

CITY OF STOCKTON

Audit Report

FIREFIGHTER'S CANCER PRESUMPTION PROGRAM

Chapter 1568, Statutes of 1982

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 13, 2007

Janet Salvetti
Finance Officer
City of Stockton
425 North El Dorado Street
Stockton, CA 95202

Dear Ms. Salvetti:

The State Controller's Office audited the costs claimed by the City of Stockton 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 \$617,890 for the mandated program. Our audit disclosed that \$269,558 is allowable and \$348,332 is unallowable. The unallowable costs occurred because the city claimed non-reimbursable, non-mandate-related, and unsupported costs. The State paid the city \$161,726. Allowable costs claimed exceed the amount paid by \$107,832.

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/jj

cc: Mark Moses
Director of Administrative Services
City of Stockton
Stephanie Chain
Workers' Compensation Analyst
City of Stockton
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 Stockton 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 February 28, 2007.

The city claimed \$617,890 for the mandated program. Our audit disclosed that \$269,558 is allowable and \$348,332 is unallowable. The unallowable costs occurred because the city claimed non-reimbursable, non-mandate-related, and unsupported costs. The State paid the city \$161,726. Allowable costs claimed exceed the amount paid by \$107,832.

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 Firefighter's 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 Stockton claimed \$617,890 for costs of the Firefighter's Cancer Presumption Program. Our audit disclosed that \$269,558 is allowable and \$348,332 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State made no payment to the city. Our audit disclosed that \$223,688 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payment to the city. Our audit disclosed that \$16,022 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State paid the city \$161,726. Our audit disclosed that \$29,848 is allowable. The State will offset \$131,878 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 April 25, 2007. Janet Salvetti, Finance Officer, responded by letter dated May 11, 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 Stockton, 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>				
Salaries	\$ 1,266	\$ 1,266	\$ —	
Benefits	506	506	—	
Services and supplies	7,099	1,834	(5,265)	Finding 1
Disability benefit costs	808,410	443,481	(364,929)	Finding 2
Total direct costs	817,281	447,087	(370,194)	
Indirect costs	289	289	—	
Total direct and indirect costs	817,570	447,376	(370,194)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 408,785</u>	223,688	<u>\$ (185,097)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 223,688</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries	\$ 201	\$ 201	\$ —	
Benefits	80	80	—	
Services and supplies	1,716	—	(1,716)	Finding 1
Disability benefit costs	92,689	31,690	(60,999)	Finding 2
Total direct costs	94,686	31,971	(62,715)	
Indirect costs	73	73	—	
Total direct and indirect costs	94,759	32,044	(62,715)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 47,380</u>	16,022	<u>\$ (31,358)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 16,022</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Salaries	\$ 412	\$ 412	\$ —	
Benefits	234	234	—	
Services and supplies	6,048	6,048	—	Finding 1
Disability benefit costs	316,544	52,789	(263,755)	Finding 2
Total direct costs	323,238	59,483	(263,755)	
Indirect costs	213	213	—	
Total direct and indirect costs	323,451	59,696	(263,755)	
Reimbursable percentage	× 50%	× 50%	× 50%	
Total program costs	<u>\$ 161,726</u>	29,848	<u>\$ (131,878)</u>	
Less amount paid by the State		(161,726)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (131,878)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Salaries	\$ 1,879	\$ 1,879	\$ —	
Benefits	820	820	—	
Services and supplies	14,863	7,882	(6,981)	Finding 1
Disability benefit costs	<u>1,217,643</u>	<u>527,960</u>	<u>(689,683)</u>	Finding 2
Total direct costs	1,235,205	538,541	(696,664)	
Indirect costs	<u>575</u>	<u>575</u>	<u>—</u>	
Total direct and indirect costs	1,235,780	539,116	(696,664)	
Reimbursable percentage	<u>× 50%</u>	<u>× 50%</u>	<u>× 50%</u>	
Total program costs	<u>\$ 617,890</u>	269,558	<u>\$ (348,332)</u>	
Less amount paid by the State		<u>(161,726)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 107,832</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unallowable services
and supplies costs**

The city claimed unallowable services and supplies costs totaling \$6,981 for the audit period. The city claimed costs that were not mandate-related and not reimbursable under the mandated program.

The city claimed legal fees totaling \$3,616 related to claims for hearing loss. These costs are not mandate-related. In addition, the city claimed legal fees totaling \$3,365 related to a cancer claim that was filed 15 years after the employee’s termination date. Costs related to claims filed more than five years after the last date an employee actually worked are not reimbursable under the mandated program.

Parameters and Guidelines identifies reimbursable costs as all actual costs attributable to cancer-related ailments, as specified by *Labor Code* Section 3212.1. In addition, *Parameters and Guidelines* states:

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 sixty (60) months in any circumstance, commencing with the last date actually worked in the specified capacity.

The following table summarizes the audit adjustment.

	Fiscal Year		Total
	2002-03	2003-04	
<u>Services and Supplies</u>			
Not mandate-related	\$ (1,900)	\$ (1,716)	\$ (3,616)
Costs related to ineligible claimant	(3,365)	—	(3,365)
Audit adjustment	<u>\$ (5,265)</u>	<u>\$ (1,716)</u>	<u>\$ (6,981)</u>

Recommendation

We recommend that the city develop and implement a cost accounting system to ensure that it claims only mandate-related costs.

City’s Response

The city agreed with the finding and recommendation.

**FINDING 2—
Unallowable disability
benefit costs**

The city claimed unallowable disability benefit costs totaling \$689,683 for the audit period. Disability benefit costs were unallowable for the following reasons.

- Disability benefit costs claimed exceeded the city’s liability for two claimants. For these claimants, the city’s excess insurance carrier is responsible for reimbursing the city for costs incurred that exceed \$250,000.
- The city claimed costs related to a cancer claim that was filed 15 years after the employee’s termination date. Costs related to claims filed more than five years after the last date an employee actually worked are not reimbursable under the mandated program.
- The city claimed costs attributable to non-cancer related ailments, such as hearing loss, heart conditions, depression, etc.
- The city claimed unsupported and duplicate costs.

Parameters and Guidelines identifies reimbursable costs as all actual costs attributable to cancer-related ailments, as specified by *Labor Code* Section 3212.1. In addition, *Parameters and Guidelines* identifies the following criteria for reimbursable costs.

- Any offsetting savings the claimants experience as a direct result of this statute must be deducted from the costs claimed. Such offsetting savings shall include, but not be limited to, savings in the cost of personnel, service or supplies, or increased revenues obtained by the claimant.

In addition, reimbursement for this mandate received from any source (e.g., federal, state, etc.) shall be identified and deducted from this claim.

- 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.
- 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
	2002-03	2003-04	2004-05	
Costs recoverable from outside insurance	\$ 238,958	\$ 35,736	\$ 248,106	\$ 522,800
Costs related to ineligible claimant	116,800	—	—	116,800
Not mandate-related	2,414	25,263	15,649	43,326
Unsupported costs	6,468	—	—	6,468
Duplicate costs claimed	289	—	—	289
Audit adjustment	\$ 364,929	\$ 60,999	\$ 263,755	\$ 689,683

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:

- It does not claim costs reimbursable from outside funding sources;
- It claims costs for eligible claimants only;
- It claims only mandate-reimbursable costs (i.e., those costs specifically related to cancer ailments); and
- Costs claimed are supported by adequate source documentation.

City's Response

The city agreed with the finding and recommendation.

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



CITY OF STOCKTON

ADMINISTRATIVE SERVICES

City Hall • 425 N. El Dorado Street • Stockton, CA 95202-1997 • 209/937-8460 • Fax 209/937-8844
www.stocktongov.com

May 11, 2007

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

**RE: Audit of Firefighter's Cancer Presumption Claims - July 1, 2002
through June 30, 2005**

The City of Stockton generally agrees with the findings, conclusions, and recommendations in the draft audit report on Firefighter's Cancer Presumption (Chapter 1568, Statutes of 1982) as they relate to the City of Stockton.

We will be reviewing the 2005 Firefighter's Cancer Presumption claim for errors and file an amended claim as necessary. If you need any additional information please contact Lori Williams in Administrative Services at (209) 937-8648.

Janet Salvetti
Finance Officer

JS:lw

cc: Mark Moses, Director of Administrative Services/CFO
Di Smith, Deputy Director of Human Resources
Stephanie Chain, Workers Compensation Analyst
Mike Taylor, City Auditor
Carole Hazeltine, PRM Consultant



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

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