

ORANGE COUNTY FIRE AUTHORITY

Audit Report

FIREFIGHTER'S CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2003, through June 30, 2007



JOHN CHIANG
California State Controller

April 2009



JOHN CHIANG
California State Controller

April 28, 2009

Donald W. McKay, Chairman
Board of Directors
Orange County Fire Authority
1 Fire Authority Road
P.O. Box 57115
Irvine, CA 92602-7115

Dear Mr. McKay:

The State Controller's Office audited the costs claimed by the Orange County Fire Authority 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 authority claimed \$746,203 (\$747,203 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$632,562 is allowable and \$113,641 is unallowable. The costs are unallowable because the authority claimed non-mandate-related, overstated, and unsupported costs. The State paid the authority \$665,493. The amount paid exceeds allowable costs claimed by \$32,931.

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/vb

cc: Jim Ruane, Finance Manager/Auditor
Orange County Fire Authority
Gina Cheung, Accounting Manager
Orange County Fire Authority
Chris King, Risk Management Analyst
Orange County Fire Authority
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 Orange County Fire Authority 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 authority claimed \$746,203 (\$747,203 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$632,562 is allowable and \$113,641 is unallowable. The costs are unallowable because the authority claimed non-mandate-related, overstated, and unsupported costs. The State paid the authority \$665,493. The amount paid exceeds allowable costs claimed by \$32,931.

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 [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 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 the 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.

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 this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the authority's financial statements. We conducted the 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 authority'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 Orange County Fire Authority claimed \$746,203 (\$747,203 less a \$1,000 penalty for filing a late claim) for costs of the Firefighter's Cancer Presumption Program. Our audit disclosed that \$632,562 is allowable and \$113,641 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the authority. Our audit disclosed that \$51,352 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the authority \$143,116. Our audit disclosed that \$87,129 is allowable. The State will offset \$55,987 from other mandated program payments due the authority. Alternatively, the authority may remit this amount to the State.

For the FY 2005-06 claim, the State paid the authority \$273,917. Our audit disclosed that \$263,484 is allowable. The State will offset \$10,433 from other mandated program payments due the authority. Alternatively, the authority may remit this amount to the State.

For the FY 2006-07 claim, the State paid the authority \$248,460. Our audit disclosed that \$230,597 is allowable. The State will offset \$17,863 from other mandated program payments due the authority. Alternatively, the authority may remit this amount to the State.

Views of Responsible Official

We issued a draft audit report on March 12, 2009. Jim Ruane, Finance Manager/Auditor, responded by letter dated March 23, 2009 (Attachment), agreeing with the audit results. This final audit report includes the authority's response.

Restricted Use

This report is solely for the information and use of the Orange County Fire Authority, 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 28, 2009

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

Cost Elements	Actual Costs Claimed ¹	Allowable per Audit	Audit Adjustment	Reference ²
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Administrative costs	\$ 56,948	\$ 38,187	\$ (18,761)	Finding 1
Disability benefit costs	106,473	66,517	(39,956)	Finding 2
Total direct costs	163,421	104,704	(58,717)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Reimbursable costs	81,710	52,352	(29,358)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 80,710</u>	51,352	<u>\$ (29,358)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 51,352</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Administrative costs	\$ 130,078	\$ 61,695	\$ (68,383)	Finding 1
Disability benefit costs	156,154	112,564	(43,590)	Finding 2
Total direct costs	286,232	174,259	(111,973)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 143,116</u>	87,129	<u>\$ (55,987)</u>	
Less amount paid by the State		(143,116)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (55,987)</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Administrative costs	\$ 68,558	\$ 47,692	\$ (20,866)	Finding 1
Disability benefit costs	479,277	479,277	—	
Total direct costs	547,835	526,969	(20,866)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 273,917</u>	263,484	<u>\$ (10,433)</u>	
Less amount paid by the State		(273,917)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (10,433)</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Administrative costs	\$ 77,405	\$ 54,919	\$ (22,486)	Finding 1
Disability benefit costs	419,515	406,274	(13,241)	Finding 2
Total direct costs	496,920	461,193	(35,727)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 248,460</u>	230,597	<u>\$ (17,863)</u>	
Less amount paid by the State		(248,460)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (17,863)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed ¹	Allowable per Audit	Audit Adjustment	Reference ²
<u>Summary: July 1, 2003, through June 30, 2007</u>				
Direct costs:				
Administrative costs	\$ 332,989	\$ 202,493	\$ (130,496)	
Disability benefit costs	<u>1,161,419</u>	<u>1,064,632</u>	<u>(96,787)</u>	
Total direct costs	1,494,408	1,267,125	(227,283)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Reimbursable costs	747,203	633,562	(113,641)	
Less late filing penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program costs	<u>\$ 746,203</u>	632,562	<u>\$ (113,641)</u>	
Less amount paid by the State		<u>(665,493)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (32,931)</u>		

¹ Actual costs claimed shown agree with the authority's claim. Calculations may differ slightly because of rounding differences.

² See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable administrative costs

The authority claimed unallowable administrative costs totaling \$130,496. The costs are unallowable for the following reasons:

- The authority claimed non-mandate-related costs totaling \$51,477. The authority claimed total costs applicable to claimants who had both mandate-related and non-mandate-related ailments. The unallowable costs are attributable to the non-mandate-related ailments.
- In its fiscal year (FY) 2004-05 claim, the authority claimed unallowable costs totaling \$37,471 attributable to payments it made pursuant to Labor Code section 4850. For one claimant, the authority claimed costs that it claimed previously in FY 2002-03. For a second claimant, the authority claimed costs that exceeded the costs supported by its payment history documentation.
- For the audit period, the authority claimed unsupported administrative costs totaling \$41,548. The unsupported costs are attributable to the authority's third-party administrator (TPA). The TPA administered the authority's worker's compensation claims. The TPA did not maintain contemporaneous time records that support the actual time spent on mandate-related claims.

For each fiscal year, the authority calculated a ratio of mandate-related cases administered versus total workers' compensation indemnity cases open at fiscal year-end. To claim mandate-related TPA costs, the authority applied this ratio to the total TPA costs that it paid for the fiscal year. However, the authority's methodology does not properly allocate TPA costs to the mandated program. In addition, for each fiscal year, the authority identified a number of mandate-related cases that did not agree with its supporting documentation.

The authority's methodology is inaccurate because the number of indemnity cases open at fiscal year-end does not accurately represent the total number of cases that the TPA administered during the fiscal year. It excludes cases that the authority identifies as "medical-only." It also excludes any cases that were opened and closed during the same fiscal year.

We used the authority's Public Self Insurers Annual Reports to calculate the total number of cases that the TPA administered each fiscal year. We totaled the number of cases open at the beginning of each fiscal year and the number of cases reported during the fiscal year. In addition, we calculated the number of mandate-related cases based on the authority's mandated program claims, its Public Self Insurers Annual Reports, and cases identified by the authority's TPA.

The program’s parameters and guidelines specify that the authority may claim actual costs related to claimants’ cancer-related ailments. They also state, “All costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs.”

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2003-04	2004-05	2005-06	2006-07	
Non-mandate-related costs	\$ (19,758)	\$ (17,911)	\$ (4,881)	\$ (8,927)	\$ (51,477)
Labor Code §4850 payments	—	(37,471)	—	—	(37,471)
TPA administrative costs	997	(13,001)	(15,985)	(13,559)	(41,548)
Total	<u>\$ (18,761)</u>	<u>\$ (68,383)</u>	<u>\$ (20,866)</u>	<u>\$ (22,486)</u>	<u>\$ (130,496)</u>

Recommendation

We recommend that the authority claim only those costs that are properly supported and reimbursable under the mandated program. Specifically, we recommend that the authority:

- Claim only mandate-related costs (i.e., those costs attributable to cancer ailments), and
- Claim only those costs that are supported by its accounting records and other source documentation.

Authority’s Response

The authority agreed with the audit finding.

**FINDING 2—
Unallowable disability
benefit costs**

The authority claimed unallowable disability benefit costs totaling \$96,787. The costs are unallowable the following reasons:

- The authority claimed non-mandate-related costs totaling \$94,849. The authority claimed total costs applicable to claimants who had both mandate-related and non-mandate-related ailments. The unallowable costs are attributable to the non-mandate-related ailments.
- The authority claimed unsupported costs totaling \$1,938. In FY 2004-05, the authority claimed costs exceeding the costs that its expenditure ledger supported for one claimant. In FY 2006-07, the authority did not provide source documentation to support one invoice that it claimed.

The program’s parameters and guidelines specify that the authority may claim actual costs related to claimants’ cancer-related ailments. They also state, “All costs claimed must be traceable to source documents or worksheets that show evidence of and the validity of such costs.”

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2003-04	2004-05	2005-06	2006-07	
Non-mandate-related costs	\$ (39,956)	\$ (42,552)	\$ —	\$ (12,341)	\$ (94,849)
Unsupported costs	—	(1,038)	—	(900)	(1,938)
Total	\$ (39,956)	\$ (43,590)	\$ —	\$ (13,241)	\$ (96,787)

Recommendation

We recommend that the authority claim only those costs that are properly supported and reimbursable under the mandated program. Specifically, we recommend that the authority:

- Claim only mandate-related costs (i.e., those costs attributable to cancer ailments), and
- Claim only those costs that are supported by its accounting records and other source documentation.

Authority's Response

The authority agreed with the audit finding.

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



ORANGE COUNTY FIRE AUTHORITY

P. O. Box 57115, Irvine, CA 92619-7115 • 1 Fire Authority Road, Irvine, CA 92602

Chip Prather, Fire Chief

(714) 573-6000

www.ocfa.org

March 23, 2009

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

RE: Firefighters' Cancer Presumption Program
July 1, 2003, through June 30, 2007 Audit Report

Dear Mr. Spano:

The Orange County Fire Authority (OCFA) has received and reviewed the draft audit report on the mandated Firefighters' Cancer Presumption Program for the period of July 1, 2003, through June 30, 2007. We agree with the audit findings and will implement the recommendations as stated in the report. We understand that the disallowance of \$32,931 will be offset from other mandated program payments due to OCFA.

Per your request, we have signed the management representation letter and the original copy is attached. Please finalize our audit report in its current form and contact Gina Cheung, Accounting Manager, at (714) 573-6303 should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Ruane".

Jim Ruane
Finance Manager/Auditor

Attachment

cc: Chris King, Risk Management Analyst
Fausto Reyes, Risk Manager
Zenovy Jakymiw, Human Resources Director
Lori Zeller, Assistant Chief, Business Services
Gina Cheung, Accounting Manager

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