

CITY OF LOS ANGELES

Reissued Audit Report

FIREFIGHTER'S CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2003, through June 30, 2007



BETTY T. YEE
California State Controller

April 2016



BETTY T. YEE
California State Controller

April 26, 2016

The Honorable Eric Garcetti, Mayor
City of Los Angeles
200 N. Spring Street
Los Angeles, CA 90012

Dear Mayor Garcetti:

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, 2003, through June 30, 2007.

The city claimed \$3,750,945 for the mandated program. Our audit disclosed that \$3,574,487 is allowable and \$176,458 is unallowable. The costs are unallowable because the city claimed non-mandate-related, unsupported, and duplicate costs. The State paid the city \$3,345,460. Allowable costs claimed exceed the amount paid by \$229,027.

This reissued final audit report updates our previous final report, issued on September 4, 2009. We revised the final report to allow costs that were initially unallowable due to a mathematical error by the city, based on a draft proposed decision issued by the Commission on State Mandates (Commission) on March 18, 2016. The draft proposed decision responded to an incorrect reduction claim the city filed with the Commission on the audit adjustment. The revision increased allowable costs from \$3,345,460 to \$3,574,487, a difference of \$229,027.

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/as

cc: The Honorable Eric Garcetti, Mayor
City of Los Angeles
Ron Galperin, Controller
City of Los Angeles
Steven Presberg, Senior Personnel Analyst
City of Los Angeles
Mary Halterman, Principal Program Budget Analyst
Mandates Unit, Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Contents

Reissued Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Official	2
Reason for Reissuance	3
Restricted Use	3
Revised Schedule 1—Summary of Program Costs	4
Revised Finding and Recommendation	6

Reissued 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, 2003, through June 30, 2007.

The city claimed \$3,750,945 for the mandated program. Our audit disclosed that \$3,574,487 is allowable and \$176,458 is unallowable. The costs are unallowable because the city claimed non-mandate related, unsupported, and duplicate costs. The State paid the city \$3,345,460. Allowable costs claimed exceed the amount paid by \$229,027.

Background

Labor Code section 3212.1 (added and amended by Chapter 1568, Statutes of 1982) 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 [Commission]) 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. The Commission 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 to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Firefighter's Cancer Presumption Program for the period of July 1, 2003, through June 30, 2007.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the city's financial statements.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objectives, we performed the following procedures:

- Reviewed annual claims filed with SCO to identify any mathematical errors and performed analytical procedures to determine any unusual or unexpected variances from year-to-year.
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained.
- Inquired whether the district realized any offsetting savings or reimbursements from the statutes which created the mandated program.
- Judgmentally selected and tested costs claimed for the relevant cost elements to determine that the costs were related to the mandated program.

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 Finding and Recommendation section of this report.

For the audit period, the City of Los Angeles claimed \$3,750,945 for costs of the Firefighter's Cancer Presumption Program. Our audit disclosed that \$3,574,487 is allowable and \$176,458 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State paid the city \$501,913. Our audit disclosed that \$730,940 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$229,027, contingent upon available appropriations.

For the FY 2004-05 and FY 2005-06 claims, the State paid the city \$1,550,989. Our audit disclosed that the entire amount is allowable.

For the FY 2006-07 claim, the State paid the city \$1,292,558. Our audit disclosed that the entire amount is allowable.

Views of Responsible Official

We issued a draft audit report on July 17, 2009. Margaret Whelan, General Manager, Personnel Department, responded by letter dated August 6, 2009, disagreeing with the audit results. We issued the final audit report on September 4, 2009, and revised it herein. We advised Steven Presberg, Senior Personnel Analyst, of the revision on April 11, 2016. Mr. Presberg responded by email on April 15, 2016, stating that he has no changes to suggest for the final revised audit report.

**Reason for
Reissuance**

We revised our audit report to allow costs that were initially unallowable due to a mathematical error by the city, based on a draft proposed decision issued by the Commission. The draft proposed decision responded to an incorrect reduction claim the city filed with the Commission on the audit adjustment. The revision increased allowable costs by \$229,027, from \$3,345,460 to \$3,574,487.

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

April 26, 2016

**Revised Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2007**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2003, through June 30, 2004</u>			
Administrative costs	\$ 18,683	\$ 18,683	\$ -
Disability benefit costs	1,501,251	1,443,198	(58,053)
Mathematical error	25	-	(25)
Total direct costs	1,519,959	1,461,881	(58,078)
Reimbursable percentage	x 50%	x 50%	x 50%
Total program costs ²	<u>\$ 759,979</u>	\$ 730,940	<u>\$ (29,039)</u>
Less amount paid by state		(501,913)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 229,027</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Administrative costs	\$ 10,437	\$ 10,437	\$ -
Disability benefit costs	1,195,993	1,502,173	306,180
Subtotal	1,206,430	1,512,610	306,180
Less allowable costs that exceed costs claimed	-	(306,180)	(306,180)
Total direct costs	1,206,430	1,206,430	-
Reimbursable percentage	x 50%	x 50%	x 50%
Total program costs ²	<u>\$ 603,215</u>	\$ 603,215	<u>\$ -</u>
Less amount paid by state		(603,215)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Administrative costs	\$ 20,748	\$ 20,748	\$ -
Disability benefit costs	1,874,799	1,886,807	12,008
Subtotal	1,895,547	1,907,555	12,008
Less allowable costs that exceed costs claimed	-	(12,008)	(12,008)
Total direct costs	1,895,547	1,895,547	-
Reimbursable percentage	x 50%	x 50%	x 50%
Total program costs ²	<u>\$ 947,774</u>	\$ 947,774	<u>\$ -</u>
Less amount paid by state		(947,774)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2006, through June 30, 2007</u>			
Administrative costs	\$ 120,260	\$ 120,260	\$ -
Disability benefit costs	<u>2,759,693</u>	<u>2,464,856</u>	<u>(294,837)</u>
Total direct costs	2,879,953	2,585,116	(294,837)
Reimbursable percentage	x <u>50%</u>	x <u>50%</u>	x <u>50%</u>
Total program costs ²	<u>\$ 1,439,977</u>	<u>\$ 1,292,558</u>	<u>\$ (147,419)</u>
Less amount paid by state		<u>(1,292,558)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>Summary: July 1, 2003, through June 30, 2007</u>			
Administrative costs	\$ 170,128	\$ 170,128	\$ -
Disability benefit costs	7,331,736	7,297,034	(34,702)
Mathematical error	<u>25</u>	<u>-</u>	<u>(25)</u>
Subtotal	7,501,889	7,467,162	(34,727)
Less allowable costs that exceed costs claimed	<u>-</u>	<u>(318,188)</u>	<u>(318,188)</u>
Total direct costs	7,501,889	7,148,974	(352,915)
Reimbursable percentage	x <u>50%</u>	x <u>50%</u>	x <u>50%</u>
Total program costs	<u>\$ 3,750,945</u>	<u>\$ 3,574,487</u>	<u>\$ (176,458)</u>
Less amount paid by state		<u>(3,345,460)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 229,027</u>	

¹ See the Finding and Recommendation section.

² Calculation differences due to rounding.

Revised Finding and Recommendation

**FINDING—
Unallowable and
unclaimed disability
benefits costs**

The city claimed unallowable costs totaling \$529,707. The city did not claim additional mandate-related costs totaling \$495,005. For the audit period, the city overstated allowable costs by \$34,702.

Unallowable costs

The city claimed non-mandate-related, unsupported, and duplicate costs. The non-mandate-related costs are costs attributable to ailments other than cancer. The unsupported costs are costs that were not documented in the city’s payment history system (LINX) or were not supported by source documentation. The city claimed duplicate costs by claiming the same costs in two fiscal years. This duplication occurred because the city’s contracted administrator did not use a consistent methodology to identify reimbursable costs by fiscal year. The contractor’s employees identified some costs by the date on which service was provided and other costs by the payment date. In some cases, these dates occurred in different fiscal years, causing the city to claim associated costs twice. In other cases, the city claimed duplicate costs by claiming the same cost under two separate cost elements (such as attorney fees claimed as both legal costs and disability costs).

Unclaimed costs

The city made mathematical errors on claim form FCP-2.1 on its fiscal year (FY) 2004-05 claim. The mathematical errors resulted in unclaimed costs totaling \$5,440 in FY 2004-05. In addition, the city did not claim all costs that its accounting records support. This occurred primarily because the city’s contracted administrator prepared summary and detailed cost worksheets that did not reconcile with each other and/or did not agree with costs documented in LINX.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2003-04	2004-05	2005-06	2006-07	
Non-mandate-related costs	\$ (1,350)	\$ (3,603)	\$ (59,208)	\$ (146,684)	\$ (210,845)
Unsupported costs	(52,991)	(2,179)	(10,170)	(121,088)	(186,428)
Duplicate costs	(82,597)	(17,277)	(4,649)	(27,911)	(132,434)
Unclaimed costs	78,885	329,239	86,035	846	495,005
Total audit adjustment	\$ (58,053)	\$ 306,180	\$ 12,008	\$ (294,837)	\$ (34,702)

The program’s parameters and guidelines state that reimbursement requires a demonstration that the worker (1) has cancer, which has caused the disability, and (2) that the worker’s cancer developed or manifested itself while the worker was in the service of the employer or within the extended period provided for in Labor Code section 3212.1. In addition, the parameters and guidelines state that all costs claimed must be traceable to source documents or worksheets that show evidence of 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);
- It consistently identifies each fiscal year's reimbursable costs by the payment date;
- It includes all mandate-reimbursable costs on its mandated cost claims; and
- All claim forms are mathematically correct.

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

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