

CITY OF LOS ANGELES

Audit Report

CANCER PRESUMPTION- PEACE OFFICERS PROGRAM

Chapter 1171, Statutes of 1989

July 1, 2001, through June 30, 2004



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 29, 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 Cancer Presumption–Peace Officers Program (Chapter 1171, Statutes of 1989) for the period of July 1, 2001, through June 30, 2004.

The city claimed \$565,352 for the mandated program. Our audit disclosed that \$380,866 is allowable and \$184,486 is unallowable. The unallowable costs occurred because the city claimed unallowable, unsupported, and duplicate costs. The State paid the city \$89,322. The State will pay allowable costs claimed that exceed the amount paid, totaling \$291,544, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). 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 COSM'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/jj:vb

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

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Official	2
Restricted Use	2
Schedule 1—Summary of Program Costs.....	3
Findings and Recommendations	5
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller’s Office (SCO) audited the costs claimed by the City of Los Angeles for the legislatively mandated Cancer Presumption–Peace Officers Program (Chapter 1171, Statutes of 1989) for the period of July 1, 2001, through June 30, 2004. The last day of fieldwork was July 28, 2006.

The city claimed \$565,352 for the mandated program. Our audit disclosed that \$380,866 is allowable and \$184,486 is unallowable. The unallowable costs occurred because the city claimed unallowable, unsupported, and duplicate costs. The State paid the city \$89,322. The State will pay allowable costs claimed that exceed the amount paid, totaling \$291,544, contingent upon available appropriations.

Background

Chapter 1171, Statutes of 1989, amended *Labor Code* Section 3212.1 so that its provisions also apply to peace officers who are primarily engaged in law enforcement activities, as defined in *Penal Code* Sections 830.1 and 830.2. Previously, the provisions applied only to public sector firefighters. The law states that cancer that has developed or manifested itself in peace officers is presumed to have arisen out of and in the course of employment, unless other evidence controverts the presumption. The presumption extends to a peace officer 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 July 23, 1992, the Commission on State Mandates (COSM) determined that Chapter 1171, Statutes of 1989, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on January 21, 1993. 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 Cancer Presumption–Peace Officers 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 Los Angeles claimed \$565,352 for costs of the Cancer Presumption–Peace Officers Program. Our audit disclosed that \$380,566 is allowable and \$184,486 is unallowable.

For fiscal year (FY) 2001-02, the State paid the city \$88,999. Our audit disclosed that \$117,048 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$28,049, contingent upon available appropriations.

For FY 2002-03, the State paid the city \$323. Our audit disclosed that \$108,879 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$108,556, contingent upon available appropriations.

For FY 2003-04, the State made no payment to the city. Our audit disclosed that \$154,939 is allowable. The State will pay that amount, contingent upon available appropriations.

Views of Responsible Official

We issued a draft audit report on November 29, 2006. Margaret Whelan, General Manager, responded by letter dated January 9, 2007 (Attachment), with documentation that could reduce the unallowable costs in Finding 1 by \$87,973. This final audit report includes the city’s response.

Restricted Use

This report is solely for the information and use 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

**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	\$ 2,107	\$ 2,107	\$ —	
Benefits	1,891	1,891	—	
Disability benefit costs	<u>253,919</u>	<u>230,099</u>	<u>(23,820)</u>	Finding 1
Total direct costs	257,917	234,097	(23,820)	
Indirect costs	<u>1,863</u>	<u>—</u>	<u>(1,863)</u>	Finding 2
Total direct and indirect costs	259,780	234,097	(25,683)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 129,890</u>	117,048	<u>\$ (12,842)</u>	
Less amount paid by the State		<u>(88,999)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 28,049</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 2,610	\$ 2,610	\$ —	
Benefits	2,346	2,346	—	
Disability benefit costs	<u>261,055</u>	<u>212,801</u>	<u>(48,254)</u>	Finding 1
Total direct costs	266,011	217,757	(48,254)	
Indirect costs	<u>1,083</u>	<u>—</u>	<u>(1,083)</u>	Finding 2
Total direct and indirect costs	267,094	217,757	(49,337)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 133,547</u>	108,879	<u>\$ (24,668)</u>	
Less amount paid by the State		<u>(323)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 108,556</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries	\$ 7,598	\$ 7,598	\$ —	
Benefits	6,920	6,920	—	
Disability benefit costs	<u>589,312</u>	<u>295,359</u>	<u>(293,953)</u>	Finding 1
Total direct costs	603,830	309,877	(293,953)	
Indirect costs	<u>—</u>	<u>—</u>	<u>—</u>	
Total direct and indirect costs	603,830	309,877	(293,953)	
Reimbursable percentage	× 0.50	× 0.50	× 0.50	
Total program costs	<u>\$ 301,915</u>	154,939	<u>\$ (146,976)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 154,939</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Salaries	\$ 12,315	\$ 12,315	\$ —	
Benefits	11,157	11,157	—	
Disability benefit costs	<u>1,104,286</u>	<u>738,259</u>	<u>(366,027)</u>	Finding 1
Total direct costs	1,127,758	761,731	(366,027)	
Indirect costs	<u>2,946</u>	—	<u>(2,946)</u>	Finding 2
Total direct and indirect costs	1,130,704	761,731	(368,973)	
Reimbursable percentage	<u>× 0.50</u>	<u>× 0.50</u>	<u>× 0.50</u>	
Total program costs	<u>\$ 565,352</u>	380,866	<u>\$ (184,486)</u>	
Less amount paid by the State		<u>(89,322)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 291,544</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Overstated disability
benefit costs**

For the audit period, the city overstated disability benefit costs by \$366,027. Unallowable costs resulted because the city claimed:

- Costs that were not net of applicable credits;
- Unsupported costs;
- Costs applicable to fiscal year (FY) 2004-05, which is outside the audit period;
- Costs that were not mandate-related; and
- Duplicate costs.

The city claimed non-mandate-related costs because it claimed 100% of disability benefit costs incurred for claimants whose workers’ compensation claims were only partly attributable to cancer-related ailments.

The duplicate costs occurred because the city claimed the same costs in two fiscal years 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 its contracted administrator did not use a consistent methodology to identify reimbursable costs. The contractor’s employees claimed some costs based on the date that the service was provided and other costs based on the payment date. In some cases, these dates occurred in different fiscal years, causing the city to claim associated costs twice.

The city also provided documentation supporting mandate-related costs totaling \$60,634 that the city did not previously claim. We allowed these additional costs.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Applicable credits not deducted	\$ (20,271)	\$ —	\$ —	\$ (20,271)
Unsupported costs	(353)	(36,202)	(5,384)	(41,939)
Costs outside audit period	—	—	(332,702)	(332,702)
Not mandate-related	—	(5,067)	(11,566)	(16,633)
Duplicated costs	(3,196)	(6,985)	(4,935)	(15,116)
Allowable costs not claimed	—	—	60,634	60,634
Audit adjustment	<u>\$ (23,820)</u>	<u>\$ (48,254)</u>	<u>\$ (293,953)</u>	<u>\$ (366,027)</u>

Parameters and Guidelines states, in part, that costs are reimbursable if a worker has a cancer that has caused the disability. *Parameters and Guidelines* also 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.” Furthermore, *Parameters and Guidelines* states that the city shall identify and deduct reimbursements received from any source for this mandated program.

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:

- Claimed costs are net of any applicable credits;
- Claimed costs are supported by source documentation;
- It claims costs based on the payment date to preclude duplicate costs and ensure that costs are claimed in the correct fiscal year; and
- It claims only mandate-reimbursable costs (i.e., those medical and disability costs specifically related to cancer ailments).

City's Response

The city submitted documentation to support disability benefit costs totaling \$81,973 - \$5,703 for FY 2002-03 and \$76,270 for FY 2003-04.

SCO's Comment

We revised the audit finding to reduce the audit adjustment by \$65,013. Our recommendation regarding unallowable costs is unchanged.

For FY 2002-03, the city submitted documentation to support costs totaling \$5,704 that the draft audit report identified as unallowable. We accepted the documentation and reduced the audit adjustment for non-mandate-related costs by this amount.

For FY 2003-04, the city submitted documentation supporting costs that total \$76,270. Of this amount, documentation supporting \$1,703 applies to costs that the draft audit report identified as unallowable. These costs are now allowable. Therefore, we reduced the audit adjustments for unsupported costs and non-mandate-related costs by \$320 and \$1,383, respectively.

The remaining FY 2003-04 documentation submitted is applicable to costs not previously claimed totaling \$74,567. Of this amount, \$60,634 is allowable. The remaining costs are unallowable for the following reasons.

- Documentation totaling \$6,149 supports costs previously claimed and allowed for FY 2002-03.
- Documentation totaling \$6,011 supports cost that are applicable to an ineligible claimant. These costs are applicable to a claimant whose medical condition was unrelated to *Labor Code* Section 3212.1. As such, the costs are not reimbursable under the mandated program.
- Documentation totaling \$1,773 supports costs that are non-mandate-related. The costs are attributable to a claimant's non-cancer-related ailments.

In addition, the city’s documentation shows that the draft audit report included allowable costs totaling \$3,028 that are actually unallowable. The documentation shows that these costs are applicable to a claimant whose medical condition was unrelated to *Labor Code* Section 3212.1. As such, the costs are not reimbursable under the mandated program. Therefore, we increased the audit adjustment for non-mandate-related costs by this amount.

**FINDING 2—
Unallowable indirect costs**

The city claimed unallowable indirect costs totaling \$2,946 for FY 2001-02 and FY 2002-03. 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
	2001-02	2002-03	
Unallowable indirect costs	\$ (1,863)	\$ (1,083)	\$ (2,946)

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.

**Attachment—
City’s Response to
Draft Audit Report**

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GENERAL MANAGER

January 9, 2007

Jim L. Spano
Chief, Compliance Audits Bureau
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94258-5874

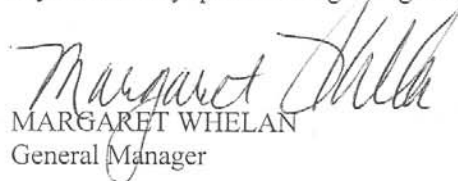
**CANCER PRESUMPTION – PEACE OFFICERS PROGRAM (JULY 1, 2001 THROUGH
JUNE 30, 2004)**

After a careful review of your preliminary finding on the City of Los Angeles Peace Officers Cancer Presumption Reimbursement Program, we discovered that additional \$81,973 is due to the City based on the cost expended on behalf of the following claimants:

Michael Jinks
John Rost
Douglas Burns
Thomas Felix
Roy Wunderlich

Attached is a spreadsheet with claimants' name 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

c: The Honorable Laura N. Chick, Controller
Thomas Saenz, Mayor's Office
Rushmore Cervantes, Chief Deputy Controller

Attachments

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

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