

CITY OF SAN DIEGO

Audit Report

FIREFIGHTER'S CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2001, through June 30, 2005



JOHN CHIANG
California State Controller

December 2007



JOHN CHIANG
California State Controller

December 21, 2007

Greg Levin, Comptroller
City of San Diego
202 C Street, Suite 6A
San Diego, CA 92101

Dear Mr. Levin:

The State Controller's Office audited the costs claimed by the City of San Diego for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2001, through June 30, 2005.

The city claimed \$1,804,890 (\$1,805,890 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$869,069 is allowable and \$935,821 is unallowable. The unallowable costs occurred primarily because the city did not apply the 50% reimbursement factor applicable to this mandated program. The State paid the city \$191,265. Allowable costs claimed exceed the amount paid by \$677,804.

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/sk:wm

cc: Greg Bych, Risk Management Director
City of San Diego
Karen O'Dell, Supervising Claims Representative
City of San Diego
Todd Jerue, Program Budget Manager
Corrections and General Government
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of San Diego for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2001, through June 30, 2005. The last day of fieldwork was August 2, 2007.

The city claimed \$1,804,890 (\$1,805,890 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$869,069 is allowable and \$935,821 is unallowable. The unallowable costs occurred primarily because the city did not apply the 50% reimbursement factor applicable to this mandated program. The State paid the city \$191,265. Allowable costs claimed exceed the amount paid by \$677,804.

Background

Chapter 1568, Statutes of 1982, added and amended 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 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.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on October 24, 1985, and last amended them on March 26, 1987. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program 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, 2001, through June 30, 2005.

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 San Diego claimed \$1,804,890 (\$1,805,890 less a \$1,000 penalty for filing a late claim) for costs of the Firefighter's Cancer Presumption Program. Our audit disclosed that \$869,069 is allowable and \$935,821 is unallowable.

For the fiscal year (FY) 2001-02, FY 2002-03, and FY 2003-04 claims, the State made no payments to the city. Our audit disclosed that \$700,048 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the city \$191,265. Our audit disclosed that \$169,021 is allowable. The State will offset \$22,244 from other mandated program payments due to the city. Alternatively, the city may remit this amount to the State.

Views of Responsible Official

We issued a draft report on September 28, 2007. We contacted Greg Bych, Risk Management Director, by telephone on November 21, 2007. Mr. Bych declined to respond to the draft report. However, the city's claim representative submitted additional documentation subsequent to our draft audit report. As a result, we revised Finding 1 to reduce the audit adjustment by \$3,000, and we revised Finding 2 to increase the audit adjustment by \$1,499.

Restricted Use

This report is solely for the information and use of the City of San Diego, 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, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 2,069	\$ 2,069	\$ —	
Benefits	672	672	—	
Services and supplies	20	20	—	
Disability benefit costs	686,526	667,969	(18,557)	Finding 1
Total direct costs	689,287	670,730	(18,557)	
Indirect costs	207	207	—	
Total direct and indirect costs	689,494	670,937	(18,557)	
Deduct non-reimbursable costs	—	(335,468)	(335,468)	Finding 2
Reimbursable costs	689,494	335,469	(354,025)	
Less late penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 688,494</u>	334,469	<u>\$ (354,025)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 334,469</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 1,961	\$ 1,961	\$ —	
Benefits	638	638	—	
Services and supplies	20	20	—	
Disability benefit costs	502,111	484,162	(17,949)	Finding 1
Total direct costs	504,730	486,781	(17,949)	
Indirect costs	196	196	—	
Total direct and indirect costs	504,926	486,977	(17,949)	
Deduct non-reimbursable costs	—	(243,489)	(243,489)	Finding 2
Total program costs	<u>\$ 504,926</u>	243,488	<u>\$ (261,438)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 243,488</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries	\$ 1,961	\$ 1,961	\$ —	
Benefits	638	638	—	
Services and supplies	20	20	—	
Disability benefit costs	226,062	241,304	15,242	Finding 1
Total direct costs	228,681	243,923	15,242	
Indirect costs	259	259	—	
Total direct and indirect costs	228,940	244,182	15,242	
Deduct non-reimbursable costs	—	(122,091)	(122,091)	Finding 2
Total program costs	<u>\$ 228,940</u>	122,091	<u>\$ (106,849)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 122,091</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Salaries	\$ 2,963	\$ 2,963	\$ —	
Benefits	255	255	—	
Services and supplies	50	50	—	
Disability benefit costs	<u>379,061</u>	<u>334,552</u>	<u>(44,509)</u>	Finding 1
Total direct costs	382,329	337,820	(44,509)	
Indirect costs	<u>221</u>	<u>221</u>	—	
Total direct and indirect costs	382,550	338,041	(44,509)	
Deduct non-reimbursable costs	—	(169,020)	(169,020)	Finding 2
Mathematical error	<u>(20)</u>	—	20	
Total program costs	<u>\$ 382,530</u>	169,021	<u>\$ (213,509)</u>	
Less amount paid by the State		<u>(191,265)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (22,244)</u>		
<u>Summary: July 1, 2001, through June 30, 2005</u>				
Salaries	\$ 8,954	\$ 8,954	\$ —	
Benefits	2,203	2,203	—	
Services and supplies	110	110	—	
Disability benefit costs	<u>1,793,760</u>	<u>1,727,987</u>	<u>(65,773)</u>	
Total direct costs	1,805,027	1,739,254	(65,773)	
Indirect costs	<u>883</u>	<u>883</u>	—	
Total direct and indirect costs	1,805,910	1,740,137	(65,773)	
Deduct non-reimbursable costs	—	(870,068)	(870,068)	
Mathematical error	<u>(20)</u>	—	20	
Reimbursable costs	1,805,890	870,069	(935,821)	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	—	
Total program costs	<u>\$ 1,804,890</u>	869,069	<u>\$ (935,821)</u>	
Less amount paid by the State		<u>(191,265)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 677,804</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unallowable disability
benefit costs**

The city claimed unallowable disability benefit costs totaling \$65,773. The net unallowable costs resulted from the following issues.

- The city claimed non-mandate-related costs. These costs were unrelated to claimants’ cancer ailments.
- The city claimed costs that it did not support with source documentation.
- The city claimed costs that included mandate-related and non-mandate-related expenses. The city did not segregate the mandate-related costs.
- The city claimed unallowable interest costs. The program’s parameters and guidelines do not identify interest expense as a mandate-reimbursable cost.
- The city understated or overstated temporary disability, permanent disability, death benefit, and industrial leave costs for fiscal year (FY) 2003-04 and FY 2004-05. The city provided summary sheets that did not reconcile with claimed costs.
- The city did not claim allowable mandate-related medical expenses in FY 2003-04 and FY 2004-05.

The following table summarizes the audit adjustment.

	Fiscal Year				Total
	2001-02	2002-03	2003-04	2004-05	
Not mandate-related	\$ (7,096)	\$ (14,986)	\$ (23,384)	\$ (15,496)	\$ (60,962)
Unsupported costs	(9,501)	(2,858)	(22,690)	(3,192)	(38,241)
City did not segregate mandate-related and non-mandate-related costs	—	—	(12,420)	(11,960)	(24,380)
Interest costs	(1,960)	(105)	—	—	(2,065)
Understated/(overstated) temporary disability, permanent disability, death benefit, and industrial leave costs	—	—	4,641	(83,435)	(78,794)
Allowable medical expenses not claimed	—	—	69,095	69,574	138,669
Audit adjustment	\$ (18,557)	\$ (17,949)	\$ 15,242	\$ (44,509)	\$ (65,773)

The program’s parameters and guidelines state, “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 ensure that it claims only those costs that are mandate-related and supported by source documentation.

City’s Response

The city did not respond to the audit finding. However, the city’s Claim Representative submitted additional documentation subsequent to our draft audit report.

SCO’s Comment

Based on the additional documentation submitted, we revised the audit finding to allow an additional \$3,000 for medical expenses not claimed in FY 2004-05. Our recommendation remains unchanged.

**FINDING 2—
Non-reimbursable costs**

The city claimed non-reimbursable costs totaling \$870,068. The city filed erroneous claims because it did not apply the 50% reimbursement factor to calculate claimed costs.

The following table summarizes the audit adjustment.

	Fiscal Year				Total
	2001-02	2002-03	2003-04	2004-05	
Allowable costs claimed	\$ 670,937	\$ 486,977	\$ 244,182	\$ 338,041	\$ 1,740,137
Non-reimbursable percentage	× (50)%	× (50)%	× (50)%	× (50)%	× (50)%
Audit adjustment	<u>\$ (335,468)</u>	<u>\$ (243,489)</u>	<u>\$ (122,091)</u>	<u>\$ (169,020)</u>	<u>\$ (870,068)</u>

The parameters and guidelines specify that claimants shall be paid 50% of mandate-related costs.

Recommendation

We recommend that the city correctly calculate claimed costs by applying the 50% reimbursement factor to mandate-related costs incurred.

City’s Response

The city did not respond to the audit finding. However, the city’s Claim Representative submitted additional documentation subsequent to our draft audit report.

SCO’s Comment

Based on the additional documentation submitted, we revised Finding 1 to allow an additional \$3,000 in FY 2004-05. Because the additional allowable costs are only 50% reimbursable, we increased the audit adjustment for this finding by \$1,499.

**State Controller's Office
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