | \$ — | |
| Benefits | 511 | 511 | — | |
| Services and supplies | 21,087 | 9,776 | (11,311) | Finding 1 |
| Disability benefit costs | <u>470,204</u> | <u>394,189</u> | <u>(76,015)</u> | Finding 2 |
| Total direct costs | 493,771 | 406,445 | (87,326) | |
| Indirect costs | <u>248</u> | <u>248</u> | <u>—</u> | |
| Total direct and indirect costs | 494,019 | 406,693 | (87,326) | |
| Less offsetting savings/reimbursements | <u>—</u> | <u>(315,244)</u> | <u>(315,244)</u> | Finding 3 |
| Subtotal | 494,019 | 91,449 | (402,570) | |
| Reimbursable percentage | <u>× 50%</u> | <u>× 50%</u> | <u>× 50%</u> | |
| Total program costs | <u>\$ 247,010</u> | 45,725 | <u>\$ (201,285)</u> | |
| Less amount paid by the State | | <u>—</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 45,725</u> | | |
| <u>Summary: July 1, 2001, through June 30, 2004</u> | | | | |
| Salaries | \$ 13,837 | \$ 13,837 | \$ — | |
| Benefits | 3,586 | 3,586 | — | |
| Services and supplies | 104,414 | 42,538 | (61,876) | Finding 1 |
| Disability benefit costs | <u>2,213,402</u> | <u>1,922,355</u> | <u>(291,047)</u> | Finding 2 |
| Total direct costs | 2,335,239 | 1,982,316 | (352,923) | |
| Indirect costs | <u>1,742</u> | <u>1,742</u> | <u>—</u> | |
| Total direct and indirect costs | 2,336,981 | 1,984,058 | (352,923) | |
| Less offsetting savings/reimbursements | <u>—</u> | <u>(571,336)</u> | <u>(571,336)</u> | Finding 3 |
| Subtotal | 2,336,981 | 1,412,722 | (924,259) | |
| Reimbursable percentage | <u>× 50%</u> | <u>× 50%</u> | <u>× 50%</u> | |
| Total program costs | <u>\$ 1,168,491</u> | 706,361 | <u>\$ (462,130)</u> | |
| Less amount paid by the State | | <u>(238)</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 706,123</u> | | |

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unallowable services
and supplies costs**

For the audit period, the city claimed unallowable services and supplies costs totaling \$61,876. The unallowable costs claimed were not related to the mandated program.

The city claimed the total costs for legal fees, rehabilitation services, and other service and supply costs related to various workers compensation cases. However, the costs claimed included costs related to ailments other than cancer.

Parameters and Guidelines identifies reimbursable costs as all actual costs attributable to cancer-related ailments, as specified by *Labor Code* Section 3212.1.

The following table summarizes the unallowable services and supplies costs.

| | Fiscal Year | | | Total |
|-----------------------|-------------|------------|-------------|-------------|
| | 2001-02 | 2002-03 | 2003-04 | |
| Services and supplies | \$ (44,320) | \$ (6,245) | \$ (11,311) | \$ (61,876) |

Recommendation

We recommend that the city develop and implement a cost accounting system to ensure that it claims only mandate-related costs.

**FINDING 2—
Unallowable disability
benefit costs**

For the audit period, the city claimed unallowable disability benefit costs totaling \$291,047. The city claimed non-mandate-related costs.

The city claimed medical costs attributable to non-cancer related ailments, such as hypertension, knee injuries, heart conditions, etc. In addition, the city incorrectly claimed total temporary- and permanent-disability payments for claimants who had multiple ailments, rather than claiming only those costs attributable to cancer-related ailments.

Parameters and Guidelines identifies reimbursable costs as all actual costs attributable to cancer-related ailments, as specified by *Labor Code* Section 3212.1.

The following table summarizes the unallowable disability benefit costs.

| | Fiscal Year | | | Total |
|--------------------------|-------------|--------------|-------------|--------------|
| | 2001-02 | 2002-03 | 2003-04 | |
| Disability benefit costs | \$ (72,196) | \$ (142,836) | \$ (76,015) | \$ (291,047) |

Recommendation

We recommend that the city develop and implement a cost accounting system to ensure that it claims only mandate-related costs.

**FINDING 3—
Understated offsetting
reimbursements**

For the audit period, the city understated offsetting reimbursements by \$571,336.

The city’s excess insurance carrier reimburses the city for costs incurred that exceed \$750,000 for any individual claimant. During the audit period, the city incurred and claimed costs totaling \$1,321,336 for one claimant. However, the city did not report offsetting reimbursements for the costs claimed that exceeded \$750,000.

Parameters and Guidelines states:

Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the costs claimed. Such offsetting savings shall include, but not be limited to, savings in the cost of personnel, service or supplies, or increased revenues obtained by the claimant.

In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

The following table summarizes the understated offsetting reimbursements.

| | Fiscal Year | | Total |
|-----------------------------------|--------------|--------------|--------------|
| | 2002-03 | 2003-04 | |
| Offsetting savings/reimbursements | \$ (256,092) | \$ (315,244) | \$ (571,336) |

Recommendation

We recommend that the city report offsetting reimbursements received applicable to mandate-related costs claimed.

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

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