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May 29, 2008

OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
OAKLAND, CALIFORNIA

RE: Performance Audit of Measure K: The City Exceeded Required Funding for Children and Youth Services

Dear Mayor Dellums, President De La Fuente and Members of the Council:

I am pleased to present a performance audit of the Measure K required level of appropriations for children and youth services. In 1996, the voters of the City of Oakland (City) passed Measure K, which promoted support for programs and services dedicated to the City's children and youth. The Measure specified, among other things, that the City put aside two and one half percent of the General Fund Unrestricted Revenues to create an additional source of funding for children and youth programs. The Measure also required the City to maintain appropriations for existing children and youth services at a prescribed level, which according to the Measure's provisions, was to be determined by the Office of the City Auditor.

The objectives of our audit were to: (1) respond to Measure K's mandate, which requires that 90 days following the end of each fiscal year through 2009-2010, the Office of the City Auditor shall calculate and publish the actual amount of the City of Oakland's appropriations for children and youth services, exclusive of expenditures mandated by state or federal law; (2) determine whether the City of Oakland has complied with the requirements of Measure K in its appropriations for children and youth services; and (3) assess the City's internal controls used to comply with Measure K.

Our audit found that the City exceeded required funding for children and youth services by \$1.2 million and \$4.5 million in fiscal years 2006 and 2007, respectively and is anticipated to exceed the required funding by over \$5.1 million in 2008.

A critical component of compliance is management's implementation of internal controls such as policies and procedures to ensure the City meets the mandates of the Measure each year. Our audit found that the City did not have a system in place to ensure the appropriate funding levels were met. However, in response to the audit's recommendations, the City has agreed to implement internal controls including policies


and procedures. Such policies and procedures would facilitate the City's compliance with Measure K by requiring annual compilation of appropriations for children and youth services and tracking compliance with Measure K's baseline percentage.

I believe that the City Administrator's commitment to implementing internal controls is an important step in creating an appropriate control environment. These controls will provide reasonable assurance that management's objectives to comply with Measure K will be met. As public servants I believe it is incumbent upon all of us to foster a sound internal control environment which will translate into increased public confidence.

I would like to express my appreciation to the City Administrator and her staff for their cooperation during our audit. A response from the City Administrator is included in the audit report.

I would also like to acknowledge Elizabeth Olivarez from my staff for her dedicated service in performing the audit of Measure K.

Respectfully submitted,

A handwritten signature in cursive script that reads "Courtney A. Ruby". The signature is written in black ink and is positioned above the printed name.

COURTNEY A. RUBY, CPA
City Auditor

City of Oakland
Office of the City Auditor

**Measure K Performance Audit: The
City Exceeded Required Funding for
Children and Youth Services**

May 29, 2008



City Auditor
Courtney A. Ruby, CPA

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EXECUTIVE SUMMARY

In 1996, the voters of the City of Oakland (City) passed Measure K, which promoted support for programs and services dedicated to the City's children and youth. The Measure specified, among other things, that the City put aside two and one half percent of the General Fund Unrestricted Revenues (the unrestricted general fund revenues) to create an additional source of funding for children and youth programs. The Measure also required the City to maintain appropriations for existing children and youth services at a certain level, which according to the Measure's provisions, was to be determined by the Office of the City Auditor (City Auditor). Our audit examined whether the City complied with the provisions of Measure K that required the City to maintain appropriations for children and youth programs and services at the level prescribed by the Measure.

As required by Measure K, the City Auditor determined, for fiscal year (FY) 1996, the Measure's prescribed level of appropriations to be 5.68 percent (referred to as the baseline percentage) of the unrestricted general fund revenues and the base amount to be \$11,891,650, below which appropriations should not fall. The baseline percentage represents Measure K's required level of appropriations for children and youth services during the 12-year life of the Measure. However, recently the Office of the City Attorney (the City Attorney) stated that the baseline percentage should be recalculated to reflect actual, not budgeted, unrestricted general fund revenues. The baseline percentage was recalculated, resulting in a decrease in the baseline percentage from 5.68 to 5.16.

Our audit found that the City's actual appropriations for children and youth services for FY 2006 to FY 2007 exceeded Measure K's required level of funding -- 5.16 percent of the unrestricted general fund revenues -- and for FY 2008, is projected to exceed Measure K's funding level. For instance at the end of FY 2006 and FY 2007, the City's appropriations exceeded Measure K's required level by nearly \$1.2 million and over \$4.5 million, respectively. The City's appropriations are projected to exceed Measure K's required level in FY 2008 by over \$5.1 million.

Although the City exceeded Measure K's required level of appropriations for children and youth services, we believe that the City would benefit from implementing internal controls, such as policies and procedures, to address the City's compliance with Measure K. Such policies and procedures would facilitate the City's compliance with Measure K by requiring annual compilation of appropriations for children and youth services and tracking compliance with Measure K's baseline percentage.

INTRODUCTION

The Office of the City Auditor has completed an audit of Measure K. The objective of the audit was to determine whether the City of Oakland complied with Measure K's required level of appropriations for children and youth services. The audit also assessed the internal controls, which the City relied on, to comply with Measure K.

Background

In 1996, the voters of Oakland, California passed Measure K, which was aimed at helping Oakland's children and youth to become healthy, productive, and honorable adults. Measure K specified two means for accomplishing its intent to support children and youth programs and services. First, Measure K called for the City to provide additional funding to support programs for Oakland's children and youth under age 21. Second, Measure K required the City to continue its level of financial support for the City's existing programs and services for children and youth, age 21 or less.

To provide for additional funding, Measure K required the City to annually put aside two and one half percent (the set-aside) of the unrestricted general fund revenues and create the "KIDS FIRST! Oakland Children's Fund" (Kids First Fund) to receive the set-aside. The Oakland Fund for Children and Youth (OFCY) administers the Kids First Fund within the City's Department of Human Services. OFCY awards grants through a competitive bid process to non-profit groups which operate programs and services for children and youth. The non-profit groups must serve youth that live in, attend school, or receive services in Oakland.

To ensure that the City continues its level of financial support for children and youth services, Measure K provided that the Kids First Fund was to be treated as an increase to the City's aggregate appropriations and expenditures for children and youth services. Therefore, Measure K prohibited the City from allowing the set-aside for Kids First Fund to result in a reduction of the "unrestricted general fund appropriations and expenditures" for children and youth services, below the amount appropriated ("the base amount") in FY 1995-96, the base year.¹ In effect, Measure K required the City to maintain ongoing financial support

¹ According to Section 14 of Measure K, the Kids First Oakland Children's Fund "shall be used exclusively to increase the aggregate City appropriations and expenditures for children and youth services. To this end, the City of Oakland shall not reduce the amount of unrestricted general fund appropriations and expenditures for eligible services in any of the twelve years during which funds are required to be set aside under this section below the amount so appropriated for the fiscal year 1995-1996 ("base amount")."

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for children and youth services, regardless of the set-aside for the Kids First Fund. Additionally, Measure K required the City Auditor to determine the base amount, i.e., the actual appropriations for children and youth services in 1996, the base year,² and annually adjust³ the base amount according to changes in the City's unrestricted general fund revenues.⁴

In October 1996 and January 1997, the City Attorney issued a legal opinion to the City Auditor concerning the implementation and interpretation of Measure K's base amount funding for children and youth services. Since Measure K required the City Auditor to determine the base amount in 1996 and annually adjust the base amount, the City Attorney's legal opinions of 1996 and 1997,⁵ as reaffirmed in January 2008, (See Appendix I) concluded that there were two base amounts. The first base amount, calculated to be \$11,891,650⁶ for base year 1996 by the City Auditor, constitutes a floor amount. The second base amount is a percentage of the City's unrestricted general fund revenues. For base year 1996, the City Auditor determined this percentage, the baseline percentage, to be 5.68 percent. According to a recent legal opinion,⁷ which the City Attorney issued to the City Auditor, Measure K's requirement of annual adjustments to the base amount should reflect the actual, rather than budgeted, revenues from the unrestricted general fund. In 1996 and 1998, the City Auditor did not use actual unrestricted general fund revenues that were required to be included in the calculation of the baseline percentage.⁸ Recently, the City Auditor recalculated the baseline

² Section 14 of Measure K states that not later than 90 days after the election which approves this section, the City Auditor shall calculate and publish the applicable base amount, specifying by department, program and services each amount included in the base amount.

³ Section 14 of Measure K states that the base amount shall be adjusted for each year after the base year of 1995-1996, based on calculations consistent from year to year, by the percentage increases or decreases in the aggregate City appropriations for the base year as estimated by the City Auditor.

⁴ In a legal opinion to the City Auditor, dated January 13, 1997, the City Attorney, in interpreting the language of Measure K, stated that to achieve consistency throughout this section and the entire initiative, the term "aggregate City appropriations" necessarily must be limited to unrestricted general fund.

⁵ According to the City Attorney's legal opinion to the City Auditor, dated October 18, 1996, the inclusion of the annual adjustment in the base amount, with the language stating that the City may not spend less than in FY 1995-1996 results in a base amount that is both a fixed percentage of the City's unrestricted general fund budget and a floor amount. This interpretation effectively makes the base amount not strictly an amount, but rather a fixed percentage of the City's budget with a minimum amount, a "floor" below which spending cannot go. The City Attorney in his legal opinion, dated January 13, 1997, reaffirmed his interpretations in the October 1996 opinion.

⁶ The base amount and baseline percent, calculated by the City Auditor for FY 1996, was adjusted in 1998 based on final year-end appropriations and other factors.

⁷ The City Attorney's legal opinion to the City Auditor, dated January 23, 2008, states that Measure K's "annual adjustment requirement signifies the electorate's intent that the City Auditor annual adjustments to the base amount reflect the actual, rather than the budgeted, appropriations and expenditures from the unrestricted general fund."

⁸ Franchise fee revenues from various sources should have been classified as unrestricted general fund revenues.

percentage using actual unrestricted general fund revenues for FY 1996, and this resulted in decreasing the 5.68 baseline percentage to 5.16 percent. In his recent legal opinion,⁹ the City Attorney's stated that to comply with Measure K's required level of appropriations, i.e., the baseline percentage of the City's appropriations for children and youth services must be at least 5.16 percent of the aggregate appropriations from unrestricted general fund revenues. Since the City's total unrestricted general fund revenues are used to fund the City's total appropriations, the City's appropriations and unrestricted general fund revenues are the same. Thus to comply with Measure K's required level of appropriations, i.e., the baseline percentage, the City's appropriations for children and youth services must be at least 5.16 percent of the unrestricted general fund revenues.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of our audit were to: (1) respond to Measure K's mandate, which requires that 90 days following the end of each fiscal year through 2009-2010, the Office of the City Auditor shall calculate and publish the actual amount of the City of Oakland's appropriations for children and youth services, exclusive of expenditures mandated by state or federal law; (2) determine whether the City of Oakland has complied with the requirements of Measure K in its appropriations for children and youth services; and (3) assess the City's internal controls used to comply with Measure K.

Audit Scope

The scope of our audit encompassed the review of appropriations data from City departments and agencies for three fiscal years, FY 2005-2006, FY 2006-2007, and FY 2007-2008. With regard to our review of the City's internal controls, the scope of our audit was limited to identifying those internal controls which the City uses to comply with Measure K's requirements for funding children and youth services -- the baseline percentage and the dollar base amount -- and assessing the effectiveness of those controls.

Audit Methodology

To establish the requirements for compliance with Measure K, we reviewed and analyzed Measure K's provisions that address appropriations for children and youth services, legal opinions from the City Attorney interpreting the provisions of Measure K, audit reports and documents of

⁹ The City Attorney's legal opinion dated, January 23, 2008, states that "to comply with Measure K's required level of appropriations, i.e., the baseline percentage of the City's appropriations for children and youth services must be at least 5.16 percent of the aggregate appropriations from unrestricted general fund revenues."

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prior reviews of Measure K, and literature describing the Oakland Fund for Children and Youth. We also obtained the views of City Administration officials.

To compile the City's total appropriations for children and youth services, we requested FY 2006 to FY 2008 appropriations data for children and youth services from all of the City's departments, agencies, or offices, and non-departmental organizations. The City's Budget Division disseminated our request to the City's departments and other units. We compiled and analyzed FY 2006 to FY 2008 appropriations data on children and youth services, which we received from six City departments and agencies and the Budget Division for several non-departmental organizations. (See Appendix II for detailed information on the appropriations of specific programs and services for FY 2005-2006, FY 2006-2007, and FY 2007-2008). We also reviewed revenue and other financial data from the City's Budget Division, and the City's Adopted Policy Budget for FY 2005-2007 and FY 2007-2009.

To determine the City's total appropriations for children and youth services, we included appropriations that were (1) for services and programs benefiting children and youth age 21 or less, (2) originally budgeted under Fund 1010, and (3) reported to us from the City's agencies, departments, offices, or non-departmental organizations in a prepared format. In our total calculation of appropriations, we excluded reported appropriations that were based on federal or private funding sources, or that did not originate from Fund 1010.¹⁰ We also interviewed officials from the Budget Division and departments or agencies providing appropriations data.

We used actual unrestricted general fund revenues to recalculate the FY 1996 baseline percentage and applied the recalculated baseline percentage to the actual unrestricted general fund revenues for FY 2006 and FY 2007 to determine Measure K's required appropriations for these fiscal years. For FY 2008, we used budgeted unrestricted general fund revenues since only budgeted totals are available. We also used final¹¹ budgeted appropriations for fiscal years 2006 and 2007, and budgeted appropriations for FY 2008 in our calculations to determine compliance with Measure K.

Our method of compiling the City's total appropriations for children and youth services was consistent with the City Auditor's 1997 and 1998 method of compiling appropriations for children and youth services. In these compilations, appropriations were included from children and youth

¹⁰ The source of funding for children and youth services is unrestricted general fund revenues, which is referred to as the General Purpose Fund or Fund 1010.

¹¹ Final budgeted appropriations here represent actual appropriations for children and youth services.

programs and services that were (1) originally budgeted under Fund 1010 and (2) that covered youth age 21 or less. These compilations also excluded overhead costs. Overhead costs, typically, do not include the costs of direct services and are considered indirect costs. Indirect costs are not identifiable as a cost incurred for a direct activity of an organization or a particular service, such as children and youth services. The City Administration charges the General Purpose Fund (Fund 1010) for overhead costs related to the federal Head Start Program and has included these costs in its appropriations for children and youth services. We excluded these overhead costs from our calculation of appropriations for children and youth services, because these costs do not directly benefit children and youth services.

We verified the accuracy of over 80 percent of the appropriations data submitted by City agencies, departments, or offices and for non-departmental organizations. To verify the accuracy of the appropriations data, we compared reported appropriations from the departments, offices, or non-departmental organizations with those totals reported in the City's Adopted Policy Budget for FY 2005 to 2007, the final budgeted totals from the City's Budget Reporting and Analysis Support System (BRASS), financial reports from the City's Oracle System, or other financial reports provided by the Budget Division. Additionally, we spoke with the Budget Division officials with regards to appropriations from non-departmental organizations and officials from City agencies, departments, or offices that submitted appropriations data for children and youth services. We are reasonably assured that the appropriations we examined were accurate and calculated in accordance with the relevant provisions of Measure K.

We conducted this performance 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.

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AUDIT RESULTS

**SECTION I: APPROPRIATIONS FOR CHILDREN AND YOUTH SERVICES
EXCEEDED MEASURE K'S FUNDING REQUIREMENT**

Our review of the City's budgeted appropriations for children and youth services over the time period from FY 2006 to FY 2008 found that the City, not only complied with Measure K's required level of funding, but exceeded it. For example, in FY 2006, the City's appropriations for children and youth services totaled almost \$22.2 million and constituted 5.45 percent of the unrestricted general fund revenues, and thus exceeded Measure K's required level of funding --5.16 percent of the unrestricted general fund revenues. In terms of dollars, the City's FY 2006 appropriations for children and youth services exceeded Measure K's requirements by nearly \$1.2 million. Further, the City's appropriations for children and youth services exceeded Measure K's required funding by over \$4.5 million in FY 2007, and are projected to exceed Measure K's required funding in FY 2008 by at least \$5.1 million.

**Budgeted Appropriations for Children and Youth Services from FY 2006 to
FY 2008**

Our review disclosed that the City's budgeted appropriations for children and youth services increased from FY 2006 to FY 2008 and exceeded Measure K's required level of funding in FY 2006 and FY 2007. Specifically, our analyses of the City's appropriations for children and youth services shows that these appropriations increased from almost \$22.2 million in FY 2006 to \$25 million in FY 2007 and are projected to increase to nearly \$26.4 million by the end of FY 2008 (See table 1).

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Table 1. FY 2006 - FY 2008 Budgeted Appropriations for Children and Youth Services by Department or Agency and Non-departmental Organizations			
Department/Agency/Office	FY 2005-2006	FY 2006-2007	FY 2007-2008
Department of Human Services	\$ 567,016	\$ 1,346,195	\$ 1,273,089
Fire Services Agency	\$ 115,351	\$ 120,025	\$ 124,177
Oakland Public Library	\$ 4,532,190	\$ 4,909,332	\$ 5,303,478
Oakland Museum of California	\$ 1,187,866	\$ 1,330,230	\$ 1,574,502
Office of Parks and Recreation	\$ 10,342,950	\$ 10,741,013	\$ 12,259,593
Police Services Agency	\$ 2,801,688	\$ 3,167,160	\$ 2,763,144
Mayor & City Council	\$ 147,539	\$ 1,004,881	\$ 0.00
Non-departmental Organizations	\$ 2,505,288	\$ 2,386,180	\$ 3,095,371
Total Appropriations	\$ 22,199,888	\$ 25,005,016	\$ 26,393,354

Note: The total amounts were rounded down or up to the nearest dollar.

Furthermore, the City's appropriations for children and youth services exceeded that which was required by Measure K for all three fiscal years. For instance, in FY 2006, the City appropriated 5.45 percent of the actual unrestricted general fund revenues, which exceeded the required 5.16 baseline percentage (See table 2). At 5.45 percent of the unrestricted general fund revenues, reported at over \$407 million, FY 2006 appropriations for children and youth services represent nearly \$1.2 million in excess of that required by Measure K (See table 2).

Additionally, in fiscal year 2006-2007, the City's appropriations for children and youth services totaled \$25 million, representing 6.31 percent of the City's actual unrestricted general fund revenues of over \$396.4 million (See table 2). At 6.31 percent, the City's appropriations for children and youth services were well above Measure K's required 5.16

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baseline percentage and exceeded Measure K's required funding by over \$4.5 million.

	FY 2005-2006	FY 2006-2007	FY 2007-2008
Unrestricted General Fund Revenues	\$ 407,260,484	\$ 396,438,312	\$ 411,646,426
Total appropriations	\$ 22,199,888	\$ 25,005,016	\$ 26,393,354
Required appropriations at 5.16 percent	\$ 21,014,641	\$ 20,456,217	\$ 21,240,956
Percent total appropriations of unrestricted general fund revenues	5.45%	6.31%	6.41%
Appropriations above required 5.16%	\$ 1,185,247	\$ 4,548,799	\$ 5,152,398

Note: The total reported unrestricted general fund revenues for FY 2006 and FY 2007 are audited, actual totals. For FY 2008, these revenues are based on unaudited totals and are subject to change based on the results of FY 2008 audited totals. Differences in totals are due to rounding.

For FY 2007-2008, the City's appropriations for children and youth services are projected to total nearly \$26.4 million. The FY 2008 appropriations represent 6.41 percent of the City's budgeted unrestricted general fund revenues, reported at over \$411.6 million (See table 2). As with FY 2007 appropriations, the City's planned level of appropriations for children and youth services for FY 2008 is well above Measure K's required 5.16 baseline percentage, and reflects appropriations of over \$5.1 million in excess of that required by Measure K.

CONCLUSION

We found that the City's appropriations for children and youth services exceeded Measure K's required level of appropriations from the period FY 2006 to FY 2008. These appropriations exceeded Measure K's requirement by nearly \$1.2 million, over \$4.5 million, and over \$5.1 million, respectively for FY 2006, FY 2007, and FY 2008.

SECTION II: INTERNAL CONTROLS WOULD FACILITATE COMPLIANCE WITH MEASURE K

Although the City exceeded Measure K's required level of appropriations for children and youth services, we believe that the City would benefit from implementing internal controls, such as policies and procedures, to address the City's compliance with Measure K. Such policies and procedures would facilitate the City's compliance with Measure K by requiring annual compilation of appropriations for children and youth services and tracking compliance with Measure K's baseline percentage.

Benefits of Implementing Internal Controls

Officials from the City Administration, including the Department of Finance and Administration and the Budget Division, told us that the City did not have any policies and procedures to facilitate its compliance with Measure K. We were told that the City relied on its budgetary process to meet Measure K's required level of funding but that the City did not monitor its compliance with Measure K. Although the City's appropriations for children and youth services exceeded Measure K's funding requirement, during the period of our review, City officials, nevertheless, acknowledged that the City did not track, on a fiscal year basis, the level of appropriations for children and youth services. Thus, at the start of our review, they were not certain whether the City had met Measure K's required level of funding. For example, a City official told us that the City did not know whether it had been meeting Measure K's appropriation requirements over the years. Another official affirmed that the City did not have any written guidance or policies and procedures that required (1) adherence to the baseline percentage to comply with Measure K, (2) compilation of the total appropriations for children and youth services, and (3) tracking of the City's appropriations for children and youth services for compliance with Measure K.

The City would benefit from employing internal controls to facilitate its compliance with Measure K. Internal controls are a fundamental component of an organization's management that provides reasonable, though not absolute, assurance that management's objectives are being met. Internal controls consist of activities, such as policies, procedures, techniques, and mechanisms that provide management with a means to accomplish objectives, including compliance with applicable laws and regulations, such as Measure K. For example, the City's written policies and procedures could fully address its compliance with Measure K, affirming its policy to adhere to Measure K's required level of appropriations for children and youth services --- 5.16 percent of the

unrestricted general fund revenues and describing its procedures for compiling and tracking appropriations on an annual basis. These policies and procedures would also serve as guidance to City entities, such as departments, non-departmental organizations and others, that submit appropriations data on children and youth services. Such policies and procedures should address, among others: (1) reportable appropriations for children and youth services, such as those budgeted under Fund 1010, (2) the nature of reportable costs, such as those for programs or services benefiting children and youth age 21 or less, and (3) appropriations that are not reportable for children and youth services, such as Central Services Overhead. Compliance with this guidance would, in turn, provide the City with timely, reasonable assurance that the reported appropriations are likely to meet or exceed Measure K's required level of funding.

CONCLUSION AND RECOMMENDATIONS

Although the City complied with Measure K's required funding level, we believe that the City would benefit from implementing internal controls -- written policies and procedures. Such policies and procedures would facilitate the City's compliance with Measure K by requiring annual compilation of appropriations for children and youth services and tracking compliance with Measure K's baseline percentage.

We recommend that the City Administration take steps to establish and implement such internal controls -- policies and procedures -- to comply with Measure K's baseline percentage in its appropriations for children and youth services. These steps include maintaining an environment that supports a positive attitude towards internal controls and developing and implementing internal controls designed to address compliance with Measure K's required level of funding for children and youth services. These internal controls should be documented in writing, and at a minimum, should include the following:

- Policies that require adherence to Measure K's required level of appropriations -- 5.16 percent of the actual unrestricted general fund revenues;
- Procedures for compiling appropriations for children and youth services and programs from the City's agencies, departments, or offices and non-departmental organizations on an annual basis;
- Guidance on the nature or types of services and programs, age of youth, and costs that can be included in reportable appropriations together with costs or funding sources that must be excluded;
- Designation of personnel responsible for compiling and determining each department or agency's appropriations for children and youth services; and

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- Designation of personnel responsible for compiling the City's total appropriations for children and youth services, determining whether the City has met Measure K's required level of appropriations, and tracking, on an annual basis, compliance with Measure K.



Inter-Office Memo

Office of the City Administrator

May 21, 2008

To: Courtney Ruby, City Auditor

From: Deborah Edgerly, City Administrator *DE*

Re: Response to Draft Measure K Audit Findings and Recommendations

I am pleased that your audit has confirmed that the City has complied with the provisions of Measure K by maintaining appropriations for children and youth programs above the level prescribed by the Measure. I do, however, offer the following comments in response to your draft report:

The draft report does not take into consideration the General Purpose Fund subsidy to the Head Start Program. The report states that appropriations based on federal or private funding sources or that did not originate in the General Purpose Fund were excluded from the calculation as were overhead costs that did not originate in the General Purpose Fund. As you are aware, the City currently provides a waiver for Head Start overhead charges of approximately \$1.4 million that would otherwise be recovered by the General Purpose Fund. Without this waiver, services provided by Head Start funding would have to be reduced in order to cover the overhead charges. Accordingly, the waiver has a direct impact (benefit) on children and youth services funding and I believe that the cost of this subsidy should be included in the appropriation calculation. (1)

The draft report recommends that City Administration establish policies and procedures to comply with Measure K's baseline percentage in its appropriations for children and youth services and recommends development of internal controls for the calculation of future baseline amounts. Though I agree with the recommendation for development of policies and procedures to ensure compliance, the Measure K language clearly assigns responsibility to the City Auditor for calculating and publishing the amount of appropriations for children and youth services on an annual basis. I would, however, recommend that my staff work closely with the City Auditor's office to facilitate this analysis. (2)

cc: William Noland
Sarah Schlenk
William Zenoni

Comments

City Auditor's Response to the City Administrator's Response

To provide clarity and perspective, we are commenting on the Office of the City Administrator's (City Administrator) response to the Office of the City Auditor's (City Auditor) report on the City's compliance with Measure K's baseline funding requirements for children and youth services. The numbers below correspond with the numbers in the margin right of the City Administrator's response.

1. As stated on page 5 of the report, we considered the City's General Purpose Fund (Fund 1010) subsidy for the overhead costs of the federal Head Start program and concluded that the overhead costs covered by the subsidy should be excluded from the appropriations for children and youth services. We excluded these costs from our calculation because the costs in question are overhead costs and do not directly benefit children and youth services. When the baseline funding was initially determined in 1997 and 1998, the City Auditor did not include such overhead costs in the appropriations for children and youth services. Thus, the City Auditor's calculations in this report are consistent with the calculations used in the initial determination of the baseline funding requirements.
2. In agreeing with the City Auditor's recommendation to establish and implement policies and procedures to ensure compliance with Measure K, the City Administrator referred to the City Auditor's responsibility under Measure K for calculating and publishing the amount of appropriations for children and youth services on an annual basis. In this regard, the City Administrator recommended that her staff work closely with the City Auditor's office to facilitate this analysis. The City Auditor acknowledges its responsibility under Measure K, specifically, to calculate and publish the actual amount of appropriations for children and youth services within 90 days following the end of each fiscal year.

The City Auditor's obligation under Measure K, however, is independent of the City's mandate to comply with Measure K. Under Generally Accepted Government Auditing Standards, "Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by objective third parties." As a result, the City Auditor's obligation under Measure K is not a function that can be

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regarded as interdependent with the functions the City carries out to comply with its mandate under Measure K. The City Auditor's role is to assess the City's compliance with Measure K and not to ensure that the City has complied with Measure K. Ensuring compliance with Measure K is a management function and an outcome of having effective internal controls. In assessing the City's compliance with Measure K, the City Auditor will examine the internal controls that the City has put in place to ensure these controls are operating effectively.

**CITY OF OAKLAND
CITY ATTORNEY'S OFFICE**

MEMORANDUM

TO: City Auditor Courtney Ruby
Elizabeth Olivarez

CC: City Administrator Deborah Edgerly

FROM: John A. Russo
City Attorney
Mark Morodomi 
Kathleen Salem-Boyd

DATE: January 23, 2008

File No: CAO-990272

RE: **CITY BASELINE APPROPRIATIONS FOR CHILDREN AND YOUTH SERVICES
PURSUANT TO CITY CHARTER ARTICLE XIII, KIDS FIRST! OAKLAND
CHILDREN'S FUND**

In 1996, Oakland voters passed the Kids First! Oakland Children's Fund Initiative ("Kids First"), amending the City Charter and establishing an annual set-aside of 2.5% of the City's annual unrestricted general fund revenues to ensure increased funding for children and youth services. The Initiative established formulas to ensure that existing funding to children and youth services would not be reduced. This memorandum discusses these formulas and clarifies the City Attorney's advice regarding City Charter requirements.

You have requested clarification of the level of appropriations necessary to fulfill the Kids First! Charter mandate that "the City shall not reduce the amount of unrestricted general fund appropriations and expenditures for eligible [children and youth] services in any of the twelve years during which funds are required to be set aside...." (Oakland City Charter, Article XIII, Section 1300, paragraph 14).

Kids First requires that the City maintain funding for child and youth programs and services at a "base amount" that must not fall below the amount appropriated for the 1995-1996 fiscal year. The "base amount" calculation is performed by the City Auditor based on the formula identified in the Article XIII, Section 1300 of the City Charter and requires adjustment each year, "based on calculations consistent from year to year, by the percentage increase or decreases in aggregate City appropriations from the base year, as estimated by the City Auditor." The 2.5% Kids First set-aside is on top of continued, mandated base funding.

In January 1997, this office issued a legal opinion to the Office of the City Auditor relating to the implementation and interpretation of the Kids First base amount funding requirements. (Attached) Because the Charter requires annual adjustment of the base amount by the Auditor, the opinion concludes that there are two base amounts.

The first base amount is the floor amount, which is based on the actual appropriations for children and youth services during the base year. On June 29, 1998, the Auditor reported the floor amount of \$11,891,650 for the 1995-1996 base year. The second base amount is a percentage of the City's appropriations from the unrestricted general fund that is to be calculated by the Auditor each year based on increases or decreases in the aggregate City appropriations from the base year.^{1 2} The annual adjustment requirement signifies the electorate's intent that the Auditor adjusts base amounts annually to reflect the actual, rather than budgeted, appropriations and expenditures from the unrestricted general fund. To simplify the annual calculation required under the Charter, the Auditor's June 1998 report identified the minimum fixed percentage of base amount appropriations as at least 5.68%. In Fiscal Years 1996 and 1998, the Auditor did not use actual appropriations of unrestricted revenues that were required to be included in the calculation of the baseline percent. Recent recalculation of the percentage by the Auditor resulted in a decrease of the baseline percent from 5.68 percent to 5.16 percent of appropriated unrestricted general fund revenues. Thus, to comply with Measure K's required level of appropriations, i.e., the baseline percentage, the City's appropriations for children and youth services must be at least 5.16 percent of the aggregate appropriations from unrestricted general fund revenues.

The City must appropriate the greater of the first base amount and the second base amount. In every year that Kids First is in effect, the City must continue funding the minimum fixed percentage of the City's actual appropriations from the unrestricted general fund (the second base amount). In no event may base funding for child and youth services fall below the 1995-96 floor amount \$11,891,650 (the first base amount).

¹ The Auditor informs this office that, during the base year and in every year since, the amount of the unrestricted general fund revenues has been equal to annual aggregate appropriations of unrestricted general fund revenue. However, if the amount of annual appropriations from the unrestricted general fund revenues does not equal the unrestricted general fund revenues, the Charter requires that the amount of aggregate appropriations must be used to calculate of the base amount for that fiscal year. NOTE: The base year percentage and base year floor amount were calculated based on unrestricted general fund revenues rather than aggregate appropriations. Because these amounts were equal during the base year, the calculations of the base floor and base percentage amounts are accurate and require no adjustment.

² This calculation also does not include "funds granted to the City by private agencies or appropriated by other public agencies and received by the City." (Section 300, paragraph 14.)

APPENDIX II
BUDGETED APPROPRIATIONS FOR CHILDREN AND YOUTH SERVICES
BY CITY AGENCY, DEPARTMENT, OR OFFICE AND NON-DEPARTMENTAL
ORGANIZATIONS, FY 2006 – 2008

Department of Human Services	Appropriations for Children and Youth Services		
Service/Program	FY 2005-2006	FY 2006-2007	FY 2007-2008
Youth Services Unit (78251)	\$ 180,532	\$ 189,016	\$ 197,404
OFCY Administration	-0-	-0-	\$ 52,812
Head Start Fringe Benefit Costs	-0-	\$ 765,823	\$ 618,629
Summer Food Program & A Safe Walk to School Program (78111)	\$ 86,484	\$ 91,356	\$ 104,244
City School Partnership	\$ 300,000	\$ 300,000	\$ 300,000
TOTAL	\$ 567,016	\$ 1,346,195	\$ 1,273,089

Fire Services Agency	Appropriations for Children and Youth Services		
Service/Program	FY 2005-2006	FY 2006-2007	FY 2007-2008
Safety Education: Fire Safety Education Coordination	\$ 87,091	\$ 90,575	\$ 94,198
Material & Supplies	\$ 5,200	\$ 5,400	\$ 5,600
Health Fair Staff	\$ 6,949	\$ 7,286	\$ 7,245
Material & Supplies	\$ 3,500	\$ 3,700	\$ 3,900
Fire Prevention Sworn Staff	\$ 5,211	\$ 5,464	\$ 5,434
Prevention Staff	\$ 1,200	\$ 1,200	\$ 1,200
Material & Supplies	\$ 6,200	\$ 6,400	\$ 6,600
TOTAL	\$ 115,351	\$ 120,025	\$ 124,177

APPENDIX II

(Continued)

Oakland Public Library	Appropriations for Children and Youth Services		
Service/Program	FY 2005-2006	FY 2006-2007	FY 2007-2008
Main Library Children's Room	\$ 248,760	\$ 262,752	\$ 357,912
Bookmobile	\$ 68,117	\$ 70,782	\$ 47,231
Children's Book Budget	\$ 58,785	\$ 88,533	\$ 27,475
Children's Cataloging	\$ 117,107	\$ 123,692	\$ 152,440
Children's Acquisitions	\$ 79,310	\$ 87,491	\$ 111,249
Youth Age 21 or Less Direct Public Service	\$ 2,250,662	\$ 2,408,187	\$ 2,544,963
Youth Age 21 or Less Book Budget	\$ 90,446	\$ 136,135	\$ 42,248
Youth Age 21 or Less Cataloging	\$ 180,072	\$ 190,199	\$ 234,403
Youth Age 21 or Less Acquisitions	\$ 121,954	\$ 134,532	\$ 171,065
Graphic / Publicity	\$ 80,540	\$ 106,817	\$ 120,468
Second Start/Literacy	\$ 29,359	\$ 59,157	\$ 49,488
Main Library & Branches	\$ 156,036	\$ 186,406	\$ 191,998
General Administration - Personnel & OSM	\$ 1,051,042	\$ 1,054,649	\$ 1,252,538
TOTAL	\$ 4,532,190	\$ 4,909,332	\$ 5,303,478

APPENDIX II

(Continued)

Mayor & City Council Appropriations for Children and Youth Services			
Service/Program	FY 2005-2006	FY 2006- 2007	FY 2007-2008
Mayor - Oakland Longfellow Elementary School Grant	\$ 12,539	-0-	-0-
Mayor - Oakland School for the Arts	\$ 135,000	\$ 150,000	-0-
Priority Project Funds - Oakland Zoo Grant	-0-	\$ 250,000	-0-
Priority Project Funds - Chabot Space & Science Center Grant	-0-	\$ 300,000	-0-
Priority Project Funds - Oakland Asian Cultural Center	-0-	\$ 100,000	-0-
Priority Project Funds - Edna Middle School Workshop "The Crucible" Grant	-0-	\$ 3,636	-0-
Priority Project Funds - Cesar Chavez Education Center Grant	-0-	\$ 10,000	-0-
Priority Project Funds - Glenview Elementary PTA Grant	-0-	\$ 6,245	-0-
Priority Project Funds - Elijah Muhammad Education Foundation Grant	-0-	\$ 25,000	-0-
Priority Project Funds - Alameda Co. Office of Education Grant	-0-	\$ 20,000	-0-
Priority Project Funds - Oakland Potter House Grant	-0-	\$ 15,000	-0-
Priority Project Funds - Oakland School for the Arts Grant	-0-	\$ 125,000	-0-
TOTAL	\$ 147,539	\$ 1,004,881	-0-

Note: Appropriations are actual expenditures based on budgeted amounts. Actual expenditures for FY 07-08 will be determined at year end and reflected in the City Auditor's next report on Measure K.

APPENDIX II
(Continued)

The Oakland Museum	Appropriations for Children and Youth Services		
Service/Program	FY 2005-2006	FY 2006-2007	FY 2007-2008
General School Programs	\$ 259,999	\$ 289,521	\$ 345,683
Community Youth Programs	\$ 176,396	\$ 198,027	\$ 233,403
Museum School Partnership	\$ 159,118	\$ 178,748	\$ 209,936
School Tour Programs	\$ 132,530	\$ 146,559	\$ 174,274
Exhibits/Curatorial Offerings	\$ 459,823	\$ 517,375	\$ 611,206
TOTAL	\$ 1,187,866	\$ 1,330,230	\$ 1,574,502

APPENDIX II

(Continued)

Office of Parks, Recreation	Appropriations for Children and Youth Services		
Service/Program	FY 2005-2006	FY 2006-2007	FY 2007-2008
Adult Sports and/or Community Sports	\$ 94,965	\$ 58,097	\$ 94,147
After School Sports/Programs	\$ 618,897	\$ 838,593	\$ 1,073,842
Aquatics - Boating	\$ 120,403	\$ 127,091	\$ 181,833
Aquatics-Pools	\$ 1,064,390	\$ 1,178,421	\$ 1,160,320
Automated Systems	\$ 213,654	\$ 172,692	-0-
Ballfields	\$ 62,489	-0-	\$ 68,072
Camps	\$ 84,144	\$ 86,316	\$ 220,386
Central Administration	\$ 1,836,428	\$ 1,925,973	\$ 2,513,497
Central Reservations	\$ 37,245	\$ 43,930	\$ 52,817
Cultural Arts	\$ 917,646	\$ 695,870	\$ 943,028
Contract Management	\$ 1,035,496	\$ 1,038,962	\$ 1,460,701
Davies Tennis and Citywide Tennis	\$ 28,662	\$ 30,394	\$ 70,837
Malonga Casquelourd Center for the Arts	\$ 89,547	\$ 31,890	-0-
Recreation Centers and Programs	\$ 4,056,868	\$ 4,426,024	\$ 4,420,113
Self-Sustaining Programs	\$ 82,116	\$ 86,760	-0-
TOTAL	\$ 10,342,950	\$ 10,741,013	\$ 12,259,593

APPENDIX II

(Continued)

Non-departmental Organizations	Appropriations for Children and Youth Services		
Service/Program	FY 2005-2006	FY 2006-2007	FY 2007-2008
Raider's Surcharge	\$ 581,964	\$ 544,033	\$ 160,000
Oakland School for the Arts	\$ 500,000	\$ 500,000	\$ 350,000
Chabot Space & Science Ctr.	\$ 180,000	\$ 180,000	\$ 595,000
Safe Passages	\$ 102,903	\$ 109,980	\$ 150,000
Mayor's Summer Job Program	\$ 282,715	\$ 157,654	-0-
Street Outreach	\$ 96,698	\$ 99,077	-0-
Public Art Grants	\$ 761,008	\$ 795,436	\$ 785,371
Peralta Hacienda Historic Park	-0-	-0-	\$ 180,000
Oakland Asian Cultural Center	-0-	-0-	\$ 100,000
Symphony in Schools	-0-	-0-	\$ 100,000
City/County Collaboration	-0-	-0-	\$ 675,000
TOTAL	\$ 2,505,288	\$ 2,386,180	\$ 3,095,371

POLICE SERVICES AGENCY

Police Services Agency	Appropriations for Children and Youth Services		
Service/Program	FY 2005-2006	FY 2006-2007	FY 2007-2008
Police Activities League	\$ 446,220	\$ 457,506	\$ 487,746
CLASS	\$ 1,948,776	\$ 2,282,022	\$ 1,837,554
Cadets	\$ 257,952	\$ 271,572	\$ 269,556
Cadets Supervisor	\$ 148,740	\$ 156,060	\$ 168,288
TOTAL	\$ 2,801,688	\$ 3,167,160	\$ 2,763,144

Note: Appropriation numbers throughout these schedules were rounded up or down.