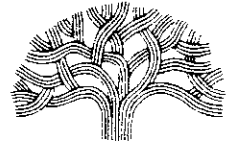


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CITY OF OAKLAND



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September 23, 2003

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

President De La Fuente and Members of the City Council:

**SUBJECT: CITY AUDITOR'S QUARTERLY REPORT ON THE STATUS OF
RECOMMENDATIONS FOR THE QUARTER ENDED MARCH 31, 2003**

Attached is a copy of the City Auditor's Quarterly Report on the Status of Recommendation for the Quarter Ended March 31, 2003. Included in the report is a listing of work-in-process by the City Auditor's Office. Also included is the latest tally of Good Government inquiries.

The purpose of this report is to inform the Council of areas where changes in procedures could result in better controls, greater efficiencies and reduced opportunities for the loss of City resources.

Prepared by:

MICHAEL KILIAN, CPA
Chief Deputy City Auditor

Issued by:

ROLAND E. SMITH, CPA
City Auditor

Attachments

10.23cc
ORA/COUNCIL
SEP 30 2003

Finance & Management
September 23, 2003

**STATUS OF RECOMMENDATIONS
 FOR QUARTER ENDED MARCH 31, 2003**

Report Title/#: Empowerment Zone/Enterprise Community Social Services Block Grant; #00-021			
Report Date: January 28, 2003			
Background: Compilation of financial data for the seven years ended June 30, 2002.			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
1. Reimbursement requests submitted to the State Government are insufficient in amount and not timely.	<ul style="list-style-type: none"> • Submit reimbursement requests for a sufficient amount and on a timely basis. • Transfer cost overdraft to the general fund. 	<ul style="list-style-type: none"> • Implemented. • In process. 	<ul style="list-style-type: none"> • Decreases interest income and increases use of City funds. • Costs not funded.
2. There is an erroneous transaction recorded for interest on investments.	<ul style="list-style-type: none"> • Submit a correction journal. 	<ul style="list-style-type: none"> • Implemented. 	<ul style="list-style-type: none"> • Inaccurate accounting and financial reporting.
3. Grant funds were not accounted for with separate fund numbers and therefore commingled.	<ul style="list-style-type: none"> • Do a reconciliation and account for grant funds with separate fund numbers. 	<ul style="list-style-type: none"> • In process. 	<ul style="list-style-type: none"> • Inaccurate accounting and financial reporting.

Report Title/#: Enhanced Enterprise Community Economic Development Initiative Grant; #01-051			
Report Date: January 28, 2003			
Background: Compilation of financial data for the seven years ended June 30, 2002.			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
1. Reimbursement requests submitted to the Federal Government are insufficient in amount and not timely.	<ul style="list-style-type: none"> • Submit reimbursement requests for a sufficient amount and on a timely manner. 	<ul style="list-style-type: none"> • Implemented. 	<ul style="list-style-type: none"> • Decreases interest income and increases use of City funds.
2. Grant funds were not accounted for with separate fund numbers and therefore commingled.	<ul style="list-style-type: none"> • Do a reconciliation and account for loan funds with separate fund numbers. 	<ul style="list-style-type: none"> • In process. 	<ul style="list-style-type: none"> • Inaccurate accounting and financial reporting.

Report Title/#: Enhanced Enterprise Community Revolving Loan and Housing & Urban Development Section 108 Funds; #01-044			
Report Date: December 4, 2002			
Background: Compilation of financial data for the six years ended June 30, 2002.			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
3. Reimbursement requests submitted to the Federal Government are insufficient in amount and not timely.	<ul style="list-style-type: none"> Submit reimbursement requests for a sufficient amount and on a timely basis. 	<ul style="list-style-type: none"> Implemented. 	<ul style="list-style-type: none"> Decreases interest income and increases use of City funds.
4. Loan funds were not accounted for with separate fund numbers and therefore commingled.	<ul style="list-style-type: none"> Do a reconciliation and account for loan funds with separate fund numbers. 	<ul style="list-style-type: none"> In process. 	<ul style="list-style-type: none"> Inaccurate accounting and financial reporting.

Report Title/#: Review of the Lease Agreement Between the City of Oakland and the Clay Street Garage Corporation; # 02 032			
Report Date: November 12, 2002			
Background: The Clay Street Garage Corp. manages and operates the City-owned Clay Street Garage.			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
1. Inaccurate list of employees receiving City paid parking on a monthly basis.	<ul style="list-style-type: none"> Review the City paid monthly parking list each month to ensure that only currently authorized employees are receiving this benefit. 	<ul style="list-style-type: none"> Implemented. 	<ul style="list-style-type: none"> Revenue loss.
2. Garage attendant thefts charged to the City.	<ul style="list-style-type: none"> Add an amendment to the Agreement to include the cost responsibility for theft by garage attendants. 	<ul style="list-style-type: none"> Implemented. 	<ul style="list-style-type: none"> Revenue loss.
3. Lack of procedures for collection on returned checks.	<ul style="list-style-type: none"> Develop and implement procedures for the receipt of checks and collection of returned checks. 	<ul style="list-style-type: none"> Implemented. 	<ul style="list-style-type: none"> Revenue loss.
4. Late payment and charge back to departments for City paid hourly and monthly parking.	<ul style="list-style-type: none"> Payments to the garage manager and charge back to the City departments should be done within 30 days of the invoice receipt. 	<ul style="list-style-type: none"> Implemented. 	<ul style="list-style-type: none"> Inaccurate reporting for parking expense incurred by City departments.

monthly parking.	done within 30 days of the invoice receipt.		
5. Inaccurate financial reporting by garage manager.	<ul style="list-style-type: none"> Increase fiscal monitoring and review of monthly financial reports. 	<ul style="list-style-type: none"> Implemented. 	<ul style="list-style-type: none"> Revenue loss.
6. Electrical lighting retrofit, stairs and safety railing repair work needs to be done.	<ul style="list-style-type: none"> Get retrofit and repair work done to reduce costs and improve safety. 	<ul style="list-style-type: none"> In process. 	<ul style="list-style-type: none"> Expenditure increases and safety liability.

Report Title/#: OPD Community Oriented Policing Services (COPS) Grants Report; #03-008			
Report Date: October 22, 2002			
Background: To determine whether the City applied for and received available federal COPS grants, the type and amount of grants received and whether all grants were fully utilized.			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
1. OPD did not spend all grant funds before the grants expired.	<ul style="list-style-type: none"> Develop a comprehensive strategy to utilize grant funds before the expiration of the grants. 	<ul style="list-style-type: none"> In process. 	<ul style="list-style-type: none"> Reimbursement of COPS grant funds not utilized.
2. OPD could not provide local matching funds for some grants.	<ul style="list-style-type: none"> OPD continue to identify sources to support the City in providing matching funds. 	<ul style="list-style-type: none"> In process. 	<ul style="list-style-type: none"> Reduction of COPS grant funding.

Report Title/#: Office of Parks & Recreation, Rotary Nature Center Operations Report; # 01-006			
Report Date: January 23, 2002			
Background: To determine whether the Office of Parks and Recreation (OPR) had implemented the many recommendations that the Office of the City Auditor had made during an audit of OPR in 1997.			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
1. OPR did not implement recommendations that we had made as a result of our audit in 1997.	<ul style="list-style-type: none"> OPR should immediately implement at all its recreation centers the recommendations we made in our previous report, as well as the new recommendations we are making in this report. 	<ul style="list-style-type: none"> In his March 23, 2003 memo to Robert Bobb, City Manager, Harry Edwards stated that all our recommendations had been implemented at the Rotary Nature Center. By email dated March 25, 2003, Narciso Bautista stated OPR had verified that the Rotary Nature Center 	<ul style="list-style-type: none"> Potential for misappropriation of funds collected, as well as improper payments and purchases.

		<p>We consider all recommendations closed except #8.</p>	
<p>2. As instructed by the former Director of the Rotary nature Center, the Advisory Council stopped meeting in May 1996. Moreover, the OPR's Advisory Commission took no action when the Advisory Council stopped meeting.</p>	<ul style="list-style-type: none"> • OPR, in conjunction with the Advisory Commission, should help the Center form a new Advisory Council immediately, and ensure that Council members are trained to carry out their duties and responsibilities. 	<ul style="list-style-type: none"> • This item is closed. 	<ul style="list-style-type: none"> • Potential for misappropriation of funds collected, as well as improper payments and purchases.
<p>3. The Rotary Nature Center kept little or no accounting records or supporting documents for funds collected or disbursed, and did not submit the required quarterly financial statements and reports to the Parks and Recreation Advisory Commission.</p>	<ul style="list-style-type: none"> • We repeat our recommendation, as stated in Finding #2., that OPR, in conjunction with the Advisory Commission, help the Center form a new Advisory Council immediately. 	<ul style="list-style-type: none"> • This item is closed. 	<ul style="list-style-type: none"> • Potential for misappropriation of funds collected, as well as improper payments and purchases.
<p>4. The Rotary Nature Center did not have adequate controls over collecting, safeguarding and depositing funds. Therefore, we have no assurance that all revenues were accounted for.</p>	<ul style="list-style-type: none"> • OPR should ensure that all of its recreation centers: <ol style="list-style-type: none"> (1) post signs stating "Ask for a receipt for your payment" at all fee collection points; (2) require that only designated employees receive cash and checks from the public and issue receipts; (3) use receipts that are pre-numbered and issue them in sequence; (4) require the Center Director, or a designated employee, to maintain copies of all receipts, and investigate any that are missing; (5) keep all cash and checks in a safe until they are deposited; 	<ul style="list-style-type: none"> • This item is closed. 	<ul style="list-style-type: none"> • Potential for misappropriation of funds collected, as well as improper payments and purchases. <p style="text-align: right;"> 10.23CC ORA/COUNCIL SEP 30 2003 Item # <u>5</u> Finance and Mgmt. Committee September 23, 2003 </p>

	<p>(6) deposit receipts in accordance with "Administrative Instruction (IA) #1022; (7) itemize all deposits, so that they can be traced back to the receipt book.</p>		
<p>5. The Rotary Nature Center did not have adequate controls over expenditures. The former Center Director pleaded "no contest" to a charge that he had embezzled \$2,192 in City funds. Additional expenditures totaling \$54,889 were unsubstantiated, and it is likely that many of these funds were for unauthorized purposes.</p>	<ul style="list-style-type: none"> • As stated in finding #2, OPR, in conjunction with the Advisory Commission, should help the Center form a new Advisory Council, and ensure that its members carry out their duties and responsibilities. If the Advisory Council chooses to open a new checking account, OPR should ensure that: <ul style="list-style-type: none"> (4) the Advisory Council approve all expenditures and the issuance of each check; (2) there be two signatures on each checks; (3) authorized signers not sign blank checks; and (4) documentation is received and maintained to substantiate all expenditures. 	<ul style="list-style-type: none"> • This item is closed. 	<ul style="list-style-type: none"> • Potential for misappropriation of funds collected, as well as improper payments and purchases.
<p>6. The Rotary nature Center did not adequately safeguard property and equipment.</p>	<ul style="list-style-type: none"> • We recommend that the OPR ensure that all of its recreation centers: <ul style="list-style-type: none"> (1) maintain a list of all high value or easily pilferable property and equipment; (2) affix identification to all such items showing they belong to OPR; (3) take an annual inventory of such items; and (4) keep all such items in a locked area, to which only the Center Director and one other designated person 	<ul style="list-style-type: none"> • This item is closed. 	<ul style="list-style-type: none"> • Potential for misappropriation of funds collected, as well as improper payments and purchases.

	have access.		
7. The former Center Director rented the library and observation room to two private organizations without the approval of the Office of Parks and Recreation or the City Council.	<ul style="list-style-type: none"> OPR needs to ensure that, in the future, its recreation centers do not rent out their facilities without proper authorization. 	<ul style="list-style-type: none"> This item is closed. 	<ul style="list-style-type: none"> Potential for misappropriation of funds collected, as well as improper payments and purchases.
8. The Center made an unauthorized \$3,000 grant to an organization.	<ul style="list-style-type: none"> OPR should recover the unauthorized grant from the organization. 	<ul style="list-style-type: none"> This item is still open. 	<ul style="list-style-type: none"> Improper payment.

Report Title/#: Equipment Stores Inventory as of June 30, 2001; #01 075			
Report Date: September 25, 2001			
Background: Inventory count at 5050 Coliseum Way and at 7101 Edgewater Drive			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
1. No inventory transactions entered into ORACLE Inventory System or in the MAXIMO Work Order Management System during fiscal year 2001 due to computer system problems.	<ul style="list-style-type: none"> The Equipment Services Division, Financial Services Agency and Office of Information Technology should work together to resolve the problems with the ORACLE and MAXIMO systems. If necessary, an interim database should be developed to record inventory transactions pending operation of the ORACLE and MAXIMO systems. 	<ul style="list-style-type: none"> Not implemented. 	<ul style="list-style-type: none"> Management does not know how many items are on hand, or should be on hand. Potential is high for inventory to be lost or stolen.

Report Title/#: Franchise Fee Audit of AT&T Broadband and Internet Services; #99 021.2			
Report Date: August 11, 2000			
Background: Audit of cable television franchise fees for years ended December 31, 1996, 1997, and 1998.			
<u>AUDITOR'S FINDING</u>	<u>RECOMMENDATIONS</u>	<u>STATUS</u>	<u>IMPLICATIONS IF UNACHIEVED</u>
<p>Franchise Fees</p> <p>1. Section 6.002 of the franchise agreement requires the Contractor to pay the City a franchise fee quarterly, not later than May 1, August 1, November 1 and February 1 for the preceding three month period ending respectively, March 31, June 30, September 30 and December 31 of each year.</p>	<ul style="list-style-type: none"> • Since the Contractor charges franchise fees to customers monthly, we recommend that the Office of the City Clerk consider, in negotiating with the Contractor for renewal of the agreement, require that the Contractor remit franchise fees to the City monthly instead of quarterly. 	<ul style="list-style-type: none"> • Negotiations with the City Clerk, City Attorney and AT&T are in process. 	<ul style="list-style-type: none"> • Lost revenue to the City.
<p>Underpaid Franchise Fees</p> <p>2. We found that the Contractor had underpaid the City \$162,623, including interest and penalties.</p>	<p>The Contractor should:</p> <ul style="list-style-type: none"> • Pay the City the \$162,623 due through December 31, 1998 • Calculate and pay the City any amounts due, including interest and penalties, for the period January 1, 1999 to date. • Assure that in the future the franchise fees paid to the City are accurate. 	<ul style="list-style-type: none"> • The City Auditor has billed AT&T for the \$162,623, plus interest and penalties up to December 31, 2000. • Negotiations with the City Clerk, City Attorney and AT&T are in process. 	<ul style="list-style-type: none"> • Underpaid franchise fee.

**CITY AUDITOR'S WORK-IN-PROGRESS
 AS OF MARCH 31, 2003**

Job No.	Description
99 034	Performance Audit of the Oakland Tow Car Association and Comparable Tow Car Associations in the Bay Area for Comparative Purposes
00 012	Review of the City's Management Contract on City Center Garage West for the FY 1998-1999
00 026	Review of Fixed Assets of Police, Fire and the Public Works Agency
00 051	Monitor JPA Coliseum and Sports Arena
00 063	Financial Audit of the Kids First! Program.
01 002	Report on the Measure K - Kid First! Base Amounts for FYE June 30, 1996, 1997, 1998, 1999 and 2000
01 003	Report on the Measure K - Kids First! Base Amount for FYE June 30, 2001 and June 30, 2002
01 005	Tassafaronga Center
01 015	OPR Administration
02 019	Grants Management Review
02 023	City-wide Cellular Phone Audit
02 026	Audit of Emergency Medical Services Retention Act of 1997 (Measure M) for Fiscal Years Ended June 30, 1999, 2000 and 2001
02 027	Audit of Paramedic Services Act of 1997 - Measure N, Fiscal Years 2000 and 2001
02 057	Just Desserts - Delinquent Loans
02 058	Just Desserts - Real Estate - Delinquent Loans
02 061	Measure G
02 071	Review of Landscape & Lighting Assessment District for Fiscal Year Ended June 30, 2000
02 072	Review of Landscape & Lighting Assessment District for Fiscal Years 1999-2000
02 073	Office of Parks and Recreation - Gardener Activities
02 080	AT&T Cable Franchise Fee Collection
02 086	Campaign Finance - Limited Public Finance Act
02 093	OPD -DNA Grant
02 107	Franchise Agreements
03 005	One Stop Capital Shop - Continuous
03 017	Oakland Raiders Surcharge
03 021	Landscape & Lighting Assessment District Program Review
03 033	Library Services Survey
03 040	U.S. Savings Bonds Deductions
03 055	Library Services Retention
03 057	609 - 20 th Street Purchase
03 060	Library Services Operation
03 072	Senior Survey
03 073	ABC Security Extended Agreement
03 078	Oakland Base Reuse Authority
03 079	BART/Oakland Airport Connection
03 087	Measure B Paratransit Services

**CITY AUDITOR'S
SPEAK OUT FOR GOOD GOVERNMENT PROGRAM**

A program which provides a fair, neutral and confidential process through which all employee and citizen complaints of wrongdoing, dereliction of duty and improper behavior are provided a thorough review for the purpose of satisfactorily resolving the complaint.

- A) **Total Number of Good Government Inquires
from January 1, 2003 through March 31, 2003:** 5
- B) **Total Number of Good Government Inquires
since Program Began in February of 2000:** 144

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SEP 30 2003

~~Item # 5
Finance and Mgmt. Committee
September 25, 2003~~