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1 FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of the City Auditor
Roland E. Smith, CPA
City Auditor

(510) 238-3378
FAX (510) 238-7640
TDD (510) 839-6451
www.oaklandauditor.com

Council Meeting Date: September 13, 2005

MAYOR JERRY BROWN

IGNACIO DE LA FUENTE, PRESIDENT
AND MEMBERS OF THE CITY COUNCIL

Attn: Finance and Management Committee

Attn: Life Enrichment Committee

SUBJECT: KIDS FIRST! OAKLAND CHILDREN'S FUND FOR THE PERIOD JULY 1,
1997 THROUGH DECEMBER 31, 2004, MATCHING MANDATED FISCAL
YEAR REVENUES AND CALENDAR YEAR EXPENDITURES

The Office of the City Auditor is submitting a report on the Kids First! Oakland Children's Fund for the period July 1, 1997 through December 31, 2004. This is a continuation of a similar report, which covered the period July 1, 1997 through December 31, 2003.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

Prepared by:

Michael Kilian
Michael Kilian, CPA, CFS
Chief Deputy City Auditor

Issued by:

Roland E. Smith
Roland E. Smith, CPA, CFS
City Auditor

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September 13, 2005

CITY AUDITOR'S SPECIAL REPORT
KIDS FIRST! OAKLAND CHILDREN'S FUND
FOR THE PERIOD JULY 1, 1997 THROUGH DECEMBER 31, 2004

PURPOSE AND SCOPE

As requested by the Children's Fund Planning and Oversight Committee and members of the City Council, we have made an impartial analysis of the Kids First! Oakland Children's Fund (Fund). Our analysis was limited to determining the amount of unspent monies from prior periods in the Fund that are available for program and services from the legally mandated two and one-half percent (2.5%) set-aside of the City of Oakland's unrestricted general fund revenues for the period July 1, 1997 through December 31, 2004.

Our analysis does not address whether the City has maintained a certain level of expenditures (base amount) for services to children and youth in conformity with the requirements set forth in the Kids First! Initiative (Measure K). Nor does it address the City's calculation of interest income.

In making our analysis we:

1. held meetings with Agency staff, members of the Kids First! Oakland Children's Fund Planning and Oversight Committee, and representatives from the Office of the City Attorney;
2. summarized applicable revenue, expenditure and appropriation accounts from the Oracle Computer System of the City from July 1, 1997 through December 31, 2004, and
3. reviewed documents provided by the Aging, Health and Human Services Department, as well as documents provided by the Budget Office.

BACKGROUND

In November 1996, the voters passed an amendment to the City Charter of Oakland entitled the Kids First! Initiative (Measure K), creating the Oakland Children's Fund. This fund is maintained separately and apart from other City funds. Measure K amended the Oakland City Charter to set aside two and one-half percent (2.5%) of the City's unrestricted General Fund revenues to support direct services to children and youth less than 21 years old each year for twelve years beginning July 1, 1997, together with interest earned on the fund and amounts unspent or uncommitted by the fund at the end of any fiscal year.

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BACKGROUND
(CONTINUED)

The Fund is administered by the City of Oakland. To this end, the City issues grants to provide services to Oakland's children and youth. The contracts for these grants specify how much funds are allocated and the amount of matching funds committed by other funding sources.

As has been pointed out in several legal opinions prepared by Oakland's Office of the City Attorney, dating from October 1996, the language employed in the Kids First! Initiative is vague, is subject to varying interpretations, and has been misinterpreted.

The Kids First! Oakland Children's Fund Charter Amendment states that the fund include any "amounts unspent or uncommitted by the fund at the end of any fiscal year."

The Kids First! Oakland Children's Fund Charter Amendment also states that the "appropriation for the city fiscal year shall be awarded for use during the calendar year which begin therein. For example, appropriations for the fiscal year July 1, 1997 to June 30, 1998 shall be awarded for use during the calendared year January 1, 1998 to December 31, 1998, and so on." This projected pattern of variance in the revenue year and the expenditure year is addressed in Table 1.

ISSUE: USE OF
ACTUAL OR
BUDGETED REVENUES

In 2003, an opinion was sought from the Office of the City Attorney to provide direction on how to calculate the 2.5 percent Kids First! set-aside. The issue addressed in the opinion was whether the City Charter (Article XIII) requires that the City set-aside 2.5 percent of

1. the City's unrestricted general fund **budgeted revenues**;
or
2. the City's unrestricted general fund **actual revenues**.

The summary conclusion of this opinion states that, "the annual unrestricted general fund revenues means actual unrestricted general fund revenues."

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ISSUE: USE OF
ACTUAL OR
BUDGETED REVENUES
(CONTINUED)

Notwithstanding the opinion of the Office of the City Attorney, the position of the Finance and Management Agency has been that the calculation of the 2.5 percent set-aside for the Kids First! Oakland Children's Fund should be based upon **budgeted unrestricted general fund revenues**. Actual general fund revenues are arrived at the close of the accounting records for the fiscal year end and in line with the issuance of the audit report by the outside auditors. This has occurred in prior years many months after the fiscal year end, making use of actual general fund revenues in the calculation of the 2.5 percent set-aside to the Kids First! Oakland Children's Fund burdensome.

A disagreement as to the meaning of the language in Measure K, particularly with respect to the word appropriations, has contributed to the support for the use of budgeted revenues in the calculation of the 2.5 percent set-aside. Accordingly, at the end of the fiscal years ended June 30, 1998, 1999, 2000, 2001, 2002, 2003 and 2004, the City did not perform a revenue reconciliation to adjust the Fund's appropriation, which was based upon original revenue estimates for the unrestricted general fund revenues to actual unrestricted general fund revenues.

FISCAL IMPACTS

The City has accumulated unspent monies, totaling \$8,438,624, from the inception of the Fund through December 31, 2004. See Table 1. Actual revenues received by the fund have typically exceeded the actual expenditures of the Fund. Included also in the total unspent monies available to Kids First! is an amount, \$2,404,159, which reflects revenue variances attributable to not having made adjustments to original appropriations based on budgeted unrestricted general fund revenues. See Table 2.

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Unspent Monies

Table 1

Kids First! Unspent Monies Matching Mandated Revenues to Expenditures						
Fiscal Year	Unrestricted Revenues^a	2.5% Set-Aside	Interest Income^b	Legally Mandated^c	Calendar Year Expenditures	Unspent Monies Available to Kids First!
					1997	
96/97	0			0	87,059	(87,059)
					1998	
97/98	232,984,162	5,824,604	101,963	5,926,567	2,122,181	3,804,386
					1999	
98/99	254,999,369	6,374,984	197,740	6,572,724	4,878,483	1,694,241
					2000	
99/00	284,640,637	7,116,016	317,343	7,433,359	6,062,539	1,340,820
					2001	
00/01	313,489,068	7,837,227	459,933	8,297,160	7,113,937	1,183,223
					2002	
01/02	315,591,571	7,889,789	335,068	8,224,857	8,137,521	87,336
					2003	
02/03	328,262,415	8,206,560	263,853	8,470,413	8,740,055	(269,642)
					2004	
03/04	366,590,317	9,164,758	182,821	9,347,579	8,662,260	685,319
Total Monies Available to Kids First! as of December 31, 2004						8,438,624

^a Based on unrestricted general fund revenues less restricted general fund revenues.

^b Limited scope of report precluded a review of interest income.

^c Legally Mandated Kids First! transfer is 2.5% of the actual unrestricted general fund revenues, plus the mandated interest income transferred.

**REVENUE
 VARIANCES**

Traditionally, the City provides for a conservative budget. Estimated revenues to be received by the City are less than actual revenues received by the City, which results in fiscal year end revenue variances. Table 2 sets forth with respect to the Kids First! Oakland Children's Fund the results of the fiscal year end revenue variances.

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Table 2

Kids First! Revenues Comparison of Mandated to Actual Allocated						
Fiscal Year	Unrestricted Revenues^a	2.5% Set-Aside	Interest Income^b	Legally Mandated^c	Actual Allocated	Due to Kids First!
97/98	232,984,162	5,824,604	101,963	5,926,567	5,799,226	127,341
98/99	254,999,369	6,374,984	197,740	6,572,724	6,490,108	82,616
99/00	284,640,637	7,116,016	317,343	7,433,359	7,168,976	264,383
00/01	313,489,068	7,837,227	459,933	8,297,160	7,501,792	795,368
01/02	315,591,571	7,889,789	335,068	8,224,857	7,747,921	476,936
02/03	328,262,415	8,206,560	263,853	8,470,413	8,347,248	123,165
03/04	366,590,317	9,164,758	182,821	9,347,579	8,813,229	534,350
Total Amount Due Kids First! under allocation as of December 31, 2004						2,404,159

^a Based on unrestricted general fund revenues less restricted general fund revenues.

^b Limited scope of report precluded a review of interest income.

^c Legally Mandated Kids First! transfer is 2.5% of the actual unrestricted general fund revenues, plus the mandated interest income transferred; allocated revenues above include this interest income.

CONCLUSION

The effect of spending less than the actual revenues provided to Kids First! Oakland Children's Fund is to have accumulated a fund balance, totaling \$8,438,624, which can be re-allocated in future years for programs and services.

The effect of not making the revenue reconciliation to adjust the Fund appropriation, which is based upon original revenue estimates for the unrestricted general fund revenues to actual

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CONCLUSION
(CONTINUED)

unrestricted general fund revenues, is to reduce the legally mandated 2.5 percent set-aside received by the Fund.

In that the 2.5 percent Kids First! set-aside is made at the beginning of each fiscal year, the initial set-aside may be based on budgeted unrestricted general fund revenues. Nevertheless, since actual unrestricted general fund revenues are available with the issuance of the year-end audit report, the set-aside can be adjusted to reflect actual unrestricted general fund revenues.

RECOMMENDATIONS

We recommend that the unspent Kids First! Oakland Children's Fund balance be utilized in future appropriations.

We also recommend that the Kids First! Oakland Children's Fund receive its legally mandated 2.5 percent set-aside based upon actual unrestricted general fund revenues.