

CITY OF REDWOOD CITY

Audit Report

FIREFIGHTER'S CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

November 2007



JOHN CHIANG
California State Controller

November 9, 2007

Brian J. Ponty
Director of Finance and Financial Planning
City of Redwood City
1017 Middlefield Road
Redwood City, CA 94063

Dear Mr. Ponty:

The State Controller's Office audited the costs claimed by the City of Redwood City for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2002, through June 30, 2005.

The city claimed \$376,479 for the mandated program. Our audit disclosed that \$165,382 is allowable and \$211,097 is unallowable. The unallowable costs resulted primarily from the city claiming duplicate costs, non-reimbursable court-ordered penalty payments, and costs that are recoverable from the city's excess insurance carrier. The State paid the city \$26,091. Allowable costs claimed exceed the amount paid by \$139,291.

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

cc: Robert Bell
Human Resources Director
City of Redwood City
Carolyn McLaurin
Management Analyst II
City of Redwood City
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	4
Attachment—City’s Response to Draft Audit Report.....	7

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Redwood City for the legislatively mandated Firefighter's Cancer Presumption Program (Chapter 1568, Statutes of 1982) for the period of July 1, 2002, through June 30, 2005. The last day of fieldwork was August 7, 2007.

The city claimed \$376,479 for the mandated program. Our audit disclosed that \$165,382 is allowable and \$211,097 is unallowable. The unallowable costs resulted primarily from the city claiming duplicate costs, non-reimbursable court-ordered penalty payments, and costs that are recoverable from the city's excess insurance carrier. The State paid the city \$26,091. Allowable costs claimed exceed the amount paid by \$139,291.

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 Firefighters Cancer Presumption Program for the period of July 1, 2002, 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 Redwood City claimed \$376,479 for costs of the Firefighter's Cancer Presumption Program. Our audit disclosed that \$165,382 is allowable and \$211,097 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State paid the city \$34. Our audit disclosed that \$91,449 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$91,415, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the city. Our audit disclosed that \$73,739 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the city \$26,057. Our audit disclosed that \$194 is allowable. The state will offset \$25,863 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 audit report on September 28, 2007. Carolyn McLaurin, Workers' Compensation Manager, responded by letter dated October 24, 2007 (Attachment), agreeing with the audit results. This final audit report includes the city's response.

Restricted Use

This report is solely for the information and use of the City of Redwood City, 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, 2002, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Disability benefit costs	\$ 179,057	\$ 146,972	\$ (32,085)	Finding 1
Services and supplies	36,686	35,925	(761)	Finding 2
Total direct costs	215,743	182,897	(32,846)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 107,872</u>	91,449	<u>\$ (16,423)</u>	
Less amount paid by the State		(34)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 91,415</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Disability benefit costs	\$ 452,122	\$ 130,504	\$ (321,618)	Finding 1
Services and supplies	32,978	16,973	(16,005)	Finding 2
Total direct costs	485,100	147,477	(337,623)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 242,550</u>	73,739	<u>\$ (168,811)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 73,739</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Disability benefit costs	\$ 205,734	\$ —	\$ (205,734)	Finding 1
Services and supplies	9,859	388	(9,471)	Finding 2
Total direct costs	215,593	388	(215,205)	
Less offsetting savings/reimbursements	(163,479)	—	163,479	Finding 3
Subtotal	52,114	388	(51,726)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 26,057</u>	194	<u>\$ (25,863)</u>	
Less amount paid by the State		(26,057)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (25,863)</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Disability benefit costs	\$ 836,913	\$ 277,476	\$ (559,437)	Finding 1
Services and supplies	79,523	53,286	(26,237)	Finding 2
Total direct costs	916,436	330,762	(585,674)	
Less offsetting savings/reimbursements	(163,479)	—	163,479	Finding 3
Subtotal	752,957	330,762	(422,195)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 376,479</u>	165,382	<u>\$ (211,097)</u>	
Less amount paid by the State		(26,091)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 139,291</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 \$559,437. Disability benefit costs were unallowable for the following reasons.

- One claimant’s total cumulative claimed costs (disability benefit costs and services and supplies costs) exceeded the city’s liability. For this claimant, the city’s excess insurance carrier is responsible for reimbursing the city for costs incurred that exceed \$350,000. For fiscal year (FY) 2003-04, we applied the audit adjustment to disability benefit costs.
- The city claimed court-ordered penalty payments, late payment penalty costs, and interest expenses. These costs are not reimbursable under the mandated program.
- The city claimed unsupported costs and duplicate costs.

For FY 2002-03, the city claimed disability benefit costs totaling \$179,057 and services and supplies costs totaling \$36,686. The city provided detailed check registers to support costs claimed. Although the check registers reconcile to total FY 2002-03 costs claimed, the city was not able to reconcile costs it claimed by individual cost element. As a result, we classified FY 2002-03 audit adjustments as disability benefit costs or services and supplies costs, based on how the city reported similar expenses in subsequent fiscal years.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Costs recoverable from outside insurance	\$ —	\$ (73,200)	\$(148,700)	\$(221,900)
Court-ordered penalty payments	(28,877)	(47,691)	—	(76,568)
Late payment penalty costs	—	(372)	—	(372)
Interest expense	—	(1,142)	(2,997)	(4,139)
Unsupported costs	(3,208)	(3,208)	—	(6,416)
Duplicate costs claimed	—	(196,005)	(54,037)	(250,042)
Audit adjustment	\$ (32,085)	\$(321,618)	\$(205,734)	\$(559,437)

Government Code section 17514 defines “costs mandated by the state” as any increased costs that a local agency is required to incur. The city is not required to incur costs over \$350,000 for any individual claimant because its excess insurance carrier reimburses those costs. In addition, the city was not required to incur court-ordered penalty payments or late payment penalty costs.

The program’s parameters and guidelines identify reimbursable costs as all actual costs attributable to cancer-related ailments, as specified by 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 and the validity of such costs.

Recommendation

We recommend that the city develop and implement an adequate recording and reporting system to claim only actual costs incurred that are properly supported and reimbursable under the mandated program.

City’s Response

The city agreed with the audit finding.

**FINDING 2—
Unallowable services
and supplies costs**

The city claimed unallowable services and supplies costs totaling \$26,237. Service and supplies costs were unallowable for the following reasons.

- One claimant’s total cumulative claimed costs (disability benefit costs and services and supplies costs) exceeded the city’s liability. For this claimant, the city’s excess insurance carrier is responsible for reimbursing the city for costs incurred that exceed \$350,000.
- The city claimed unsupported and duplicate costs.
- The city claimed non-mandate-related costs; the costs were attributable to non-cancer-related ailments.

The following table summarizes the audit adjustment.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Costs recoverable from outside insurance	\$ —	\$ —	\$ (5,696)	\$ (5,696)
Unsupported costs	—	(1,256)	—	(1,256)
Duplicate costs claimed	—	(14,749)	(3,775)	(18,524)
Non-mandate-related costs	(761)	—	—	(761)
Audit adjustment	<u>\$ (761)</u>	<u>\$ (16,005)</u>	<u>\$ (9,471)</u>	<u>\$ (26,237)</u>

Government Code section 17514 defines “costs mandated by the state” as any increased costs that a local agency is required to incur. The city is not required to incur costs over \$350,000 for any individual claimant because its excess insurance carrier reimburses those costs.

The parameters and guidelines identify reimbursable costs as all actual costs attributable to cancer-related ailments, as specified by 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 and the validity of such costs.

Recommendation

We recommend that the city develop and implement an adequate recording and reporting system to claim only actual costs incurred that are properly supported and reimbursable under the mandated program.

City’s Response

The city agreed with the audit finding.

**FINDING 3—
Overstated offsetting
savings/reimbursements**

The city overstated offsetting savings/reimbursements by \$163,479 in FY 2004-05. The city claimed offsetting savings and reimbursements attributable to non-reimbursable expenses.

The city claimed offsetting savings/reimbursements of \$44,000 related to court-ordered penalty payments. The city's former third party administrator reimbursed the city for these costs. However, court-ordered penalty payments are not reimbursable under the mandated program. We identified the unallowable court-ordered penalty payment costs in Finding 1. Therefore, the associated offsetting savings/reimbursement is also unallowable.

The city also claimed offsetting savings/reimbursements of \$119,479 for payments that the city received from its excess insurance carrier. However, these receipts are attributable to non-reimbursable costs. We identified unallowable costs recoverable from outside insurance in Findings 1 and 2. Therefore, the associated offsetting savings/reimbursements are also unallowable.

The parameters and guidelines state that reimbursement for this mandate received from any source shall be identified and deducted from the claim. However, reimbursements attributable to court-ordered penalty payments and excess insurance payments are not applicable to reimbursable mandated costs; therefore, those reimbursements are unallowable for mandated program claiming purposes.

Recommendation

We recommend that the city identify and deduct from its claims only those offsetting savings/reimbursements that are attributable to costs reimbursable under the mandated program.

City's Response

The city agreed with the audit finding.

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

Department of Human Resources
1017 Middlefield Road
Redwood City, California 94063



Telephone (650) 780-7281
FAX (650) 364-3539
TDD (650) 780-7265

October 24, 2007

Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento Ca. 94250-5874

Dear Mr. Spano,

This letter is to confirm receipt of the State Controller's Office audited costs claimed by the City of Redwood City for the Firefighters Cancer Presumption Program for the period of July 1, 2002 through June 30, 2005.

We have reviewed the draft report and concur with the audit findings and affirm to the best of our knowledge that the report is accurate and complete.

Should you require any additional information I can be reached at 650-780-7289.

Sincerely,

A handwritten signature in black ink that reads "Carolyn McLaurin".

Carolyn McLaurin-Management Analyst II
Workers' Compensation Manager
Department of Human Resources

Cc: Brian Ponty-Director of Finance and Financial Planning
Bob Bell-Human Resources Director

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

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