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City of Oakland

Office of the City Auditor

September 20, 2010

Measure Q Performance Audit FY 2007–08 & FY 2008–09

*Library funds largely complied with the
Measure's objectives, yet several
previously identified issues
remain unaddressed*



City Auditor
Courtney A. Ruby, CPA, CFE

PERFORMANCE AUDIT



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September 20, 2010

OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
OAKLAND CITIZENS
OAKLAND, CALIFORNIA

RE: Measure Q Performance Audit, FY 2007-08 & FY 2008-09

Dear Mayor Dellums, President Brunner, Members of the Council and Oakland Citizens:

Attached is the Measure Q Performance Audit for fiscal years 2007-08 and 2008-09.

The Library Services Retention and Enhancement Act of 1994, as Amended in 2004, commonly referred to as Measure Q, specifies a mandated audit as a means to ensure proper disbursement and accountability of the parcel tax's proceeds.

This audit's objective was to determine whether or not the City complied with the requirements of Measure Q, which are outlined in 12 specific objectives.

The audit also analyzed if the Administration, Mayor and City Council had implemented the recommendations from the previously issued Measure Q Performance Audit, dated October 27, 2008.

Overall, this audit found:

- The City met Measure Q's funding requirements
- Expenditures largely complied with the Measure's objectives
- Several operational issues identified in the previous audit have not been addressed
- Citizen oversight, as required in the Measure and called out in the previous audit, is not being achieved

The audit has concluded that the Administration has generally met the intent of Measure Q. However, the Administration has faltered in making progress on implementing six out of eight previous recommendations from the 2008 Measure Q Performance Audit. As Measure Q mandates, it is incumbent upon the Administration to fulfill its responsibilities to citizens and implement the audit's recommendations with haste and in full.

In order to address these deficiencies, the Administration must ensure library specific purchasing procedures are created, implemented and monitored; a separate reserve fund is created; and only expenditures related to library services are charged to the Measure Q fund.

Issues related to the Library Advisory Commission, the body Measure Q assigns citizen oversight, must also be addressed. The audit calls on the Mayor and the City Council to meet Measure Q's mandate for this oversight commission by making timely appointments and reorganizing the membership to a more effective size. It is important to remember that the effective operation of this Commission is a mandate - not a choice.

We would like to express our appreciation to the Office of the City Administrator and Oakland Public Library (OPL) management and staff for their cooperation throughout this audit process. A response from the City Administration is included at the end of the report.

I would also like to acknowledge my staff for their dedicated service in performing the Measure Q Performance Audit Report Series.

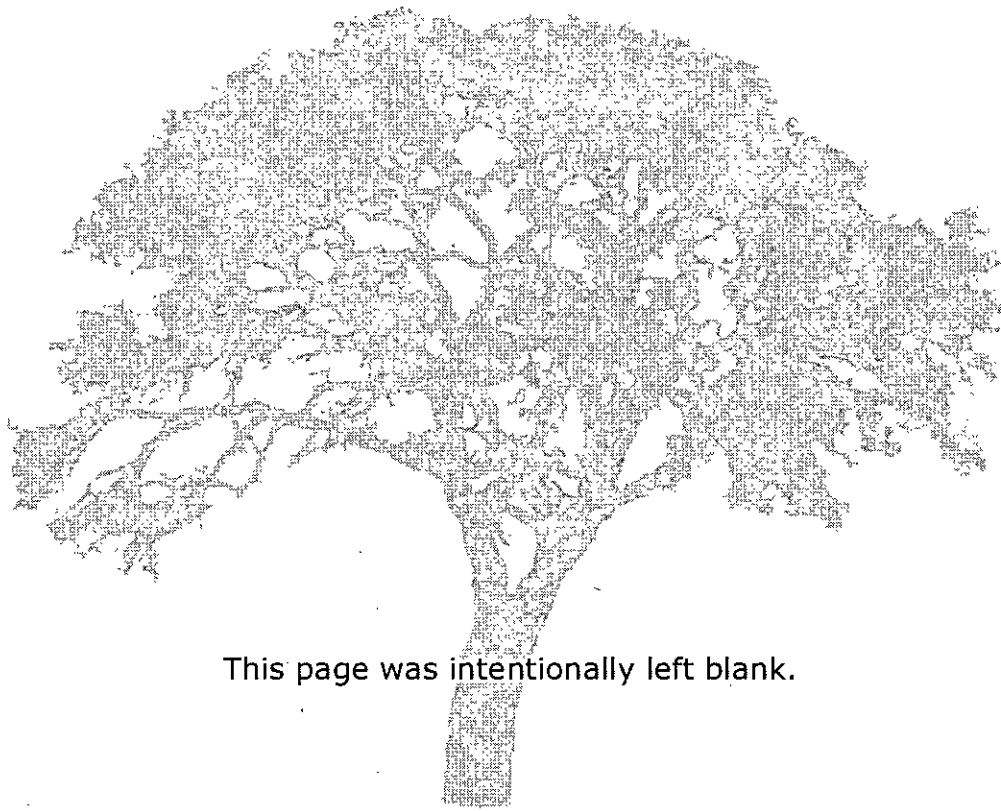
Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Courtney A. Ruby', written in a cursive style.

COURTNEY A. RUBY, CPA, CFE
City Auditor

Table of Contents

Summary	1
Background	3
Chapter 1	7
Chapter 2	13
Recommendations	17
Administration's Response	19
Actions to Close the Report	21



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Measure Q Performance Audit Report Summary

Expenditures & Internal Controls

LIBRARY FUNDS LARGELY COMPLIED WITH THE MEASURE'S OBJECTIVES, YET SEVERAL PREVIOUSLY IDENTIFIED ISSUES REMAIN UNADDRESSED

Overview

The Office of the City Auditor conducted a performance audit of Measure Q. The scope of the audit focused primarily on Fiscal Years (FY) 2007-08 and 2008-09. The objectives of this audit were to analyze and evaluate the City's compliance with Measure Q requirements to:

- Expend parcel tax proceeds for Measure Q's 12 specified objectives;
- Provide appropriations from the City's General Fund for library services in FY 2007-08 and FY 2008-09 at a level no lower than \$9,059,989 – the General Fund appropriation for FY 2000-01;
- Establish a Reserve Fund in the amount of five percent (5%) of the total parcel taxes collected by the City in the previous fiscal year; and
- Designate a body comprised of Oakland citizens to make recommendations and review the expenditures of the funds.

The performance audit also examined whether or not the City implemented the recommendations made in the October 2008 audit report.¹

Key Findings

- The City met Measure Q's funding requirements, and Measure Q expenditures largely complied with the Measure's objectives.
- The Budget Office successfully established a baseline budget that incorporated General Facilities Support charges based on the most recent prior fiscal year actuals.
- The Oakland Public Library did not develop and implement a formal, written manual of policies and procedures for processing purchases, over which it holds authority and responsibility.
- The Mayor and City Council neither complied with Measure Q's enabling ordinance to appoint 15 members to Library Advisory Commission, nor did they take steps to ensure that the Library Advisory Commission could effectively perform its citizen oversight role.
- The City Administration failed to establish the Reserve Fund, as required by Measure Q.

Key

Recommendations

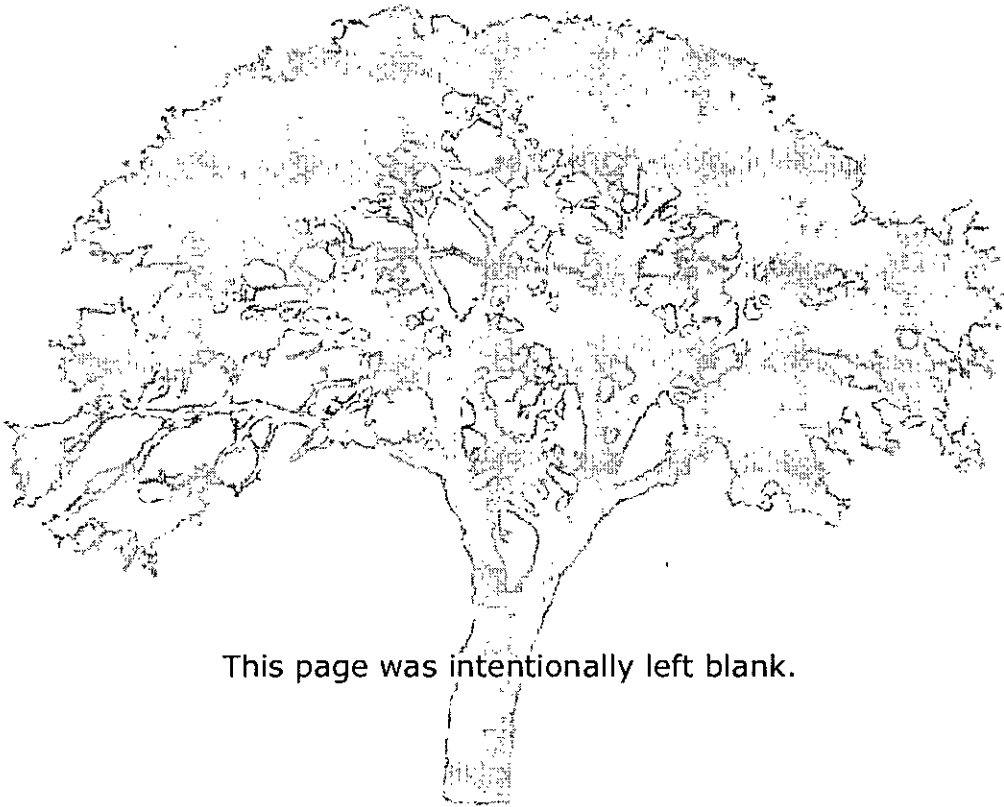
We recommend that the City Administration:

- Work together with the Community and Economic Development Agency and the Oakland Public Library to identify what Common Area Maintenance fees are not appropriate expenditures for Measure Q and devise a plan for charging such fees to Fund 1010 or the appropriate fund.
- Direct the Oakland Public Library to develop a formal, written manual of policies and procedures for processing purchases for which it has the authority and responsibility, thereby reducing the risk of error and fraud in its purchase process.
- Direct the Budget Office to establish the Measure Q Reserve Fund, as required by Measure Q, and to obtain the input of the Oakland Public Library in doing so.

We recommend that the Mayor and City Council:

- Investigate alternatives to facilitate appointments to Library Advisory Commission and determine what constitutes a reasonable membership size for Library Advisory Commission to ensure the Commission can carry out its citizen oversight role in an effective manner.

¹ Measure Q Performance Audit: Library Funds were mostly spent in accordance with the Measure, dated October 27, 2008, which covered FY 2005-06 and FY 2006-07.



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Background

The Library Services Retention and Enhancement Act of 1994, as Amended in 2004, commonly referred to as Measure Q, set forth several requirements aimed at supporting library services for the City of Oakland (the City).

- A parcel tax to be imposed for the purpose of providing a source of funding to support library services that are consistent with twelve (12) objectives specified by the Measure
- The Oakland City Council may collect the parcel tax only if the General Fund appropriation for library services is maintained at a level no lower than the General Fund appropriation for fiscal year 2001, which was \$9,059,989
- The City shall establish a Reserve Fund and shall maintain a Reserve Fund requirement in the amount of five percent (5%) of the total parcel tax collected by the City in the previous fiscal year
- The Oakland City Council designates a body comprised of Oakland citizens to make recommendations and review the expenditures of the funds
- The Office of the City Auditor performs an annual audit to assure accountability and the proper disbursement of the proceeds from the parcel tax, in accordance with the objectives specified by the Measure

Measure Q stated that proceeds from the parcel tax could only be used for the following 12 objectives.

- (1) Keep neighborhood libraries open a minimum of six days per week and increase weekend hours
- (2) Retain availability of library services at the Main Library seven days per week
- (3) Enhance and expand library collections, including the acquisition of new books and materials
- (4) Continue to provide educational and cultural programs for youth in every library, including after-school tutoring and literacy and children's programs
- (5) Expand library-based programs in support of literacy, lifelong learning, and information technology
- (6) Operate an African-American museum and library program
- (7) Increase joint educational activities with local schools, including librarian services
- (8) Retain children's librarians in every library facility
- (9) Operate the new joint school-public library in East Oakland
- (10) Upgrade and enhance information technology in all libraries and improve access to computers and technology in the libraries
- (11) Support after-school homework programs
- (12) Support teen programs

Objectives, Scope & Methodology

Audit Objectives

Measure Q requires the Office of the City Auditor (Office) perform an annual audit to assure accountability and the proper disbursement of the parcel tax proceeds, in accordance with the objectives specified by the Measure. The primary objective of this audit was to determine whether or not the City expended parcel tax proceeds for Measure Q's 12 specified objectives. Additionally, this audit reviewed the City's compliance with other Measure Q requirements. These requirements are whether or not:

- The City's General Fund appropriations for library services in Fiscal Year (FY) 2007-08 and FY 2008-09 were maintained at a level no lower than \$9,059,989 – the General Fund appropriation for FY 2000-01;
- The City established a Reserve Fund in the amount of five percent (5%) of the parcel tax's total amount collected by the City in the previous fiscal year; and
- The City Council designated a body comprised of Oakland citizens to make recommendations and review the expenditures of the funds.

Additionally, this audit examined whether or not the recommendations made in the Office's October 2008 audit report² on Measure Q were implemented.

Audit Scope

The scope of this audit covered FY 2007-08 and FY 2008-09. It also covered the Oakland Public Library's (OPL) internal controls for processing purchases, specifically a review of OPL's purchasing guidelines and purchases over which OPL has authority.

Audit Methodology

The audit examined Oracle reports for FY 2007-08 and FY 2008-09 to ensure that the City appropriated Measure Q's required General Fund and parcel tax funds to OPL. To determine whether or not OPL's expenditures complied with Measure Q's requirements, the audit examined OPL's expenditures by category, analyzed specific expenditures associated with the Cesar Chavez Branch Library, and reviewed the City Attorney's legal opinions on the nature of expenditures appropriate for Measure Q. To determine whether or not OPL's Measure Q expenditures promoted the Measure's 12 objectives, the audit reviewed OPL management reports, calendar of events, website information, and other data.

² Measure Q Performance Audit: Library Funds Were Mostly Spent in Accordance with the Measure, dated October 27, 2008, which covered FY 2005-06 and FY 2006-07.

To assess the adequacy of OPL's controls for processing purchases, the audit included interviews with OPL officials regarding OPL's purchasing procedures, review of OPL's 2009 Purchasing and Reimbursement Guidelines, and testing of 30 randomly selected purchases for adherence to OPL's procedures. To perform the random selection, the audit utilized the Excel random number generator function to OPL's database of purchases for FY 2007-08 and FY 2008-09. The database consisted of over 56,000 purchases and included books, materials, periodicals, computers and other Information Technology items.³ The audit reviewed documentation on approvals and receipts for each of the 30 randomly selected purchases.

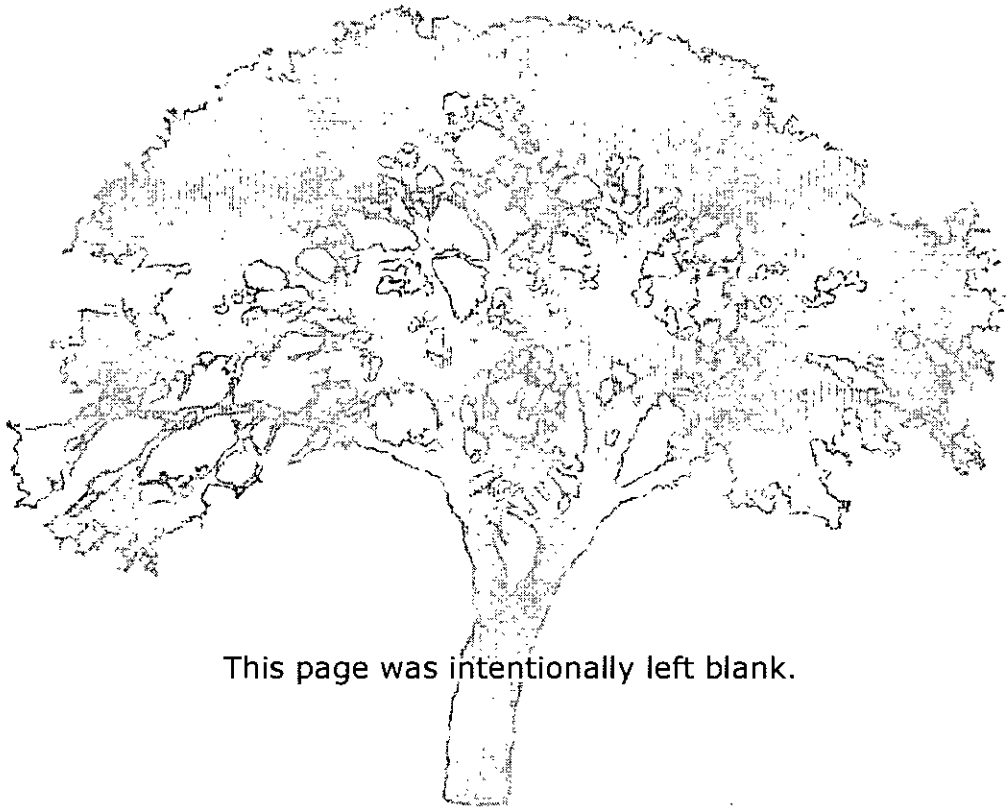
To assess the status of the Library Advisory Commission and whether or not the membership of this Commission had increased to the required level of 15 members, the audit included interviews with OPL officials and review of Library Advisory Commission documents, such as the enabling ordinance, meeting agendas and membership lists.

To determine whether or not the Measure Q Reserve Fund had been established as required by the Measure, the audit reviewed relevant provisions in Measure Q and obtained clarification from the Office of the City Attorney. The audit included interviews with officials from the City Administration's Budget Office, the Accounting Division and OPL, and review of April 2008 City Council Agenda Reports and the Adopted Policy Budget for FY 2009-11.

To establish whether or not the City Administration had implemented changes to the timeframe and the basis for Facilities Support Services charges, the audit included interviews with officials from the Budget Office and OPL.

The Office conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit findings and conclusions based on the audit objectives. The Office believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

³ OPL provides funding codes to the Department of Information Technology, which processes purchases of computers and IT related items. OPL Management stated that it is developing purchasing procedures, which will include a description of its role in processing IT purchases.



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CHAPTER 1

THE CITY MET MEASURE Q'S FUNDING REQUIREMENTS, AND EXPENDITURES LARGELY COMPLIED WITH THE MEASURE'S OBJECTIVES

Funding Requirements

According to the Office's review of the City's financial reports for FY 2007-08 and FY 2008-09, the City met Measure Q's funding requirements for OPL. Under Measure Q requirements, the City Council may only collect the parcel tax if the General Fund appropriation for library services is maintained at a level no lower than the General Fund appropriation for FY 2000-01 - which was \$9,059,989. The audit's review showed that the City received and appropriated parcel taxes in the amounts of \$11,825,369 and \$12,415,565 in FY 2007-08 and FY 2008-09, respectively. The City also appropriated from the General Fund \$12,909,819 and \$10,524,617, respectively, to library services. Therefore, the City complied with Measure Q's funding requirements for library services.

Expenditures

The primary intent of Measure Q is to ensure that parcel tax proceeds are: (1) expended to facilitate the expansion of library services and programs and (2) maintain existing services and programs. The audit's review of OPL expenditures showed that OPL expended Measure Q funds for personnel, operations and maintenance, as well as programs and services in support of Measure Q's 12 objectives.

As detailed in Exhibit 1 below, during FY 2007-08 and FY 2008-09, 72 percent of the Measure Q funds were expended for personnel and 28 percent for operations and maintenance. There were no reported expenditures for overhead.

Exhibit 1: MEASURE Q EXPENDITURES FY 2007-08 AND FY 2008-09

Expenditure Category	FY 2007-08	FY 2008-09	Total	Percent of Total
Personnel	\$8,551,521	\$7,724,267	\$16,275,788	72%
Operations & Maintenance	\$3,142,712	\$3,126,020	\$6,268,732	28%
Overhead	\$0	\$0	\$0	0%
TOTAL	\$11,694,233	\$10,850,287	\$22,544,520	100%

Source: Oracle Financial Reports

OPL expenditures for personnel included payroll and benefits for librarians, as well as administrative and custodial staff at the Main Library and branch libraries. Although OPL eliminated 16 positions (five full-time and 11 part-time) dedicated to literacy or children's services during FY 2007-08 and FY 2008-09, OPL hired approximately 50 part-time, on-call library aides to carry out various assignments, including children's services for the same period. Since the Office's last audit, the job descriptions of OPL's employees have not changed. OPL's employees perform duties that are consistent with keeping the library open and providing library services, activities which are consistent with the intent of Measure Q. Thus, the audit concludes that OPL's personnel expenditures were appropriate and complied with the intent of Measure Q.

Operations and Maintenance (O&M) – Common Area Maintenance Fees

OPL's expenditures for Operations and Maintenance (O&M) included:

- Maintenance
- Purchases of books
- Supplies for children, youth, adult and family programs or activities
- Information technology (online databases, software/hardware)

OPL's O&M expenditures also included costs for common area maintenance (CAM) fees related to the operations of the Cesar Chavez Branch Library and charges for facilities support services. Among CAM fees are costs for cleaning, mechanical maintenance, elevator maintenance, security, insurance, utilities, and parking expense.

CAM fees charged to Measure Q totaled approximately \$145,000 and \$131,000 for FY 2007-08 and FY 2008-09, respectively. The audit found \$21,924 for each year was questionable. The Office's October 2008 audit report referred to the City Attorney's opinion that noted while some CAM fees were necessary to keep the Cesar Chavez Branch Library open, costs such as administration appeared to be distantly connected to the provision of library services. An OPL official stated that most CAM fees were necessary to provide library services, and that among these, the fees for administration appeared to be the only costs that were questionable.

In the Office's October 2008 audit report, the audit recommended that OPL research CAM fees to determine which fees were directly connected to library operations. OPL agreed to work with the Community and Economic Development Agency (CEDA) Real Estate office to review these fees. In response to the Office following-up on the recommendation during this audit, OPL officials stated several reasons why the recommendation had not yet been implemented:

- Neither CEDA Real Estate nor OPL were qualified to determine if any CAM fees were connected to the provision of library services
- OPL did not have the resources to conduct an investigation on CAM fees and to do so would not be cost-effective
- The City Administration negotiated the lease agreement, which contained CAM fee terms; OPL was required to accept the terms

To ensure that CAM fees are appropriate expenditures for Measure Q, the City Administrator's Office, CEDA, and OPL should work together to identify CAM fees that are not appropriate expenditures for Measure Q and devise a plan for charging such fees to the appropriate fund.

Operations and Maintenance (O&M) – Facilities Support Services Fees

OPL's O&M expenditures also included costs for facilities support services. These costs totaled over \$512,000 and \$483,000 in FY 2007-08 and FY 2008-09, respectively. Facilities support charges include costs for material and labor for custodial services, utilities, and building maintenance. These costs are appropriate expenditures and necessary to maintain and keep the libraries open.

The City's Public Works Agency (PWA) charges OPL and other City departments for facilities support costs at the beginning of the fiscal year and adjusts for the actual costs at the end of the fiscal year. The Office's October 2008 audit found that PWA over-charged the Measure Q Fund by \$60,537 for facilities support services and recommended that the City reimburse Measure Q funds for the overpayment. The audit's review confirmed that the City reimbursed Measure Q funds for the overpayment.

However, OPL underpaid PWA for facilities support services by \$79,736 and \$50,186, during FY 2007-08 and FY 2008-09, respectively. Although the City has continued to run negative balances for city-wide facilities support costs, a Budget Office official stated that OPL and other City agencies would need to reimburse the PWA over a ten-year period for the under-funded facilities support costs. The reimbursement would be charged to Fund 1010, not Fund 2240 (Measure Q). Therefore, there is no impact on Measure Q funds.

The Office's October 2008 audit report also recommended that the City establish a process to ensure that charges for facilities support services reflect only actual facilities support services costs. The audit confirmed that the Budget Office implemented the recommendation beginning in FY 2007-08 by incorporating Facilities Support costs into the proposed budget, based on the most recent prior year actuals.

Conclusion

Except for CAM expenditures associated with the Cesar Chavez Branch Library, O&M expenditures were consistent with Measure Q's intent of supporting library-based programs for children, youth, and adults. The audit concludes that most of OPL's O&M expenditures were appropriate and complied with Measure Q's intent.

**MEASURE Q
12 OBJECTIVES**

**EXPENDITURES FOR PROGRAMS AND ACTIVITIES PROMOTE
MEASURE Q'S 12 OBJECTIVES**

Measure Q requires OPL to expend parcel tax proceeds for activities and programs in support of its 12 objectives.⁴ OPL expended Measure Q funds to support or otherwise promote the 12 objectives described in Measure Q. Below are some examples of how the Library supported the 12 objectives of Measure Q.

Objective 1 Requires OPL to expend Measure Q proceeds to keep neighborhood libraries open a minimum of six days per week as well as to increase weekend hours. During FY 2007-08 and FY 2008-09, all branch libraries operated on a six-day schedule, except for City holidays and mandatory business shutdown days.

Objective 2 Requires OPL to expend Measure Q proceeds to retain the availability of library services at the Main Library seven days per week; OPL did so during FY 2007-08 and FY 2008-09.

Objective 3 Requires OPL to expend Measure Q proceeds to enhance and expand library collections, including the acquisition of new books and materials. OPL enhanced or expanded its collections by acquiring books, periodicals, online databases, and materials during FY 2007-08 and FY 2008-09. For example, OPL expended \$922,481 and \$1,086,336, in FY 2007-08 and FY 2008-09, respectively, for books and materials. OPL also spent more than \$186,000 and \$280,000 in FY 2007-08 and FY 2008-09, respectively, for online databases and e-books.

Objective 4 Requires expenditures of Measure Q proceeds to continue providing educational and cultural programs for youth in every library, including school tutoring as well as literacy and children's programs. The audit's review of OPL's branch management reports showed that 14 branch libraries provided cultural and educational programs or activities for youth during FY 2007-08 and FY 2008-09.

During FY 2007-08 and FY 2008-09, at the Main Library and branch Libraries, OPL supported tutoring in several ways. In FY 2007-08 and FY 2008-09, OPL offered computer tutoring. In FY 2008-09, OPL offered homework assistance for children through the Oakland Library After School (OLAS) program and homework assistance for teenagers during the school year. As part of its Second Start Adult Literacy Program, OPL offered free literacy and computer tutoring for adults, serving 234 students and 36 families in FY 2007-08, as well as 283 students and 38 families in FY 2008-09. Separately, OPL also offered tutoring for GED, ESL and basic literacy skills for adults in FY 2008-09.

For children's programs and activities, the audit's review of OPL's calendar of events showed that on average 15 libraries in OPL system, including the Main Library and the African-American Museum Library of Oakland, provided or supported children's programs during FY 2007-08 and FY 2008-09. The children's programs occurred on a weekly basis and included activities such as Early Literacy reading for children, wildlife presentations, puppet shows, arts and crafts, reading, kid's chess, quilting, clowns, music, preschool stories, songs, and other activities.

⁴ On June 16, 2008, the City Attorney issued an opinion stating that Measure Q prescribes twelve different ways in which the proceeds of the parcel tax can be used for the purpose of retaining and enhancing library services and that these uses are expressed as objectives with no mandatory requirement.

- Objective 5** Requires OPL to expend Measure Q proceeds to expand library-based programs in support of literacy, lifelong learning, and information technology. The audit's review of OPL's calendar of events for FY 2007-08 and FY 2008-09 showed that the branch libraries and the Main Library offered weekly activities in support of adult education, literacy, and lifelong learning. On average in the OPL system, 11 libraries in FY 2007-08 and 13 libraries in FY 2008-09 offered activities in support of life-long learning, literacy, and information technology for adults. These activities included book clubs, literacy classes, GED classes, computer learning and tutoring, poetry reading, writers' workshops, local history lectures, knitting, and other activities. Additionally, OPL supported life-long learning in responding to more than 700,000 during FY 2007-08 and more than 600,000 reference questions during FY 2008-09. As stated above, OPL operated the Second Start Adult Literacy Program, which provided instruction for 234 and 283 adults, in FY 2007-08 and FY 2008-09, respectively.
- Objective 6** Requires OPL to expend Measure Q proceeds to operate an African-American museum and library program. OPL has been operating the African-American Museum and Library at Oakland (AAMLO) since 1994. AAMLO provides educational, cultural, and historical information on African Americans in California and the West. The AAMLO supported the objectives of Measure Q in several ways. For example, AAMLO conducted educational tours during FY 2007-08 and FY 2008-09, for three schools and seven schools, respectively. AAMLO offered other educational and cultural activities for adults, children, and youth, including films on Martin Luther King, an event on Children of the Movement, Black History Month activities, and an exhibit on African American Academic Surgeons.
- Objective 7** Requires expenditures of Measure Q proceeds to increase joint educational activities with local schools, including librarian services. The audit's review of management reports and events calendar showed that OPL supported multiple joint activities with Oakland Unified School District in FY 2007-08 and FY 2008-09. For example, branch librarians conducted story times for visiting classes, visited schools, and performed outreach to promote library activities like Family Reading Nights. For several months in both FY 2007-08 and FY 2008-09, OPL also provided drop-in homework help and enrichment activities at four branch libraries through its Oakland Libraries After School program (OLAS) for students in Kindergarten to 6th grade.
- Objective 8** Requires Measure Q proceeds be expended to retain children's librarians in every library facility. The audit's review of children's librarians showed that OPL employed children's librarians at each of the 15 branches and the Main Library during FY 2007-08 and FY 2008-09.
- Objective 9** Requires that expenditures of Measure Q proceeds be used to operate the new joint school-public library in East Oakland. In this regard, OPL used Measure Q proceeds and funding from other sources to construct the East Oakland Community Library. The East Oakland Community Library, which is scheduled to open in early 2011, is 95 percent complete. This new joint school-public library will include various areas, such as an area for story time and family reading, a children's multi-purpose room, teen services, preschool, an adult (quiet) reading room, an Internet Café, a community meeting room, and Library classroom.

Objective 10

Requires expenditures of Measure Q proceeds to upgrade and enhance information technology and improve access to computers and technology in the libraries. The audit found that all OPL libraries made computers available and accessible to the public. OPL's expenditures for information technology were used to enhance and upgrade information technology and make such technology more accessible to the public. OPL expended approximately \$256,000 and \$336,000 in FY 2007-08 and FY 2008-09, respectively, for computer hardware that supports information technology. Purchases to enhance information technology included computers, software, licensing, hardware, and online databases. During FY 2008-09, OPL completed its WiFi installation for all branch libraries, AAMLO and the Main Library, thus making WiFi available to the public.

Objective 11

Requires expenditures of Measure Q proceeds to support after-school homework programs. According to OPL officials, during FY 2007-08 and FY 2008-09, OPL established new homework assistance programs for children and teens. The audit determined that during the school year at the Main Library and branch libraries, OPL offered computer tutoring and drop-in homework assistance for children in Kindergarten to 6th grade through the Oakland Library After School (OLAS) program.

Objective 12

Requires expenditures of Measure Q proceeds to support teen programs. The audit's review of OPL's events calendar shows that, on average, nine of the libraries supported teen programs during FY 2007-08 and FY 2008-09. The teen programs covered activities, such as homework assistance, jewelry making, book clubs, movies and video games.

Conclusion

Since OPL's expenditures were made in support of the 12 objectives, the audit concludes that these expenditures complied with the intent of Measure Q.

CHAPTER 2

THE CITY LACKS APPROPRIATE INTERNAL CONTROLS FOR MEASURE Q PURCHASES, CITIZEN OVERSIGHT OF EXPENDITURES, AND AN ESTABLISHED FINANCIAL RESERVE FUND

Purchasing Procedures Manual

OPL currently does not have a written procedures manual for processing purchases. In 2009, OPL established its Purchasing and Reimbursement Guidelines. However, OPL officials stated that staff was never formally trained on these guidelines. OPL officials explained that most of the staff does not engage in purchasing and that supervisors and certain staff, called selectors, are permitted to select books for purchase. Branch managers are given a budget to make purchases of books and are authorized to approve purchases of books.

An OPL official stated that OPL is currently revising its guidelines for processing purchases to comport with the City's new purchasing process. Thus, OPL lacks formal, written policies and procedures for purchases. The Office's October 2008 audit of Measure Q recommended that OPL develop and implement formal, written policies and procedures for processing purchases. The audit concludes that OPL has yet to develop a formal manual of policies and procedures for processing purchases over which OPL has authority to process.

The audit included a random sample of 30 purchases to verify whether or not OPL's informal procedures for obtaining approvals and receipts for purchases were followed and documented. The audit's random sample was selected from OPL's database of books, materials, periodicals, and computer-related items. As a result of the audit's review, it was confirmed that all 30 purchases sampled did have written, signed approvals for purchases, as well as stamped, signed invoices that indicated the purchase was received. However, because OPL's procedures are being revised, it is not certain if the procedures tested during the audit were complete or accurate, or whether or not additional procedures were otherwise required.

Written policies and procedures are an essential internal control activity to help ensure that management's objectives and directives are properly carried out. These objectives include ensuring assets are properly safeguarded and complying with regulations and laws. Without written procedures, management cannot assure that its purchase directives are properly followed. For example, written procedures that address segregation of duties in the purchase process are important internal control activities intended to prevent or reduce the occurrence of errors or fraud by ensuring that no single individual has control over all phases of a transaction. Written procedures that state which individuals are authorized to access records also help reduce the risk of errors, fraud, misuse, or unauthorized alteration. Thus, the lack of formal, written policies and procedures for making purchases precludes OPL from controlling or otherwise reducing the risk of error or loss from fraud in its purchasing process. To ensure that OPL has controls to reduce the risk of error and

Library Advisory Commission

fraud over its purchasing process, OPL needs to develop, implement, and monitor a formal, written manual of policies and procedures for processing purchases for which OPL has the authority and responsibility.

Measure Q requires the Oakland City Council designate a body comprised of Oakland citizens to make recommendations and review the expenditures of the Measure's funds. To implement this portion of the Measure, the City Council passed an enabling ordinance, which specified, among other things, that the Commission shall be comprised of 15 members and that eight members of the Commission shall constitute a quorum. To become members of the Library Advisory Commission (LAC), individuals are recommended by the Mayor and City Council.

The City Council designated LAC to oversee Measure Q expenditures and make recommendations. The audit's review of LAC found that during FY 2007-08 and FY 2008-09, LAC has never been comprised of 15 members, as required by the City Council's enabling ordinance. During most of FY 2007-08 and FY 2008-09, the membership of LAC varied but, in general, was comprised of 11 members, according to the LAC meeting agendas. In June 2008, the City Council approved a reduction in the frequency of LAC meetings from every month to every other month; the City Attorney indicated that LAC meetings should be canceled when LAC fails to have a quorum. During FY 2007-08 and FY 2008-09, LAC held 12 meetings, but, during this time period, LAC did not reach a quorum at 5 of these meetings. Although meetings were conducted despite the lack of quorum, LAC could not effectively perform its citizen oversight role.

The audit also found that the appointments to LAC continue to be slow. For example, one LAC member resigned in August 2007 and two in November 2007; appointments to fill these three vacancies were, however, not made until March 2008.

An OPL official gave reasons why it was difficult to obtain enough citizens to participate as members on LAC including:

- LAC is advisory and does not have any binding authority
- The 15-member size of LAC is too large as compared to other large cities, such as San Francisco that has 10 members

The Office's October 2008 audit report recommended that OPL should work with the Mayor and City Council to comply with the enabling ordinance, which requires 15-members; it also recommends that the Mayor and City Council improve the timeliness of appointments to LAC. The Mayor and City Council, who have authority to recommend and appoint members for LAC, have not complied with the enabling ordinance to appoint 15 members to LAC. Further, the reduction in the frequency of meetings, together with the lack of quorums at several of the meetings, precludes LAC from effectively carrying out its oversight role, as required by Measure Q. To ensure that LAC is able to perform its citizen oversight role in an effective manner, the Mayor and City Council should investigate alternatives to facilitate appointments to LAC and determine what constitutes a reasonable membership size for this body.

Reserve Fund

Measure Q requires that the City establish and maintain a Reserve Fund in the amount of five percent (5%) of the total parcel tax collected by the City in the previous fiscal year. According to the clarification the Office received from the Office of the City Attorney, the City Administration is responsible for establishing and maintaining the Measure Q Reserve Fund.

An official from the Budget Office acknowledged that the Reserve Fund had not been established. The Budget Office did not set up a project fund to deposit five percent of the parcel tax proceeds for the Measure Q reserve fund and stated that the Controller's Office was responsible for establishing the Measure Q Reserve Fund. The audit found, however, that it is the Budget Office staff's responsibility to establish a reserve fund. Therefore, the responsibility for creating the Measure Q Reserve Fund is with for the Budget Office - not the Controller's Office.

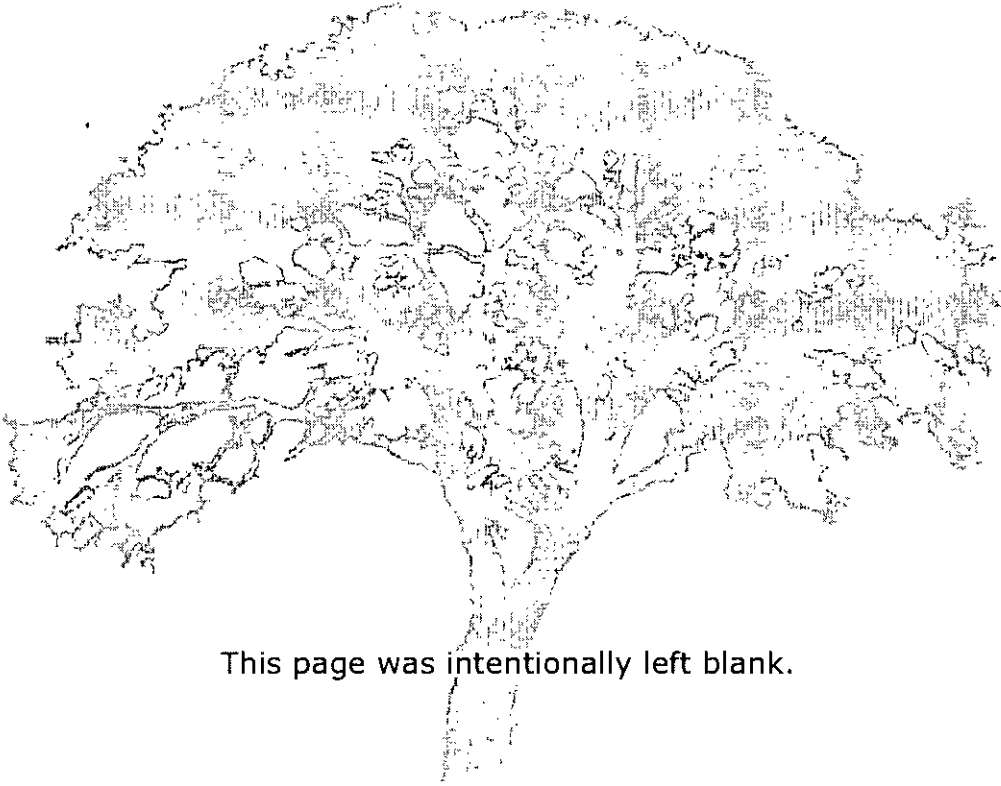
Without the Measure Q Reserve Fund in place, according to the Budget Office official, the requirement to reserve five percent of the audited actual parcel tax proceeds was met by keeping the five percent in the Measure Q Fund (Fund 2240) itself. The audit found Fund 2240 commingled appropriations and other funds. This official also stated that the Measure Q fund balance is not allowed to go below the five percent level when accounts are closed at the end of the fiscal year. The audit confirmed that at the end of FY 2007-08 and FY 2008-09, the Measure Q Fund balance was five percent or greater of the total parcel taxes collected in the prior year. However, though the Measure Q Fund balance did not end below the five percent level, the reserve funds had not been segregated or separately established, as required by Measure Q.

To make certain that Measure Q's required Reserve Fund is established, the City Administrator's Office should direct the Budget Office to establish and maintain the Reserve Fund.

Conclusion

The Office's audit of Measure Q found that OPL expended over \$22.5 million in Measure Q funds during FY 2007-08 and FY 2008-09. Except for questionable expenditures for common area maintenance fees at the Cesar Chavez Branch Library, most of the expenditures were made in accordance with Measure Q. Though the expenditures were largely consistent with Measure Q's intent, several issues identified in the Office's 2008 audit report have not been addressed.

OPL should improve internal controls by developing and implementing a written manual of policies and procedures for processing purchases. The Library Advisory Commission, which has oversight of Measure Q expenditures, continued to operate with fewer than the required 15 members; reduced participation at meetings undermined citizen oversight and the original intent of the Measure. The Mayor and City Council need to find ways to increase participation in the Commission. Finally, the City Administrator's Office should work with the Budget Office to establish and maintain a separate reserve fund, as required by Measure Q.



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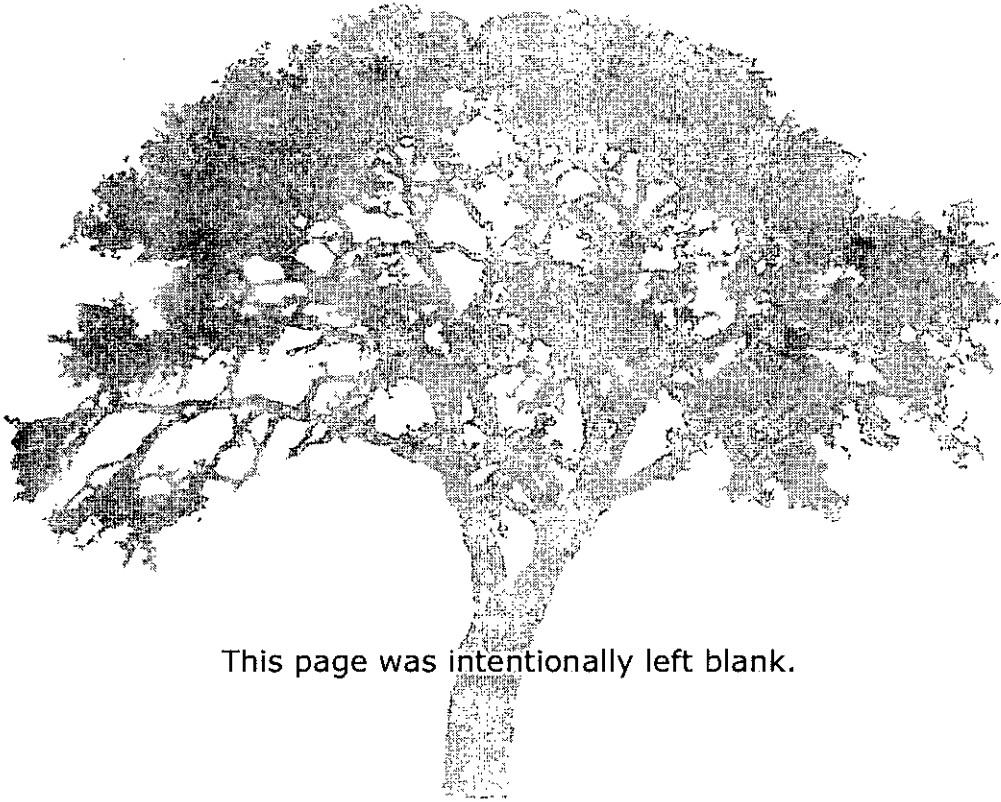
Exhibit 2: RECOMMENDATIONS

We recommend that the City Administration:

Recommendation #1	Direct the Community and Economic Development Agency and Oakland Public Library to work together to identify what Common Area Management fees are not appropriate expenditures for Measure Q and devise a plan for charging such fees to Fund 1010 or the appropriate fund.
Recommendation #2	Direct the Oakland Public Library to develop a formal, written manual of policies and procedures for processing purchases for which OPL has the authority and responsibility, thereby reducing the risk of error and fraud in its purchase process.
Recommendation #3	Direct the Budget Office to establish the Measure Q Reserve Fund, as required by Measure Q, and to obtain OPL's input in doing so.

We recommend that the Mayor and City Council:

Recommendation #4	Investigate alternatives to facilitate appointments to Library Advisory Commission and determine what constitutes a reasonable membership size for LAC.
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CITY OF OAKLAND



CITY HALL • 1 FRANK H. OGAWA PLAZA, 3rd FLOOR • OAKLAND, CALIFORNIA 94612

Office of the City Administrator
Dan Lindheim
City Administrator

(510) 238-3301
Fax (510) 238-2223

September 13, 2010

To: Courtney Ruby, City Auditor

From: Dan Lindheim, City Administrator

Re: Response to Final Draft Measure Q Audit Findings and Recommendations
For Fiscal Years 2007-08, and 2008-09.

I have reviewed the August 27, 2010 Preliminary Draft Measure Q Performance Audit report and am pleased that the City Auditor has confirmed that the City has expended Measure Q funds in accordance with the provisions of the ballot measure.

Responses to the four recommendations included in the Audit Report are provided below.

Recommendation No.1:

Direct the Community and Economic Development Agency (CEDA) and the Oakland Public Library (OPL) to work together to identify what Common Area Management (CAM) fees are not appropriate expenditures for Measure Q and devise a plan for charging such fees to Fund 1010 or the appropriate fund.

Response:

Since the City Auditor has now identified \$21,924 in annual CAM charges that it has determined should not be paid from Measure Q, the Library will work with the City Finance and Management Agency to repay those expenses to Fund 2240 and charge them to Fund 1010. In addition, the Library will utilize the City Auditor's findings to ensure that those items identified are correctly charged to Fund 1010 in the future. This action will be completed by November 30, 2010.

Recommendation No.2:

Direct the Oakland Public Library to develop a formal, written manual of policies and procedures for processing purchases for which OPL has the authority and responsibility, in order to reduce the risk of error and fraud in its purchase process.

Response:

The Library Department's Fiscal and Accounting Services Unit will design a Purchasing Policy and Procedure Manual based on current practices and routines. This manual will be completed by November 1, 2010.

Recommendation No.3:

Direct the Budget Office to establish the Measure Q Reserve Fund, as required by Measure Q, and obtain OPL's input in doing so.

Response:

My office will direct the Budget Office to work with Library Staff to establish a reserve fund; however I cannot provide a deadline at this time.

Recommendation No.4: The last recommendation is directed to the Mayor and City Council: Investigate alternatives to facilitate appointments to Library Advisory Commission (LAC) and determine what constitutes a reasonable membership size for the LAC.

Response:

Library staff concurs with this recommendation, and I am directing the Library Director to provide a report and recommendation to the City Administrator's Office regarding this issue. It is my understanding that over the past year, the LAC has welcomed 4 new members, bringing the total number of Commissioners to 11, and has conducted regular bi-monthly meetings, with a quorum, during the last fiscal year. This report will be completed by November 19, 2010.

In summary, I am pleased that the audit determined that "except for CAM expenditures associated with Cesar Chavez Branch Library," the Measure Q expenditures – both O&M and Personnel – were consistent with Measure Q's intent. Additionally, the recommendation for written policies and procedures relative to the purchasing of books and other information materials will continue to ensure that Measure Q funds are used in accordance with the intent of Measure Q.

Thank you,

Dan Lindheim

cc: Carmen Martinez
Walter Cohen
Cheryl Taylor
Joe Yew

Analysis and Summary of Actions Necessary to Close the Report

We provided a final draft audit report to the City Administrator's Office, the Budget Office, and the Oakland Public Library for review and comment. The City Administrator's Office and the Oakland Public Library's response describes their actions taken or plans for implementing our recommendations. The Analysis and Summary of Actions Necessary to Close the Report summarizes our analysis of the agreements among the Office of the City Auditor, the City Administrator's Office, and the Oakland Public Library necessary to close the report. The status of each of the five recommendations at the time of publication for this audit is resolved or partially resolved.⁵

Recommendation #1

Resolved – The City Administration agreed that OPL will work with the City Finance and Management Agency to reimburse Fund 2240 for CAM fees in the amount of \$21,924 and charge these funds to Fund 1010. Additionally, the City Administration agreed that OPL will ensure that CAM items identified as inappropriate charges for Measure Q will be correctly charged to Fund 1010 in the future. The City Administrator stated that these actions are to be completed by November 30, 2010.

To close this recommendation, the City Administration should provide documentation to show that annual CAM fees of \$21,924 for FY 2007-08 and FY 2008-09 were charged to Fund 1010. Additionally, OPL should develop the criteria and procedure to correctly charge Fund 1010 CAM fees that are not appropriate expenditures for Measure Q in the future. These actions should be completed by November 30, 2010.

The Office followed-up on three October 2008 Measure Q audit recommendations related to facilities support charges and CAM fees:

Closed (Recommendation #1) - In response to the audit's findings, the Public Works Agency reimbursed the Measure Q Fund \$60,537 in overcharges for General Facilities Support services, and in the future, will assess Fund 1010 for General Facilities Support charges that exceed budgeted costs for General Facilities Support Services.

Closed (Recommendation #2) - In response to the audit's findings, the Budget Office established a baseline budget that incorporated General Facilities Support charges based on the most recent prior fiscal year actuals.

Resolved (Recommendation #3) - Implementation of the new Recommendation #1 will also close the Recommendation #3 on CAM fees from the previous report.

⁵ **Unresolved** status indicates no agreement on the recommendation or the proposed corrective action. Implementation of proposed corrective action is directed in the City Auditor's Analysis and Summary of Actions Necessary to Close the Report. **Partially Resolved** status indicates partial agreement on the recommendation or the proposed corrective action. Implementation of the proposed corrective action is clarified in the Analysis and Summary of Actions Necessary to Close the Report. **Resolved** status indicates agreement on the recommendation and the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee. **Closed** status indicates the agreed upon corrective action is complete and the impact of the action will be reviewed during future audit recommendation follow-up.

<p>Recommendation #2</p>	<p>Resolved – The City Administration agreed that OPL’s Fiscal and Accounting Services Unit will design a Purchasing Policy and Procedure Manual based on current practices and routines and stated that these actions are to be completed by November 1, 2010.</p> <p>To close this recommendation, OPL should provide the completed Purchasing Policy and Procedure Manual and a training schedule for employees who will be making OPL purchases to the Office of the City Auditor by November 30, 2010. The Manual should include procedures on reducing the risk of error and potential fraud in the purchasing process.</p>
	<p>The Office followed-up on two October 2008 Measure Q audit recommendations related to Measure Q purchases and the purchasing process:</p> <p>Resolved (Recommendations #4 and #5) – Implementation of the new Recommendation #2 will also close Recommendations #4 and #5 on Measure Q purchases and purchasing processes from the previous report.</p>
<p>Recommendation #3</p>	<p>Resolved – The City Administration agreed that the Budget Office will work with OPL staff to establish a Measure Q reserve fund.</p> <p>To close this recommendation, the City Administration should provide documentation to show that a separate Measure Q Reserve Fund was established. The documentation should show that the Budget Office, in conjunction with OPL, developed procedures for calculating Measure Q’s required reserve amounts each fiscal year, identified staff responsible for monitoring the Fund, and described how appropriations from the Fund will be processed. These actions should be completed and documentation provided to the Office of the City Auditor by November 30, 2010.</p>
	<p>The Office followed-up on two October 2008 Measure Q audit recommendations related to the Measure Q reserve fund requirement:</p> <p>Resolved (Recommendations #6 and #7) – Implementation of the new Recommendation #3 will also close Recommendations #6 and #7 on the Measure Q reserve fund from the previous report.</p>

We recommend that the Mayor and City Council:

Recommendation #4

Partially Resolved - The City Administration agreed that the OPL Director will provide a report and recommendation to the City Administrator's Office regarding the appointments to the LAC and that this report would be provided by November 19, 2010.

To close this recommendation, the City Administration should provide documentation to show that OPL reported on its recommendations for the LAC. OPL's recommendations should address the appropriate size of the LAC and alternatives to facilitate appointments to the LAC to ensure that the LAC operates as an effective citizen oversight committee. These actions should be completed and documentation provided to the Office of the City Auditor by November 30, 2010. Additionally, the City Administration should prepare a report for the City Council to identify options for improving LAC citizen oversight proposed by the OPL Director by December 31, 2010.

The Office followed-up on one October 2008 Measure Q audit recommendation related to the Library Advisory Commission:

Partially Resolved (Recommendation #8) - Implementation of the new Recommendation #4 will also close Recommendation #8 on the Library Advisory Commission from the previous report.

City of Oakland Office of the City Auditor

July 15, 2010

Audit Recommendation Follow-Up Report

Measure K & Measure Y Performance Audits

City Administration Fully Implements 22 of 28 Recommendations

Prompt Corrective Action on Open Recommendations Needed



City Auditor
Courtney A. Ruby, CPA, CFE

Recommendation Follow-Up



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July 15, 2010

OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
OAKLAND, CALIFORNIA

**RE: AUDIT RECOMMENDATION FOLLOW-UP REPORT FOR MEASURE K AND
MEASURE Y PERFORMANCE AUDITS**

Dear Mayor Dellums, President Brunner, Members of the Council and Citizens of Oakland:

Attached is the audit recommendation follow-up report from the Office of the City Auditor (Office), which focuses on the recommendations from the Measure K audit on baseline-funding for children and youth services, issued in May 2008, and the audit of Measure Y violence prevention grants, issued in August 2009.

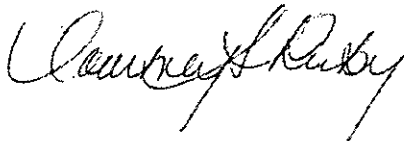
The City Administration has employed two different approaches to implement the reports' audit recommendations – one ineffective and the other a model approach. Audits are an objective assessment of whether public resources are responsibly and effectively managed to achieve intended results. However, it is not until an audit's recommendations are implemented that the full public benefit can be realized through operational efficiencies, increased accountability, and proper safeguarding of City assets. Therefore, it is critical that the City Administration act upon its fiscal responsibility to the citizens through the timely implementation of audit recommendations.

The Office's follow-up on the Measure K recommendations found that two years after the audit report's issuance, the City Administration still has taken no steps to address the lack of internal controls that ensure appropriate funding for youth and children services. This delay in implementing the report's recommendations – to develop policies and procedures for calculating baseline-funding – puts approximately \$10 million at risk of miscalculation and misappropriation every year.

The Office's follow-up on the Measure Y recommendations, on the other hand, found that the City Council, City Administrator's Office and Department of Human Services fully implemented 22 of 23 recommendations less than one year after the audit report's issuance. This prompt implementation has enhanced internal controls over an average of \$7.5 million in annual grant funding and has improved oversight of grantees by the City. It also has increased preventive measures against fraud, thereby increasing accountability for all organizations that receive City funds for violence prevention programs. The collaborative effort undertaken to implement Measure Y recommendations is a model approach and one that should guide all future audit recommendation implementation for the City.

It is when the City's leadership prioritizes the timely implementation of audit recommendations that we deliver on our promise to the public - to serve as effective stewards of the City's assets and continue to be deserving of their trust.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Courtney A. Ruby".

COURTNEY A. RUBY, CPA, CFE
City Auditor

Table of Contents

Overview	1
Measure K Overview	5
Measure K Recommendations	7
Measure Y Overview	9
Measure Y Recommendations	11

Overview

The true impact of an audit is achieved when the City Administration ensures prompt and proper implementation of audit recommendations. Corrective action taken by the City Administration on audit findings is essential to improving the effectiveness and efficiency of Oakland's operations.

Follow-Up Process

The purpose of the follow-up process is to assess the status of full implementation of audit recommendations and to then close the recommendations. If a recommendation is not closed or fully implemented, it is considered open. Open recommendations are comprised of unresolved, partially resolved and resolved recommendations.

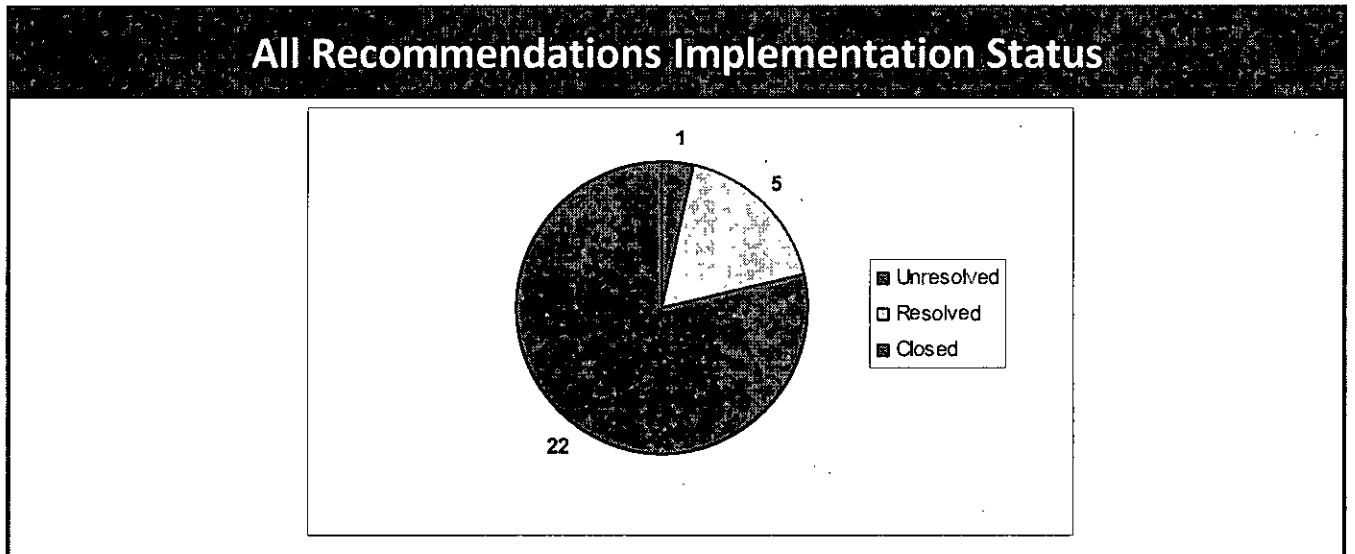
Follow-up reports are released on a quarterly basis, as required by the City Charter. These reports may combine more than one audit or focus on groups of recommendations from larger audits. During audit recommendation follow-up, the Office of the City Auditor (Office) assesses if corrective action has occurred through documentation review, interviews or on-site visits.

For any recommendations not fully implemented, the Office undertakes a collaborative process with the auditee to identify any potential barriers to full implementation. The Office then works with the auditee to identify corrective action that can be successfully implemented. Once the auditee's corrective action has been assessed, a determination on the implementation status of recommendations is made. The table below shows the four implementation status categories.

Recommendation Implementation Status	
Unresolved	No agreement on the recommendation or the proposed corrective action. Implementation of recommended corrective action is specified in the City Auditor's Audit Recommendation Follow-up Report.
Partially Resolved	Partial agreement on the recommendation or the proposed corrective action. Implementation of the proposed corrective action is clarified in the City Auditor's Audit Recommendation Follow-up Report.
Resolved	Agreement on the recommendation and the proposed corrective action. At the time of the audit recommendation follow-up, implementation of the proposed corrective action has not occurred.
Closed	Agreed upon corrective action complete. The corrective action is reviewed during the audit recommendation follow-up by the Office of the City Auditor and found to be fully implemented.

Summary of Results

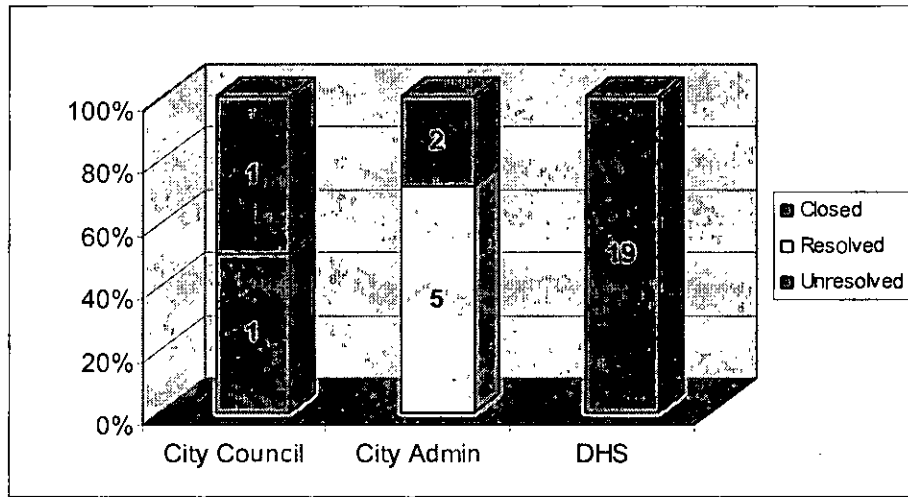
This report focuses on the implementation status of audit recommendations for the Measure K and Measure Y performance audits. Overall, the City Administration fully implemented and closed 22 of 28 open recommendations (79%) from both reports, as shown in the exhibit below. Five recommendations are resolved and have agreed upon corrective action, but the follow-up found the recommendations had not yet been implemented. One recommendation remains unresolved with corrective action not yet agreed upon.



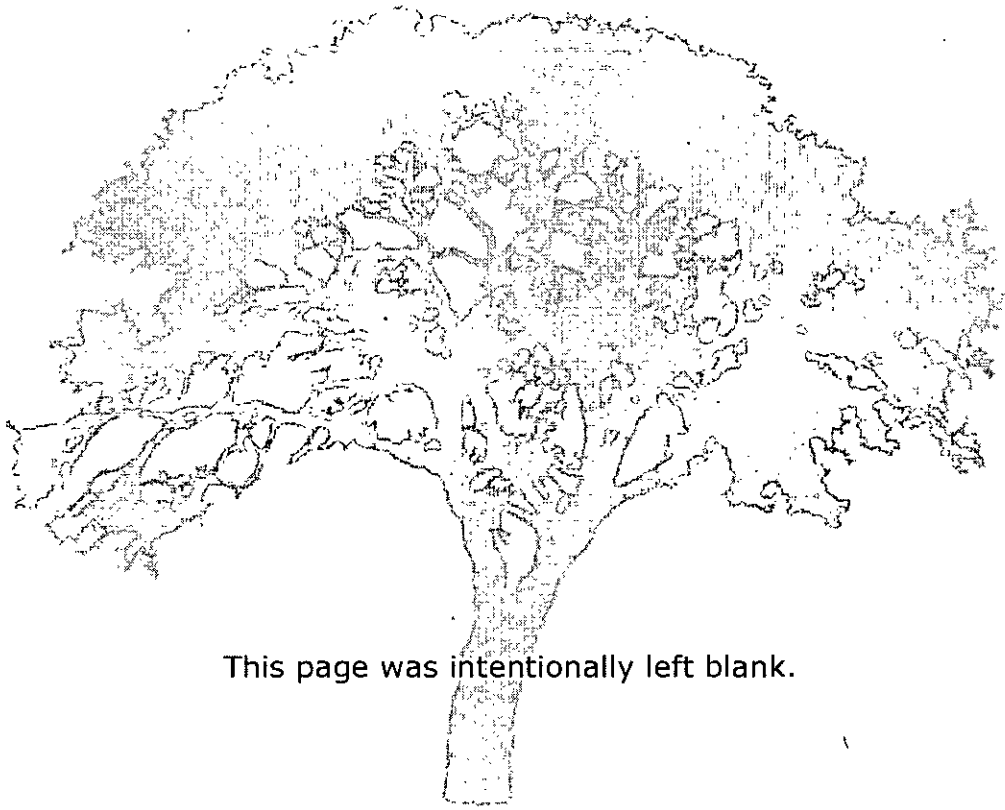
The three entities responsible for the implementation of the Measure K and Measure Y recommendations are the City Council, the City Administrator's Office and the Department of Human Services, as shown in the exhibit on the following page:

- Of the two recommendations directed to the City Council, one remains unresolved.
- Of the seven recommendations directed to the City Administrator's Office, five remain resolved but without implementation of the agreed upon corrective action
- Of the 19 recommendations directed to the Department of Human Services, all have been closed.

Implementation Status of All Recommendations by Responsible Entity



The balance of the report focuses on Measure K and Measure Y separately and details the implementation status of each recommendation.



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Measure K Overview

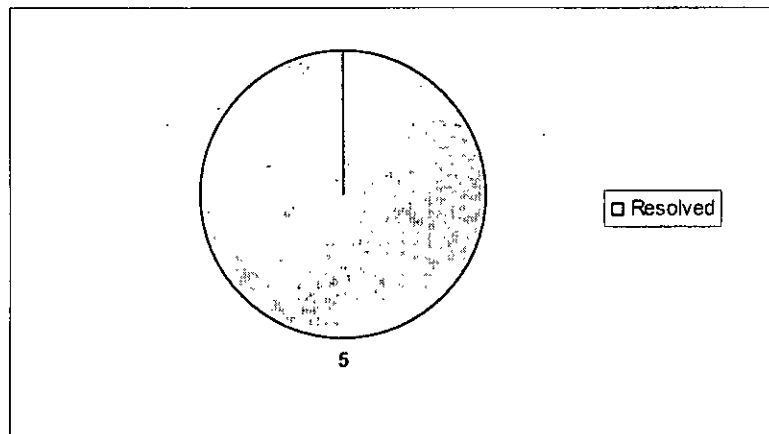
The Measure K Performance Audit was issued on May 29, 2008. The objectives of this audit were to:

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
3. Assess the City's internal controls used to comply with Measure K

Implementation Status of Recommendations

Of the five recommendations from the Measure K audit, all five remain open, with the City Administrator's Office being the sole responsible party to implement the recommendations, as shown in the exhibit below. At the time of the report, the Office of the City Auditor and the City Administrator's Office reached full agreement on the corrective action needed to close the recommendations; however, the City Administration has taken no action to implement the recommendations over two years after the report's issuance.

Measure K - Recommendations Implementation Status



The City Administrator's Office explained that none of the Measure K recommendations had been implemented due to a desire to implement the audit recommendations from the Measure K 2.5% Set-Aside Performance Audit (issued in July 2009) before addressing the audit recommendations from the Measure K Performance Audit.

Implementation of the Measure K audit recommendations is not interdependent on the implementation of the Measure K 2.5% Set-Aside audit recommendations. The City Administration's preference to complete implementation of the set-aside audit recommendations first has created an unnecessary delay to fully implement the Measure K audit recommendations.

The effect of not implementing Measure K audit recommendations is a continued lack of written policies and procedures for calculating and appropriating baseline-funding for children and youth services on a fiscal year basis by the City Administration. This lack of internal controls continues to put the City at risk of not meeting the voters' intention of baseline-funding for children and youth services. Furthermore, this delay in implementing the report's recommendations puts approximately \$10 million at risk of miscalculation and misappropriation every year.

In the current context of extremely limited budget resources, the City Administration must safeguard all funds. For those dollars approved through voter mandate such as Measure K, the added responsibility of meeting clearly defined objectives and the public's expectation through rigorous policies and procedures is essential.

Open Recommendations: Measure K

Open recommendations are unresolved, partially resolved or resolved recommendations, where corrective action has not yet been fully agreed upon or implemented by the City Administration at the time of the Office of the City Auditor's follow-up. Steps to close recommendations along with updated deadlines are provided to assist the City Administration in implementing the corrective action. Future audit follow-up by the Office of the City Auditor will continue to review the implementation of recommendations.

Internal controls should be documented in writing, and at a minimum, should include the following:

<p>Recommendation #1</p> <p>Resolved</p>	<p>Policies that require adherence to Measure K's required level of appropriations – 5.16 percent of the actual unrestricted general fund revenues.</p> <p>The City Administration should provide the Office of the City Auditor a copy of written policies and procedures in accordance with the baseline-funding audit recommendations by August 31, 2010. Since baseline-funding requirements in Measure K have been replaced by Measure D, policies and procedures developed by the City Administration should be consistent with Measure D requirements.</p>
<p>Recommendation #2</p> <p>Resolved</p>	<p>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.</p> <p>The City Administration should provide the Office of the City Auditor a copy of written policies and procedures in accordance with the baseline-funding audit recommendations by August 31, 2010. Since baseline-funding requirements in Measure K have been replaced by Measure D, policies and procedures developed by the City Administration should be consistent with Measure D requirements.</p>
<p>Recommendation #3</p> <p>Resolved</p>	<p>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.</p> <p>The City Administration should provide the Office of the City Auditor a copy of written policies and procedures in accordance with the baseline-funding audit recommendations by August 31, 2010. Since baseline-funding requirements in Measure K have been replaced by Measure D, policies and procedures developed by the City Administration should be consistent with Measure D requirements.</p>
<p>Recommendation #4</p> <p>Resolved</p>	<p>Designation of personnel responsible for compiling and determining each department or agency's appropriations for children and youth services.</p> <p>The City Administration should provide the Office of the City Auditor a copy of written policies and procedures in accordance with the baseline-funding audit recommendations by August 31, 2010. Since baseline-funding requirements in Measure K have been replaced by Measure D, policies and procedures developed by the City Administration should be consistent with Measure D requirements.</p>

<p>Recommendation #5</p> <p>Resolved</p>	<p>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.</p> <p>The City Administration should provide the Office of the City Auditor a copy of written policies and procedures in accordance with the baseline-funding audit recommendations by August 31, 2010. Since baseline-funding requirements in Measure K have been replaced by Measure D, policies and procedures developed by the City Administration should be consistent with Measure D requirements.</p>

Closed Recommendations: Measure K	
<p>Closed recommendations have been fully implemented by the City Administration and have been assessed by the Office of the City Auditor to have fully addressed the findings from the audit report.</p>	
None	

Conclusion

At the time the Measure K Performance Audit was released, the Office of the City Auditor and the City Administration agreed on the corrective action necessary to close the recommendations. The audit follow-up, however, found that no steps have been taken by the City Administration to address the audit report's findings and recommendations. Prompt attention to closing Measure K recommendations is necessary to ensure the City is appropriately calculating the required funding for children and youth services.

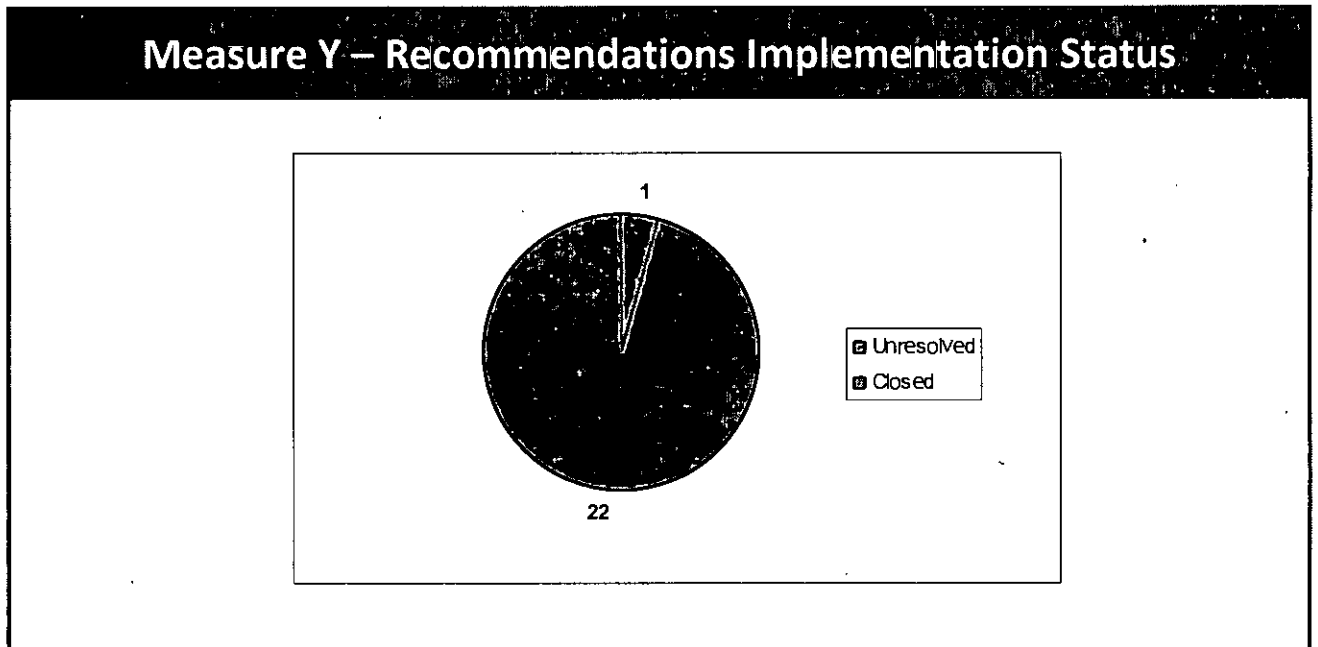
Measure Y Overview

The Measure Y Violence Prevention Grants Performance Audit was issued on August 31, 2009. The objectives of this audit were to assess:

1. DHS' administration of the program, its oversight and monitoring of grantee activities
2. The extent to which grantees have administered the grants in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant awards
3. The effectiveness of the process for evaluating Measure Y grants.

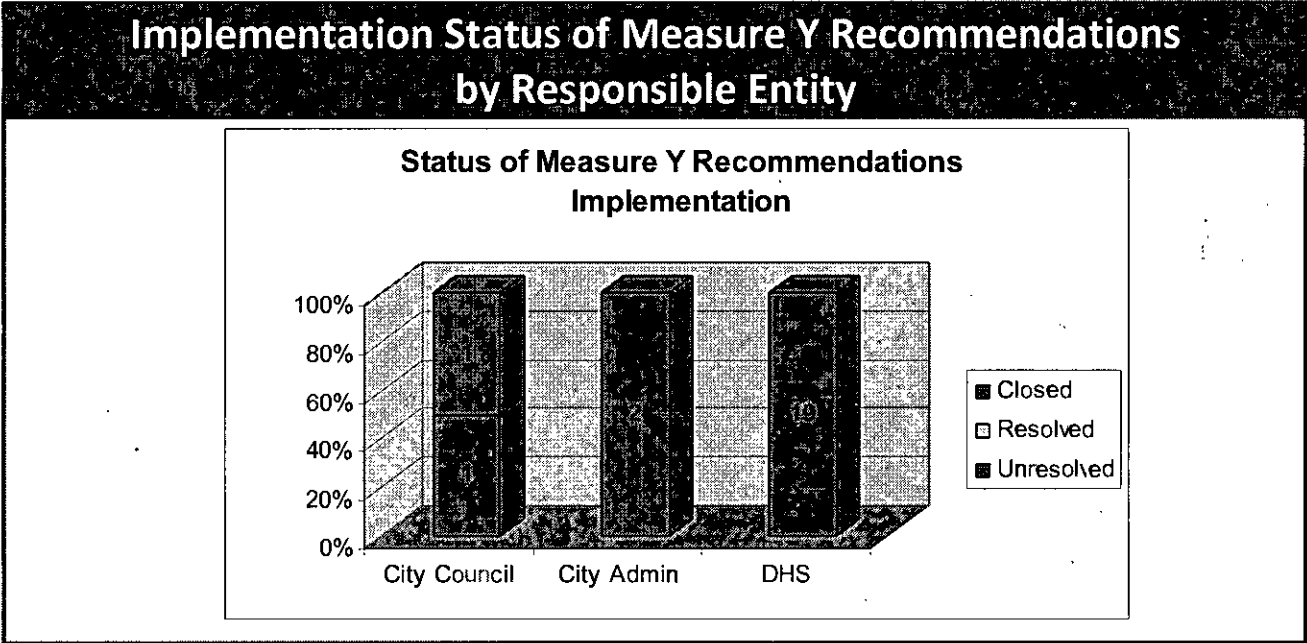
Implementation Status of Recommendations

Of the 23 recommendations from the Measure Y audit, one remains open. This final open recommendation is unresolved to reflect the decision by the Office of the City Auditor and the Department of Human Services to direct the recommendation to City Council for policy direction. We commend the City Administration for meeting the agreed upon deadlines to fully implement and close 22 of 23 Measure Y recommendations, as shown in the exhibit below, less than one year after the report's issuance.



The effect of DHS' prompt and proper implementation of Measure Y audit recommendations is enhanced internal controls over an average of \$7.5 million in annual grant funding and increased preventive measures against fraud for community organizations providing violence prevention programs.

The implementation status of Measure Y recommendations exhibit below shows that of the 23 Measure Y recommendations, 22 have been closed. The one remaining recommendation is directed to the City Council and remains unresolved.



Open Recommendations: Measure Y

Open recommendations are unresolved, partially resolved or resolved recommendations where corrective action has not yet been fully agreed upon or implemented by the City Administration at the time of the Office of the City Auditor's follow-up. Steps to close recommendations are provided to assist the City Administration in implementing the corrective action. Future audit follow-up by the Office of the City Auditor will continue to review the implementation of recommendations.

The audit report includes recommendations to improve the award process, grant management and monitoring efforts, as well as the process for evaluating the Measure Y grants. Specifically, we recommend the following:

<p>Recommendation #12</p> <p>Unresolved</p>	<p>Implement a verification process for ensuring that grantees are providing Measure Y services to Oakland residents only. It should also enforce its contract by disallowing reimbursement to grantees that cannot provide eligibility information on Measure Y participants.</p> <p>The Office of the City Auditor and the Department of Human Services agree that Recommendation #12 requires policy direction from City Council on whether grantees should provide Measure Y services only to Oakland residents. Once City Council provides policy direction, it will become an administrative matter for the City Administrator's Office to formalize and implement through written policies and procedures.</p>
--	---

Closed Recommendations: Measure Y

Closed recommendations have been fully implemented by the City Administration and have been assessed by the Office of the City Auditor to have fully addressed the findings from the audit report.

<p>Recommendation #1</p>	<p>Adhere to the selection criteria of grantee applicants that are specified in the RFP and clearly define the criteria for "a proven track record" of providing violence prevention services in its next RFP.</p>
<p>Recommendation #2</p>	<p>Ensure that the selection process for grantee applicants is clearly defined if the RFP process is not utilized.</p>
<p>Recommendation #3</p>	<p>Continue to develop written policies and procedures for grant management and provide adequate staff training to ensure the appropriate execution of such policies and procedures.</p>
<p>Recommendation #4</p>	<p>Develop a formal program to address the training needs of the grant management staff.</p>

Recommendation #5	Establish formal processes for detecting and preventing fraud on the part of the Measure Y Violence Prevention Program grantees and require grant management staff to perform annual fraud assessments of grantees as part of their annual site visits of grantees.
Recommendation #6	Develop a Measure Y Grant Manual for the grantees that are awarded Measure Y funds to ensure that all Measure Y grants are administered consistently and grantees are required to adhere to the same guidelines.
Recommendation #7	Develop and distribute a user's manual for the Cityspan database to all grantees.
Recommendation #8	Define specific parameters for issuing payments when grantees do not meet their deliverables.
Recommendation #9	Further define the criteria for assessing whether grantees met their deliverables and the positive and negatives incentives for meeting or not meeting the required deliverables. The criteria and incentives should be clearly spelled out in the grant agreements.
Recommendation #10	Implement a formal course of action to address attendance issues with grantees.
Recommendation #11	Further develop a written policy and procedure for ensuring that staff verifies that grantees maintain eligibility information on participants served. It should also specify an appropriate level of sampling to ensure that eligibility problems are identified and corrected.
Recommendation #13	Review and make timely and necessary adjustments to approved grantee budgets.
Recommendation #14	Improve the method of follow-up and tracking corrective action.
Recommendation #15	Pursue a more active role in directly monitoring all of the Measure Y sub-grantees. In addition, further refine the policies and procedures for monitoring sub-grantees and establish the specific responsibility the lead agency will have in those monitoring efforts.
Recommendation #16	Require grant managers to maintain documentation from grantee site visits and expand their sampling of budget line items and client files. In addition, it should establish policies and procedures for supervisory review of the Site Visit Checklists and supporting documentation prior to issuing a Site Visit Summary.
Recommendation #17	Establish policies and procedures for internal records retention and also require staff to comply with them.
Recommendation #18	Improve its documentation to support quarterly payments that are not in the amount of the scheduled contract amount.

Recommendation #19	Ensure consent forms for the evaluators are completed by all program participants.
Recommendation #20	Implement a mechanism to ensure grantees provide complete and accurate demographic data for evaluators to use in assessing program outcomes.
Recommendation #21	Ensure that grantees properly collect and report on performance data needed to evaluate their program.
Recommendation #22	Ensure that all Measure Y Violence Prevention Program grantees are evaluated.
Recommendation #23	Establish clear roles and responsibilities for providing oversight and technical direction to the program evaluators.

Conclusion

The City Council, City Administrator's Office, and Department of Human Services' commitment to implementing the Measure Y audit recommendations is commendable and should serve as a model for how future audit recommendations are implemented for the City.

For the one remaining open recommendation, policy direction is sought from the City Council on whether Measure Y services are to be provided to both Oakland residents and non-residents. Currently, the City Administration is not able to state the percentage of services that are provided to residents versus non-residents. In the current context of extremely limited budget resources, it is essential that the City Administration be able to discern who the beneficiaries of the City's services are to justify Measure Y expenditures to the public. Clear policy direction from the City Council will ensure the City Administration has proper direction to meet the public's expectations.



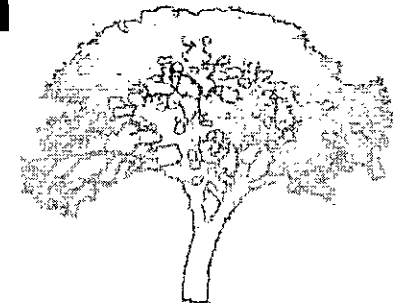
City Auditor
Courtney A. Ruby, CPA

Office of the City Auditor

**Measure K, Measure Y,
and Measure Q**

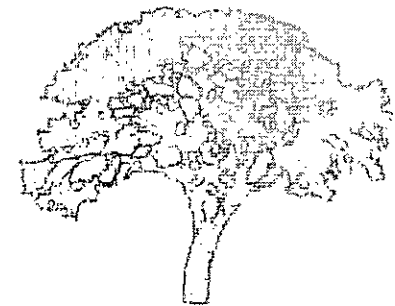
**Audit Recommendation
Follow-up**

February 1, 2011



Audit Recommendation Follow-up Background

- Audit Recommendation Follow-up Reports ensure prompt and full implementation of recommendations by the City Administration
- Audit Recommendation Follow-up Reports are required by the City Charter and prepared as a stand-alone report or integrated into a full audit report



Audit Recommendation Follow-up Methodology

- Office of the City Auditor assesses if corrective action has occurred through documentation review, interviews or on-site visits
- For open recommendations, the Office works collaboratively with the auditee to:
 - Identify potential barriers to full implementation
 - Determine strategies to successfully implement corrective actions
 - Specify a timeframe for implementation of remaining corrective actions



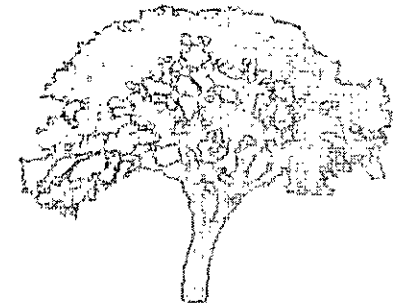
Audit Recommendation Follow-up Results

- ❑ The City Administration employed different approaches to implement the Measure Y, Measure K, and Measure Q audit recommendations
 - Measure Y – a model approach
 - Measure K and Measure Q – ineffective approach



Measure Y

- ❑ Within one year of the audit report's issuance, the City Administration closed 22 of the 23 audit report recommendations - a model process
- ❑ **Impact: Enhanced internal controls over an average of \$7.5 million in annual grant funding and increased preventive measures against fraud**



Measure Y (continued)

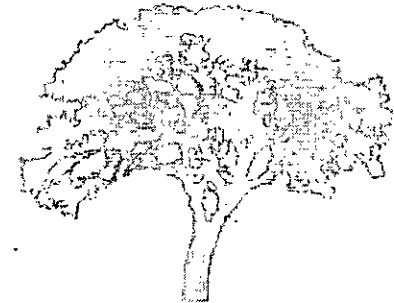
- Office of the City Auditor and the Department of Human Services agree that the last open recommendation requires City Council policy direction and potential administrative follow-up by the City Administrator's Office
 - Recommendation: Implement a verification process for ensuring that grantees are providing Measure Y services to Oakland residents only. Enforce contracts by disallowing reimbursement to grantees that cannot provide eligibility information on Measure Y participants
 - a Underlying Issue: The intent of Measure Y is to lower the incidence of violence throughout Oakland using funding generated by the City's parcel and parking tax revenue, paid for by Oakland residents. The City Administration believes that requiring proof of residency for very high risk clients will be an impediment to providing services

Measure K

- ❑ Over two years after the issuance, the City Administration has taken no steps to implement the audit report's five recommendations
- ❑ City Auditor's Office and the City Administration reached full agreement at the time of the audit on the corrective actions needed to close the recommendations
 - All five recommendations focus on the City Administration developing written policies and procedures, to ensure adherence to Measure K's required level of appropriations and to establish a clearly defined process with designated personnel to calculate the City's baseline-funding for children and youth services
- ❑ **Impact: Approximately \$10 million at risk of miscalculation and misappropriation each year**

Measure Q

- During the fieldwork for the 2010 Measure Q audit report, the Office of the City Auditor reviewed the implementation status of the 2008 Measure Q report recommendations
 - Of the report's eight recommendations – two had been fully implemented and were closed while six remained open



Measure Q (continued)

- **The 2010 Measure Q audit report consolidated the remaining open recommendations from the 2008 report into four recommendations**
 - **Repeat recommendations include: ensuring fees are appropriately charged to the Measure Q fund, revising the Measure Q purchasing manual, establishing a Measure Q Reserve Fund, and evaluating the size and appointment process of the Library Advisory Commission**
- **Impact: Library specific purchasing procedures are needed to ensure the appropriateness of library expenditures; a separate Measure Q reserve fund has not been established; and issues impacting citizen oversight of Measure Q expenditures by the Library Advisory Commission remained unaddressed**

Next Steps

- **City Council Recommendation Implementation**
 - Request that the City Council provide policy direction for the last open recommendation for Measure Y at a future date

- **City Administration Recommendation Implementation**
 - Immediately implement the five audit recommendations as agreed to during the audit and reduce the risk of miscalculation and misappropriation of baseline funding for children and youth services
 - Immediately implement the four open recommendations as agreed to during the audit and reduce the risk of inappropriate purchases, lack of reserve fund, and inadequate oversight by the Library Advisory Commission



■ Questions?

