

# CITY OF SANTA MONICA

Audit Report

## **FIREFIGHTERS' CANCER PRESUMPTION PROGRAM**

Chapter 1568, Statutes of 1982

*July 1, 2001, through June 30, 2004*



**STEVE WESTLY**  
California State Controller

November 2006



**STEVE WESTLY**  
**California State Controller**

November 9, 2006

Steve Stark  
Chief Financial Officer  
City of Santa Monica  
1717 4<sup>th</sup> Street, Suite 250  
Santa Monica, CA 90401

Dear Mr. Stark:

The State Controller's Office audited the costs claimed by the City of Santa Monica 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 \$493,773 for the mandated program. Our audit disclosed that \$272,413 is allowable and \$221,360 is unallowable. The unallowable costs occurred because the city claimed non-cancer related costs, used an incorrect monthly disability rate, and did not abate reimbursements against related costs. The State paid the city \$10. The State will pay allowable costs claimed that exceed the amount paid, totaling \$272,403, 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: Annette Morales, Senior Budget Analyst  
City of Santa Monica  
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 Santa Monica 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 August 21, 2006.

The city claimed \$493,773 for the mandated program. Our audit disclosed that \$272,413 is allowable and \$221,360 is unallowable. The unallowable costs occurred because the city claimed non-cancer related costs, used an incorrect monthly disability benefit rate, and did not abate reimbursements against related costs. The State paid the city \$10. The State will pay allowable costs claimed that exceed the amount paid, totaling \$272,403, contingent upon available appropriations.

## Background

Chapter 1568, Statutes of 1982, added and amended *Labor Code* Section 3272.1, 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 [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, and last amended it 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 Santa Monica claimed \$493,773 for costs of the Firefighters' Cancer Presumption Program. Our audit disclosed that \$272,413 is allowable and \$221,360 is unallowable.

For fiscal year (FY) 2001-02, the State made no payment to the city. Our audit disclosed that \$18,708 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$18,708, contingent upon available appropriations.

For FY 2002-03, the State paid the city \$10. Our audit disclosed that \$219,403 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$219,393, contingent upon available appropriations.

For FY 2003-04, the State made no payment to the city. Our audit disclosed that \$34,302 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$34,302, contingent upon available appropriations.

## **Views of Responsible Officials**

We issued a draft audit report on June 30, 2006. Steve Stark, Chief Financial Officer, responded by letter dated August 11, 2006, agreeing with the audit results, but noting that some death benefit costs were accidentally left off of the claim.

In a letter dated September 5, 2006, the city submitted documentation that validated additional disability benefits costs not claimed for FY 2002-03. This report incorporates the additional allowable costs.

## **Restricted Use**

This report is solely for the information and use of the City of Santa Monica, 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 <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 44	\$ 44	\$ —	
Benefits	8	8	—	
Services and supplies	4,431	4,431	—	
Disability benefit costs	35,072	32,920	(2,152)	Finding 1
Total direct costs	39,555	37,403	(2,152)	
Indirect costs	13	13	—	
Total direct and indirect costs	39,568	37,416	(2,152)	
Less offsetting savings/reimbursements	—	—	—	
Subtotal	39,568	37,416	(2,152)	
Reimbursable percentage	× .50	× .50	× .50	
Total program costs	<u>\$ 19,784</u>	18,708	<u>\$ (1,076)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 18,708</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries	\$ 1,989	\$ 1,989	\$ —	
Benefits	246	246	—	
Services and supplies	68,150	64,770	(3,380)	Finding 2
Disability benefit costs	368,223	396,019	27,796	Finding 1
Total direct costs	438,608	463,024	24,416	
Indirect costs	199	199	—	
Total direct and indirect costs	438,807	463,223	24,416	
Less offsetting savings/reimbursements	—	(6,369)	(6,369)	Finding 3
Subtotal	438,807	456,854	18,047	
Reimbursable percentage	× .50	× .50	× .50	
Subtotal	219,403	228,426	9,023	
Allowable costs in excess of amount claimed <sup>2</sup>	—	(9,023)	(9,023)	
Total program costs	<u>\$ 219,403</u>	219,403	<u>\$ —</u>	
Less amount paid by the State		(10)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 219,393</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2003, through June 30, 2004</u>				
Salaries	\$ —	\$ —	\$ —	
Benefits	—	—	—	
Services and supplies	76,176	68,148	(8,028)	Finding 2
Disability benefit costs	432,996	399,456	(33,540)	Finding 1
Total direct costs	509,172	467,604	(41,568)	
Indirect costs	—	—	—	
Total direct and indirect costs	509,172	467,604	(41,568)	
Less offsetting savings/reimbursements	—	(399,001)	(399,001)	Finding 3
Subtotal	509,172	68,603	(440,569)	
Reimbursable percentage	× .50	× .50	× .50	
Total program costs	<u>\$ 254,586</u>	34,302	<u>\$ (220,285)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 34,302</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Salaries	\$ 2,033	\$ 2,033	\$ —	
Benefits	254	254	—	
Services and supplies	148,757	137,349	(11,408)	Finding 2
Disability benefit costs	836,291	828,395	(7,896)	Finding 1
Total direct costs	987,335	968,031	(19,304)	
Indirect costs	212	212	—	
Total direct and indirect costs	987,547	968,243	(19,304)	
Less offsetting savings/reimbursements	—	(405,370)	(405,370)	Finding 3
Subtotal	987,547	562,873	(424,674)	
Reimbursable percentage	× .50	× .50	× .50	
Subtotal	493,773	281,436	(212,337)	
Allowable costs in excess of amount claimed <sup>2</sup>	—	(9,023)	(9,023)	
Total program costs	<u>\$ 493,773</u>	272,413	<u>\$ (221,360)</u>	
Less amount paid by the State		(10)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 272,403</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Government Code Section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2002-03.

# Findings and Recommendations

**FINDING 1—  
Misstated and  
ineligible disability  
benefits**

For the audit period, the city overstated disability benefit costs by \$7,896.

For fiscal year (FY) 2001-02, the disability benefit costs overstatement occurred because the city claimed total disability benefits of \$25,480 for one employee based on a weekly rate of \$490 for 52 weeks. However, the city's records supported only total payments of \$23,328, a difference of \$2,152.

For FY 2002-03, the disability benefits costs understatement occurred because the city inadvertently omitted costs for one employee. For FY 2003-04, the overstatement occurred because the city claimed ineligible non-cancer-related disability benefit costs for one employee.

The following table summarizes the audit adjustments.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Incorrect disability benefits rate	\$ (2,152)	\$ —	\$ —	\$ (2,152)
Eligible/(ineligible) disability benefits	—	27,796	(33,540)	(5,744)
Audit adjustment	\$ (2,152)	\$ 27,796	\$ (33,540)	\$ (7,896)

*Parameters and Guidelines*, Section X, Supporting Data, states that for auditing purposes, all costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs, and these documents must be kept on file and made available on the request of the State Controller.

*Parameters and Guidelines*, Section VI, states that a claim is reimbursable if “the one or more carcinogens to which the worker was exposed are reasonably linked to the disabling cancer, as demonstrated by competent medical evidence.”

Recommendation

We recommend that the city review all claims to ensure that reported costs are reimbursable under the mandate.

City's Response

The city agreed with the finding.



**FINDING 2—  
Ineligible services and  
supplies**

For FY 2002-03 and FY 2003-04, the city claimed ineligible service and supply costs of a total of \$11,408. The overstatements occurred because the city claimed non-cancer related services and supplies costs for one employee.

The following table summarizes the audit adjustments.

	Fiscal Year		Total
	2002-03	2003-04	
Services and supplies	\$ (3,380)	\$ (8,028)	\$ (11,408)

*Parameters and Guidelines*, Section VI, states that a claim is reimbursable if “the one or more carcinogens to which the worker was exposed are reasonably linked to the disabling cancer, as demonstrated by competent medical evidence.”

Recommendation

We recommend that the city review all claims to ensure that reported costs are reimbursable under the mandate.

City’s Response

The city agreed with the finding.

**FINDING 3—  
Unreported  
reimbursements**

For FY 2002-03 and FY 2003-04, the city did not report third-party reimbursements of \$405,370.

The city received medical expense reimbursements for one employee from its insurance carrier in FY 2002-03 and FY 2003-04. These reimbursements were not abated against claimed costs.

Following is a summary of the audit adjustments to cost reductions.

	Fiscal Year		Total
	2002-03	2003-04	
Offsetting reimbursements	\$ (6,369)	\$ (399,001)	\$ (405,370)

*Parameters and Guidelines*, Section IX, states that “any offsetting savings the claimants experience as a direct result of this statute must be deducted from the costs claimed. It further states that reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.”

Recommendation

We recommend that the city report all costs in gross amounts and then deduct reimbursements to arrive at net reported costs.

City’s Response

The city agreed with the finding.

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

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Finance Department  
1717 Fourth Street, Suite 250  
Santa Monica, California 90401

August 11, 2006

Jim L. Spano, Chief  
Compliance Audits Bureau  
State Controller's Office  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Spano:

The City of Santa Monica would like to thank you for the opportunity to review the Draft audit report findings from the Firefighters' Cancer Presumption Program audit for the period July 1, 2001 through June 30, 2004.

As indicated to Mr. Art Luna and his staff, via electronic mail, the findings are consistent with those reported at the exit interview. Therefore, we have no exceptions to the audit findings. Recommendations provided by staff and included in the report have been taken seriously by the City and our SB90 consultant.

Please note that the City is considering filing an amended claim for the July 1, 2002 – June 30, 2003 period for the death award of an employee that was accidentally left off the original claim.

If you require anything further please feel free to contact me or my staff at 310/458-8281.

Sincerely,

A handwritten signature in blue ink that reads "Steve Stark".

Steve Stark  
Chief Financial Officer

SS/am

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

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