

**CITY OF OAKLAND  
SUPPLEMENTAL AGENDA REPORT**

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

2005 JAN 20 PM 7:52

TO: Office of the City Administrator  
ATTN: Deborah Edgerly  
FROM: Finance and Management Agency  
DATE: January 25, 2005

RE: **A SUPPLEMENTAL REPORT REGARDING THE RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO ENTER INTO A PROFESSIONAL SERVICES CONTRACT WITH PUBLIC FINANCIAL MANAGEMENT, INC. TO CONDUCT A PERFORMANCE AUDIT OF THE OAKLAND POLICE SERVICE AGENCY OVERTIME AND RELATED STAFFING ISSUES INCLUDING CONCRETE RECOMMENDATIONS TO ACHIEVE COST SAVINGS FOR AN AMOUNT NOT TO EXCEED \$180,000.**

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**SUMMARY**

At its December 21, 2004 meeting, the City Council approved a Resolution sponsored by Council President Ignacio De La Fuente and Councilmember Larry Reid directing the City Administrator to retain an audit firm to conduct a performance audit of the Oakland Police Services Agency (OPD). At its January 18, 2005 meeting, the City Council requested additional information about the selection process, a complete scope of work, the proposed timeline for completion of the project, and a summary of the qualifications of the selected audit firm.

**FISCAL IMPACT**

Funds are available in the General Purpose Fund, Organization 08211-Accounting Administration, Project P40100-Automation and System Enhancements. Originally, these project funds were to be used to hire a consultant to upgrade the Oracle Time and Attendance Module. However, the Finance and Management Agency (FMA) has decided to perform this upgrade using City staff rather than hire a consultant.

The \$180,000 cost of this contract will more than pay for itself with the potential cost savings recommendations. The Budget Office projects that OPD will spend \$18.35 million in overtime in FY04-05. The cost of this contract is less than 1 percent of the projected overtime expenditure. In Washington, DC, PFM recommended changes that resulted in \$3.0 million in savings in Police overtime. In Memphis, TN, PFM identified savings and revenue enhancements of \$10.6 million.

**BACKGROUND**

The Budget Office's first quarter revenue and expenditure report projects OPD will exceed its FY 2004-05 overtime budget by approximately \$7.12 million. In FY 2003-04, OPD exceeded its overtime budget by \$10.1 million. To address this continuing issue, on December 21, 2004, the City Council approved Resolution 78982 which states in part, "*the City Council hereby directs*

Item: \_\_\_\_\_  
Finance and Management Committee  
January 25, 2005

*the City Administrator to present for City Council approval by January 18, 2005 a short-term professional services contract with an experienced private firm or firms to provide to City Council by May 1, 2005 an independent performance audit of the overtime, payroll, and related systems of the Oakland Police Department that includes concrete recommendations for improving those systems and realizing cost savings... "* At its January 18, 2005 meeting, the City Council requested additional information about the selection process, a complete scope of work, the proposed timeline for completion of the project, and a summary of the qualifications of the selected audit firm.

Because of the urgency expressed by the City Council in its resolution, FMA staff was unable to conduct a formal Request for Proposal (RFP) process. Staff informally called a number of firms and two firms, Public Financial Management Inc., (PFM), based in Philadelphia, but with offices in San Francisco, and the Harvey M. Rose Accountancy Corporation, expressed an interest. FMA staff met with the two firms to discuss their proposals and selected PFM as the most qualified firm to perform the audit.

PFM is very familiar with the City of Oakland through its relationship as one of its financial advisors. In its proposal, PFM indicates that it will assign a group of auditors experienced in public safety issues. The team has prepared similar audits for the Washington D.C. Metropolitan Police Department (where the audit produced a \$3 million reduction in overtime), the County of Nassau, NY Police Department and the combination of the City of Louisville and Jefferson County, Kentucky Police Departments. In each case, PFM provided concrete proposals for cost savings and service improvements. **Attachment A** details the qualifications, public safety experience, and accomplishments of PFM.

## **KEY ISSUES AND IMPACTS**

This performance audit will focus primarily on overtime expenditures in the OPD. The scope of the audit includes, but is not limited to the following areas: 1) review of overtime appropriations and expenditures over the last five years including those costs reimbursed by grants; 2) identification of mandatory versus discretionary overtime; 3) review the number of sworn personnel and its effects on overtime; 4) review of the Memorandum of Understanding between the Oakland Police Officers Association and the City to determine if there are any issues that may contribute to the use of overtime and accrual of compensatory time; 5) an analysis of Workers' Compensation and California Labor Code Section 4850 that impact overtime; 6) a review of internal controls, information systems, payroll documentation and budget execution policies; and 7) concrete recommendations for cost savings (please see next page and Attachment B). .

## PROJECT DESCRIPTION

PFM will provide the following deliverables to OPD: 1) recommendations on the effective utilization of overtime; 2) budget execution strategies that will enable OPD to operate within its annual appropriation; and 3) identification of inefficiencies and the cost savings associated with their correction. As directed by resolution passed on December 21, 2004 the City Administrator will ensure that staff provide the information PFM needs to complete the project expeditiously.

The scope of the audit includes the following items:

- Five (5) year trend of budgeted versus actual overtime costs including those reimbursed by grants;
- The amount of overtime expended on court appearances; Crime Reduction Teams; Sideshows; public events such as Oakland Raider home games, parades, and demonstrations; filing of vacant shifts due to officers out on medical leave; and overall staffing shortages
- Reasonableness of Oakland's overtime costs compared to similar jurisdictions
- Reimbursable versus non-reimbursable overtime and the amount of reimbursable overtime collected by the City
- Use of mandatory versus discretionary overtime
- Determination of whether or not there is an abuse of overtime
- The financial impact and management constraints on the use of overtime contained in the Memorandum of Understanding between the Oakland Police Officers Association and the City
- Confirm:
  - Number of all department employees
  - Number of sworn versus non-sworn employees
  - Number of sworn employees available to work
  - Number of sworn employees working during each shift
  - Number of sworn employees working each day
  - Number of sworn employees to be hired over the next twelve months
  - Number of sworn employees expected to retire over the next twelve months
  - Number of sworn employees on overtime during each shift
  - Number of sworn employees on overtime during each day

**Attachment B** is the scope of the audit which will be included in the final contract.

PFM is prepared to begin the project as soon as the resolution is approved by the City Council. Staff anticipates that, if approved by Council on February 1, PFM will begin on February 2, 2005. The following deliverable dates will be included in the contract.

April 11, 2005 – Audit Firm's report due to the City Administrator

Item: \_\_\_\_\_  
Finance and Management Committee  
January 25, 2005

April 14, 2005 – Audit Firm’s report scheduled by Rules to April 26, 2005, Finance and Management Committee

April 26, 2005 – Audit Firm to present its report at Finance and Management Committee Meeting

May 3, 2005 – Audit Firm to present its report at City Council Meeting

May 17, 2005 – If necessary, follow-up questions from City Council Members addressed by the Audit Firm at City Council Meeting.

This timeline is designed to have the Audit Firm’s report and recommendations available to the City Council to assist it as it deliberates the City’s FY 05-07 Proposed budget which the Mayor and City Administrator will submit to Council in early May.

**SUSTAINABLE OPPORTUNITIES**

None.

**DISABILITY AND SENIOR CITIZEN ACCESS**

None.

**RECOMMENDATION(S) AND RATIONALE**

Staff recommends that the City Council approve the Resolution authorizing the City Administrator to enter into a contract with Public Financial Management Inc. in an amount not to exceed \$180,000 to conduct a performance audit of the Oakland Police Services Agency overtime policy and practices.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff requests that the City Council approve the Resolution authorizing the City Administrator to enter into a contract with Public Financial Management Inc. in an amount not to exceed \$180,000 to conduct a performance audit of the Oakland Police Services Agency overtime policy and practices.

Respectfully submitted,



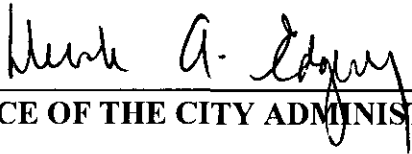
**William E. Noland**

Director, Finance and Management Agency

Prepared by:

Angela D. Joyner, Agency Manager

APPROVED AND FORWARDED TO THE  
FINANCE AND MANAGEMENT COMMITTEE:



**OFFICE OF THE CITY ADMINISTRATOR**

## ATTACHMENT A

### OVERVIEW OF PUBLIC FINANCIAL MANAGEMENT'S POLICE/PUBLIC SAFETY EXPERIENCE

#### *Emphasis on Results*

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PFM provides consulting services to assist local governments in identifying opportunities for better limiting the growth of police and fire spending within the projected rate of revenue growth, without resorting to sweeping service reductions. The City of Memphis, TN, Nassau County, NY, Fulton County, GA, the District of Columbia, Metro Louisville, KY, Jackson, MS, Long Beach, CA, Camden, NJ, East Orange, NJ, and Providence, RI have engaged us to provide similar services, with meaningful results, which are summarized below:

- In the District of Columbia, a PFM Managing Director, Scott Quehl, served as Chief Financial Officer for the \$250.0 million Metropolitan Police Department, leading efforts – with the Chief of Police and Financial Control Board – to reduce overtime by over \$3.0 million, privatize management of the Department's fleet, produce a “model budget for other District Government departments to follow (according to the District's Budget Director), strengthen internal controls, improve grants management, establish a capital budget and receive \$4.8 million in Federal grant monies to invest in technology aimed at increasing officer productivity in lieu of unrealistically budgeting for the hiring of additional officers.
- PFM has also delivered in labor arbitration cases involving public safety employees. In a 2001 labor contract negotiation between Napa County, CA and its Deputy Sheriffs Association, PFM was selected to provide expert witness in the first binding interest arbitration to be held under a new California law. PFM prepared analyses which addressed issues of compensation comparability, cost-of-living and economic factors, and recruitment and retention. In addition, PFM provided general support for the County Personnel Director and legal counsel regarding overall presentation strategy and constraints on the employer's ability-to-pay for wage and benefit issues. In the arbitration panel's final award, the parties' last best offers were considered for ten distinct issues in dispute. For nine of these ten issues – including a wage increase formula, educational incentives, and various pay premiums that were all the subject of direct PFM testimony – the union's demands were rejected and the County's proposals awarded.
- The County of Nassau, New York (population 1,334,544) retained PFM to assist it with overcoming a financial crisis through identifying means to expand revenues and development and implementation of a Five-Year Comprehensive Financial & Management Plan. Central to the Plan has been PFM's analysis and recommendations associated with containing the size and cost of the County's Police Department without sacrificing service quality, given that Police consumes a larger share of local resources than any other department. PFM identified initiatives with an annual impact of \$19.6 million for the County's \$460 million Police Department, in areas that included civilianization, overtime and absence controls, work rule improvements, span of control, and staff targets that have translated into a smaller force of sworn officers able to maintain the high level of service County residents expect. PFM has also advised the County on its approach to collective bargaining with Police union

representatives, and has provided analytical and oral testimony as an expert witness in arbitration hearings. While Nassau County still has much progress to make before it is “out of the woods,” its rating has stabilized, and Fitch Ratings just changed the County’s outlook from “stable” to “positive.” The County’s financial stability efforts have been successful. Moody’s affirmed an investment-grade credit rating and stable outlook on Nassau County’s outstanding debt, citing its multi-year financial plan and the systematic closing of the County’s structural budget gap. The County retained PFM in April of 2004 to continue providing workforce, financial, and operational improvement services.

- The Metropolitan Government of Louisville-Jefferson County, KY was created in January 2003 out of separate City and County governments. With two police forces to consolidate and labor negotiations on the horizon, the Metro Government engaged PFM to provide it with (1) a comprehensive analysis of its Police, Corrections, and Emergency Medical Service employee compensation, (2) advice in the formation of an effective labor office and in integrating salary, premium pay, and benefit provisions into a cohesive collective bargaining strategy, and (3) provision of training and technical tools to build in-house capacity to management public safety labor relations effectively. The Administration’s position with public safety negotiations reflects its efforts to connect compensation adjustments with the Government’s multi-year fiscal planning. Such commitment for public safety departments that consume a large portion of the Metro Government’s operating budget played a significant part in the recent decision of credit agencies to issue ratings upgrades. The three-year contract stemming from negotiations with Police labor representatives represented a resounding win for Metro, with salary increases of 0%, 2%, and 2%, and sworn officer contributions to health benefits for the first time.
- In Memphis, TN, we worked with the Finance Director and the new Police Director to identify for the City’s \$151.0 million Police Department 13 initiatives to reduce or avoid spending or increase revenue by as much as \$10.6 million a year.
- In Long Beach, CA, PFM has been retained in conjunction with its joint-venture partner, Tri-Data, to undertake a comprehensive analysis of the City’s Fire services. So far, initiatives to save up to \$12.0 million a year have been identified through a combination of station consolidation, workforce cost reduction, overtime controls, and fees, fines, and other forms of cost recovery.
- In Fulton County, GA, PFM, the County’s Finance Director and the Police Chief identified 6 initiatives for the County’s \$25.0 million Police Department with an annual impact of over \$800,000.
- On behalf of the State of New Jersey, PFM identified 10 initiatives with an impact of \$3.0 million a year to be implemented by the City of Camden’s \$26.0 million Police Department. The State further engaged PFM to provide advice on strategy for its negotiations with Police bargaining units. PFM also provided expert witness testimony during arbitration proceedings on the City’s ability to pay and compensation comparability.
- In East Orange, NJ, under the guidance of the City’s Chief Operating Officer, PFM identified for the City’s \$20 million Police Department 12 initiatives with an annual impact of \$1.0

million. PFM's separate but related analysis of Police Department management supported the City's decision to put in place a public safety director to coordinate the Police and Fire Departments under the Mayor's direction.

- For the City of Jackson, MS, PFM developed a Multi-Year Strategic Financial and Management Plan – a comprehensive analysis aimed at cost reduction and revenue enhancement, principally through improved operations. The Multi-Year Plan identified over 100 management initiatives with a total fiscal impact of nearly \$80 million. An area of particular attention was public safety. In the Police Department, PFM identified 26 initiatives totaling annual savings of over \$6.3 million once fully implemented. For the Fire Department, PFM recommended two initiatives with a combined projected fiscal impact of \$50,550. Following release of the Multi-Year Plan to the rating agencies concurrent with the City's issuance of General Obligation Bonds, Series 2003, the City's rating was upgraded by Standard and Poor's from "A+" to "AA-".
- The Providence Fund, a program working in association with the Rhode Island Foundation, engaged PFM to work with the City of Providence, Rhode Island to put in place a Five-Year Strategic Financial & Management Plan to overcome a projected deficit of over \$50 million. PFM's analysis and recommendations led to fee, fine, permit, and other cost recovery initiatives, as well as two new State-approved revenue sources, which have been adopted by the City into a Short-Term Action Plan. The initiatives outlined in the Plan project a total fiscal impact of \$6.3 million in the first year, reaching \$10.6 million within five years. The Mayor and PFM released in March 2004 the second phase of the effort – a Five-Year Financial & Management Report. The Report includes 147 revenue-enhancement and cost-containment initiatives, with a combined fiscal impact sufficient to close the City's projected budget deficits for each of the next five years. Key among the savings recommendations are Police recommendations, with 13 initiatives totaling a projected fiscal impact of more than \$9.1 million in the first full year of implementation.



## ATTACHMENT B

### Scope of Work

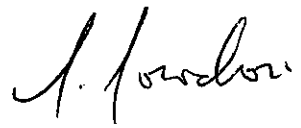
The City of Oakland (City) seeks a performance audit of the Oakland Police Services Agency (Department). The areas of concentration include: overtime appropriation and expenditure, the allocation of sworn personnel, points in the Memorandum of Understanding between the Oakland Police Officers Association and the City that may contribute to the use of overtime and accrual and use of compensatory time, analysis of Workers' Compensation statutes and California Labor Code §4850 that impact the use of overtime in the Department.

The selected firm will be expected to identify weaknesses in and recommend improvements to internal controls to assist the Department in containing overtime costs and streamlining departmental operations to ensure that the Department continually stays within its annual budget.

### Specific Deliverables

By April 11, 2005 to the City Administrator

- Five (5) year trend of budgeted versus actual overtime including those costs reimbursed by grants.
- The amount of overtime expended for the following activities:
  - Court appearances
  - Crime Reduction Teams
  - Other Public Events (e.g. Oakland Raider home games, parades, demonstrations, etc.)
  - "Sideshows"
  - Filing vacant shifts due to officers out on Workers Compensation or other types of Family Medical Leave
  - Overall Staffing Shortages
- Reasonableness of Oakland's overtime costs compared to similar jurisdictions
- Reimbursable versus non-reimbursable overtime and the amount of reimbursable overtime collected by the City.
- Use of mandatory (e.g. court appearances) versus discretionary overtime
- Determine whether or not there is a significant abuse of overtime.
- The financial impact and management constraints of the current Memorandum of Understanding between the Oakland Police Officers Association and the City.
- Confirm:
  - Number of all Department employees
  - Number of Sworn versus non-Sworn employees
  - Number of Sworn employees available to work
  - Number of Sworn employees working during each shift
  - Number of Sworn employees working each day
  - Number of Sworn employees to be hired over the next twelve (12) months
  - Number of Sworn employees expected to retire over the next twelve (12) months
  - Number of Sworn employees on overtime during each shift
  - Number of Sworn employees on overtime during each day.
- **An estimate of the amount of expenditure savings from implementation of each specific recommendation**



FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

## OAKLAND CITY COUNCIL

RESOLUTION No. \_\_\_\_\_

2005 JAN 20 PM 7:52  
C.M.S.

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**A RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO ENTER INTO A PROFESSIONAL SERVICES CONTRACT WITH PUBLIC FINANCIAL MANAGEMENT, INC. TO CONDUCT A PERFORMANCE AUDIT OF THE OAKLAND POLICE SERVICE AGENCY OVERTIME AND RELATED STAFFING ISSUES FOR AN AMOUNT NOT TO EXCEED \$180,000.**

WHEREAS, the City Administrator and the City Council support the efforts of the Oakland Police Services Agency; and

WHEREAS, the; Oakland Police Services Agency continues to exceed its annually appropriated overtime budget; and

WHEREAS, on December 21, 2004, the City Council directed the City Administrator to engage a qualified private audit firm to conduct a performance audit of the Oakland Police Services Agency; and

WHEREAS, funds are available in Fund 1010, organization 08211, Project P40100 to fund the cost of this contract; and

WHEREAS, it is in the best interests of the City to waive the RFP process for this contract because the contractor is well-qualified to do the work and the contract was negotiated prior to new RFP requirements; and

WHEREAS, the City Council finds that this contract is for services of a professional nature; and

WHEREAS, the City Council finds that the service is temporary in nature; and

WHEREAS, the City Council finds that this contract shall not result in the loss of employment or salary by any person having permanent status in the competitive service; and now therefore, be it

RESOLVED, that the City Manager is authorized to enter into a contract with the firm of Public Financial Management Inc., in an amount not to exceed \$180,000, to conduct a performance audit of the Oakland Police Services Agency. This contract will be approved as to form and legality by the Office of the City Attorney, and a copy will be on file in the Office of the City Clerk; and be it

FURTHER RESOLVED, that Public Financial Management Inc., is required to present to the City Council on May 2, 2005 a report detailing its findings and concrete proposals for cost savings in the Oakland Police Services Agency; and be it

FURTHER RESOLVED, that pursuant to Oakland Municipal Code §2.04.051, the City Council finds and determines that it is in the City's best interests to waive the competitive Request for Proposal process for this contract.

IN COUNCIL, OAKLAND, CALIFORNIA, \_\_\_\_\_, 20\_\_\_\_\_

**PASSED BY THE FOLLOWING VOTE:**

AYES—BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN AND PRESIDENT DE LA FUENTE

NOES—

ABSENT—

ABSTENTION—

ATTEST: \_\_\_\_\_

City Clerk and Clerk of the Council  
of the City of Oakland, California

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**FINANCE & MANAGEMENT CMTE.**

JAN 25 2005