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MANAGEMENT ISSUES WITHIN THE CITY OF OAKLAND REVENUE DIVISION

EXECUTIVE SUMMARY

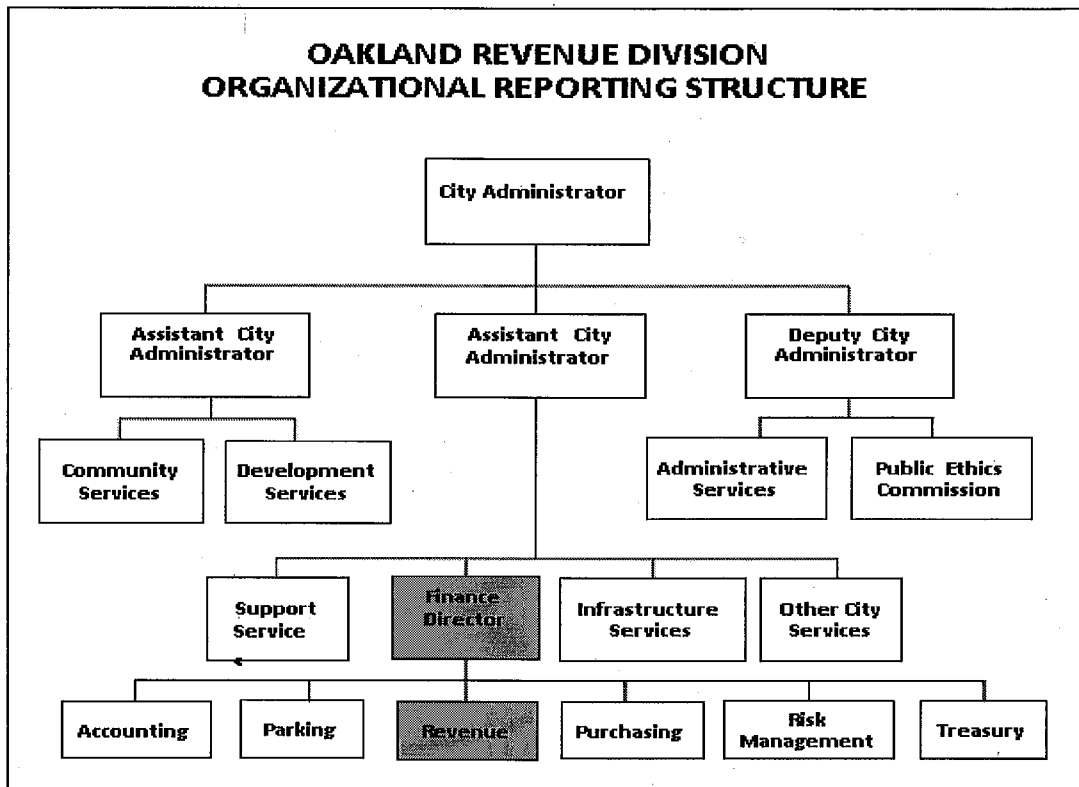
The Grand Jury received complaints alleging mismanagement by certain current and former city of Oakland Revenue Division employees. The complaint alleged that certain revenues were not being collected because of a failure to follow good business practices and that interest charges and fees were improperly waived. As the investigation proceeded, additional allegations concerning the Revenue Division surfaced; cronyism and termination of employee access to essential software were asserted. The Grand Jury combined all of these allegations into a single investigation.

The Grand Jury investigation started during the administration of a former revenue manager. As is typical with any new administration, the former manager brought in new faces and new ideas, including different accountability procedures. The Grand Jury heard testimony indicating that many employees were disaffected with these changes and confused about expectations within the Revenue Division.

The investigation led the Grand Jury to conclude that some of the allegations were without foundation, while a few had merit. The Grand Jury found that poor communication contributed to a dysfunctional work environment. In addition, there were instances of undocumented policies and lax oversight by senior executives. Finally, the division lacked a written penalty waiver policy.

BACKGROUND

The Revenue Division is responsible for collecting municipal business taxes and fees, which are forecasted as \$150 million in the proposed FY2016 Oakland city budget. The Revenue Division also serves as the collection agency for all city departments for past due fees and fines, which are forecast as \$24 million in the FY2016 Oakland City Budget. The Revenue Division prepares reports and performs audits on entities that are obligated to pay for business licenses, garbage collection, utility consumption, transit occupancy, parking and occupancy taxes. In addition, the Revenue Division is responsible for collecting taxes from marijuana dispensaries, and certain delinquent fees. The Revenue Division has approximately 56 employees, including several collection officers, revenue analysts, accountants, auditors and tax enforcement officers. The division is part of the city's finance department as shown in the organizational chart below.



In recent years, the finance department has experienced significant changes at the senior management levels. Indeed, during one extended period, the finance director position was vacant. High turnover in the city administrator position has also affected the Revenue Division. Currently, the Revenue Division is managed by a senior administrator who reports to the finance director, who in turn reports to one of the assistant city administrators.

To provide services to the public, the Revenue Division relies on various software tools to track the taxes and fees collected. For reporting, accounting and auditing purposes, multiple tools are employed. Ultimately, the revenue data is fed into the city's treasury and general ledger accounting systems.

INVESTIGATION

In conducting its investigation, the Grand Jury reviewed the following:

- Hundreds of pages of documents, including city financial, audit and budget reports; policies and procedures related to the city's financial and budget processes; ordinances; city organizational charts; and, pertinent correspondence concerning the city's Revenue Division;
- Financial policies and procedures of similarly situated municipalities;

- Minutes and videos of several public meetings; and
- Testimony from numerous witnesses, including public officials and city employees.

Oakland Revenue Division Management and Oversight

Leadership Turnover in Finance Department Leads to Confusion

The Revenue Division manager reports to the finance director as indicated by the organizational chart above. During the past five years, there were four different finance directors and five city administrators. The Grand Jury did not investigate the cause of the management turnover. However, without a finance director to oversee the Revenue Division manager, an organizational gap evolved, leading to organizational confusion.

In any organization as large as the city of Oakland, management turnover of this magnitude will create confusion regarding continuity of processes, strategy, and planning that is vital for efficient functioning. The frequent turnover inevitably led to turmoil that jeopardized the smooth operation of a division that is critical to collecting and accounting for city revenue. Consequently, the employees filed numerous grievances and their union petitioned the city council for relief. While the Grand Jury did not fully investigate any of these grievances, the Grand Jury did hear testimony that the city council was aware of employee discontent in the Revenue Division.

Lack of Effective Communication and Allegations of Cronyism

The former manager hired several former associates to assist with division supervisory duties. When one of the associates suspended the practice of conducting field investigations with insufficient explanation, division employees became confused and discontented. Additionally, the Grand Jury heard testimony that employees faced new requirements for detailed time tracking with insufficient explanation. Management's alleged failure to clearly communicate changes in work procedures led to misunderstandings that resulted in an escalation of formal grievances including allegations of cronyism. After interviewing several witnesses, the Grand Jury did not find evidence that any of these newly hired employees were unqualified to perform revenue-related duties. Further, all new employees were hired through the standard civil service procedures. Thus, the Grand Jury did not uncover any evidence substantiating the allegation of cronyism.

The Grand Jury heard testimony that employee morale in the division plummeted, as reflected in approximately 90 complaints filed through the union grievance process. Union leadership summarized several of these issues in a letter to the mayor and to other city leaders. The Grand Jury found that the

significant number of grievances was attributable to leadership turnover and the ineffective communication by the former manager.

Eventually, in September of 2015, a new manager was promoted from within the division.

In summary, there was misunderstanding regarding the implementation of certain financial and management practices, and confusion regarding the rationale, goals and expected outcomes of these changes. The root cause of this misunderstanding appears to be the management style of the former manager of the Revenue Division.

Financial and Process Issues Investigated by the Grand Jury

Violation of Policy on Penalties/Fee Waivers for Business Taxes

The Grand Jury heard testimony that the finance director has the authority to waive interest fees or penalties for late tax payments. However, the Grand Jury learned there is no approved written policy setting forth authority and procedures for interest and penalty waivers. Based on witness testimony and various audit reports, it appeared to the Grand Jury that the former Revenue Division manager had on occasion waived interest fees and penalties, despite lacking written authority to execute such waivers. At times during that manager's tenure, the city of Oakland was operating without a finance director, and it appeared that city administrators were unaware of the occurrence of the waivers.

The Grand Jury reviewed the Revenue Division's draft waiver policy that is now under consideration by senior management. The Grand Jury applauds the city's efforts to draft a waiver policy that requires waivers of penalties to be submitted in writing, but is concerned regarding the length of time it has taken to implement. To ensure that penalties are properly waived, the final waiver policy should clearly state: 1) the steps that must be taken by the taxpayer to request a waiver, including to whom the waiver request must be submitted; 2) whether the revenue manager can act unilaterally in waiving penalties; and 3) who can waive penalties in the absence of a finance director. These clarifications would produce an improved policy that can be consistently implemented by senior management.

Denial of Critical System Access to Employees

The Grand Jury heard testimony that there were limits placed on access to certain software tools within the Revenue Division. The Grand Jury found the software tools at issue were used for preliminary research purposes, rather than for transactional processing or financial reporting. These software tools enabled staff to research possible business sites; however, such information was not linked to transactional processing. Moreover, access to the tools was

later restored. Consequently, the Grand Jury found that restricting employees from using the specific software tools did not impede the effectiveness of the employees' collection duties.

Critical Business Software Licensing Issues

The Grand Jury heard testimony regarding issues concerning the possible availability of the tax collection software. The software is used by the Revenue Division to process the city's business, parking, and transient occupancy taxes. The software license agreement expired during the tenure of the former manager. Without a license, any future changes in functionality of the software or solutions for outages may not be supported by the vendor. The Revenue Division and the city IT department are currently engaged in finding a replacement. The Grand Jury is concerned that until the replacement software is implemented, the city may be at risk of revenue collection problems should the software fail.

Efficient Billing and Collection of Business Taxes

The Grand Jury found no substantial evidence of lax or inefficient processes in business tax collections by the Revenue Division. However, as revealed by various city council meetings, there is an apparent lack of trust between the city council and the Revenue Division administration on the validity of the division's revenue projections. The root cause of this mistrust may be due to the lack of clear benchmarks to measure the division's effectiveness in collecting city revenue.

Senior management should address members of the city council's skepticism toward the Revenue Division's revenue forecasts, especially with regard to budget planning. Specifically, the finance director and Revenue Division manager should establish metrics that are based on industry accepted economic and demographic assumptions. Both the assumptions and the metrics should be clearly communicated to city council and the city administrator in order to enable city leaders to evaluate the city's fiscal condition.

CONCLUSION

Under prior management of the Revenue Division, clear communication was the exception rather than the norm, and numerous changes were implemented without sufficient explanation. To enhance morale, the finance director and revenue manager should collaborate in drafting division goals and objectives. These goals and objectives should be regularly discussed with employees to strengthen overall work culture.

The Revenue Division's current rules regulating the granting of penalty waivers are ambiguous and need to be revised. The lack of a clear written penalty waiver policy raises concerns regarding the integrity of the Revenue Division's written financial policies. The Grand Jury is concerned that the proposed waiver policy fails to clearly describe: 1) the steps that must be taken by the taxpayer to request a waiver, including to whom the waiver request must be submitted; 2) whether the revenue manager can act unilaterally in waiving penalties; and 3) who can waive penalties in the absence of a finance director. Once a clear policy is developed and approved, it should be instituted as soon as possible.

The Grand Jury is concerned with the expiration of a key collection software license. In order to protect against harmful system outages, the Revenue Division should ensure that the licensing issue is fully addressed.

In late 2015, a new manager was appointed to the Revenue Division. This manager has started to implement changes that are intended to improve the department's business practices.

FINDINGS

Finding 16-39:

City management's failure to effectively communicate process and organizational changes from the period of 2012 through August 2015 caused turmoil in the Oakland Revenue Division and adversely impacted employee morale.

Finding 16-40:

Management turnover and undocumented policies for fee and penalty waivers left the Oakland Revenue Division without clear direction.

Finding 16-41:

The lack of a current tax collection software license put the city at risk.

RECOMMENDATIONS

Recommendation 16-36:

The current city of Oakland finance director and Revenue Division manager must update division goals and objectives, which must be communicated to employees.

Recommendation 16-37:

A new waiver policy for tax or penalty waivers must be implemented by the city of Oakland. The new policy should clarify to whom the waiver request must be submitted and who has waiver authority in the absence of a finance director.

Recommendation 16-38:

The city of Oakland's tax collection software issue must be addressed by either re-authorizing the license for the current software or implementing software from a new vendor.

RESPONSES REQUIRED

Responding Agencies – Please see page 125 for instructions

Mayor, City of Oakland:

Findings 16-39 through 16-41
Recommendations 16-36 through 16-38

Oakland City Council:

Findings 16-39 through 16-41
Recommendations 16-36 through 16-38

HOW TO RESPOND TO FINDINGS & RECOMMENDATIONS IN THIS REPORT

Pursuant to the California Penal Code section 933.05, the person or entity responding to each grand jury finding shall indicate one of the following:

1. The respondent agrees with the finding.
2. The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

The person or entity responding to each grand jury recommendation shall report one of the following actions:

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency where applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.
4. The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.

SEND ALL RESPONSES TO:

Presiding Judge Morris D. Jacobson
Alameda County Superior Court
1225 Fallon Street, Department One
Oakland, California 94612

A COPY MUST ALSO BE SENT TO:

Cassie Barner c/o
Alameda County Grand Jury
1401 Lakeside Drive, Suite 1104
Oakland, California 94612

All responses for the 2015-2016 Grand Jury Final Report must be submitted no later than 90 days after the public release of the report.