

# City of Oakland Office of the City Auditor

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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 black ink, appearing to read "Courtney A. Ruby". The signature is fluid and cursive, with the first name being the most prominent.

COURTNEY A. RUBY, CPA, CFE  
City Auditor

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## 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.

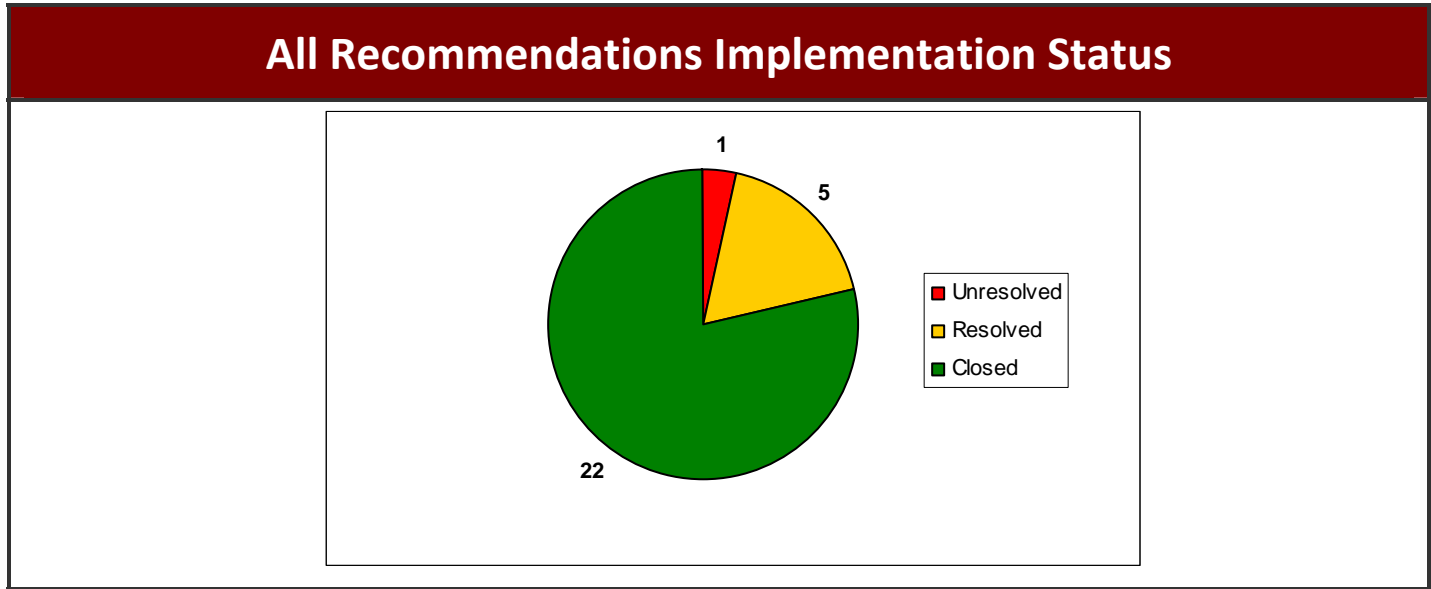
Follow-up reports are released on a quarterly basis, as required by the City Charter. These reports may combine more than one audit or focus on groups of recommendations from larger audits. During audit recommendation follow-up, the Office of the City Auditor (Office) assesses if corrective action has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

<b>Recommendation Implementation Status</b>	
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.

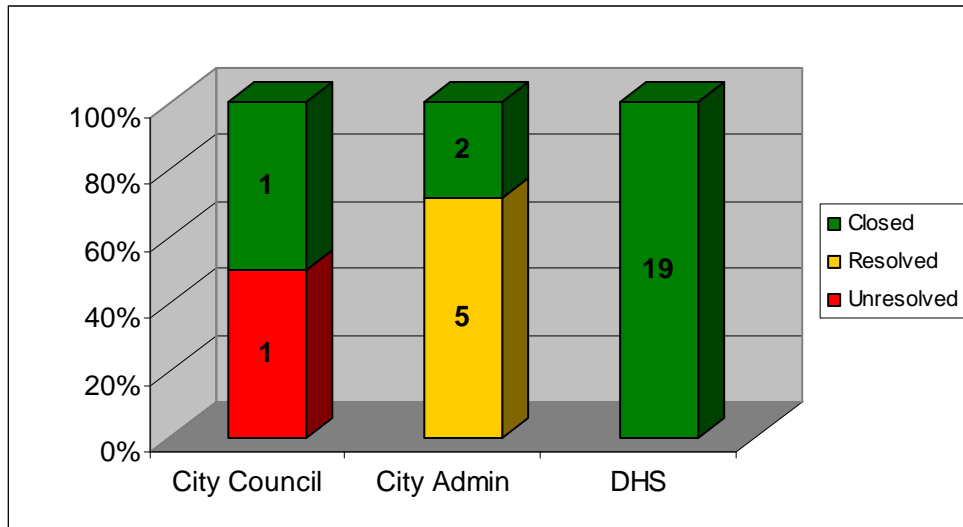


The three entities responsible for the implementation of the Measure K and Measure Y recommendations are the City Council, the City Administrator's Office and the Department of Human Services, as shown in the exhibit on the following page:

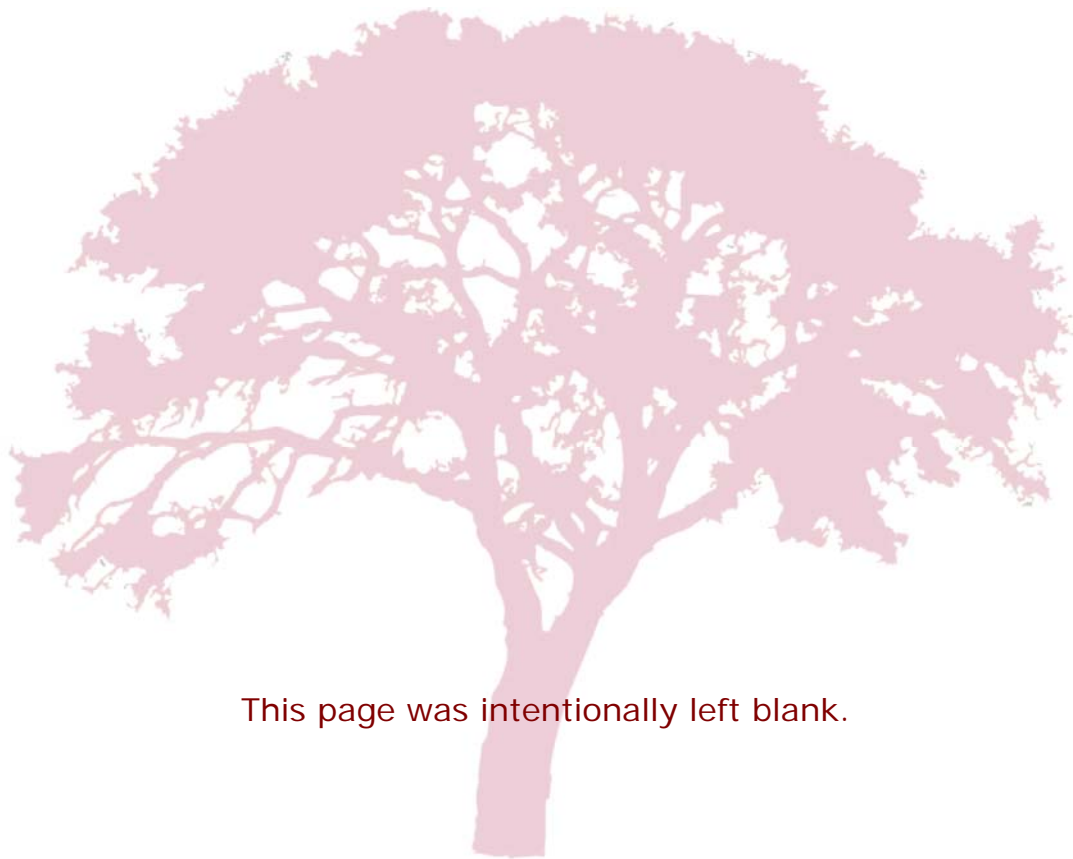
- Of the two recommendations directed to the City Council, one remains unresolved.
- Of the seven recommendations directed to the City Administrator's Office, five remain resolved but without implementation of the agreed upon corrective action
- Of the 19 recommendations directed to the Department of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

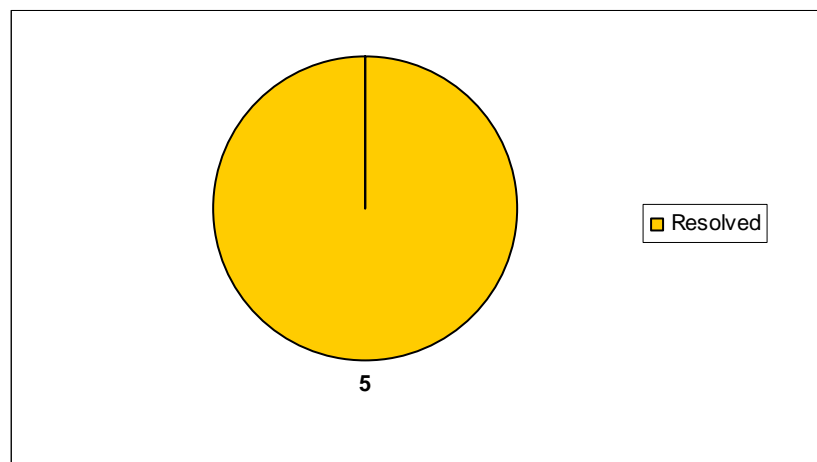
The Measure K Performance Audit was issued on May 29, 2008. The objectives of this audit were to:

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><b>Recommendation #1</b></p> <p><b>Resolved</b></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><b>Recommendation #2</b></p> <p><b>Resolved</b></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><b>Recommendation #3</b></p> <p><b>Resolved</b></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><b>Recommendation #4</b></p> <p><b>Resolved</b></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>

<p><b>Closed Recommendations: Measure K</b></p>
<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>
<p>None</p>

**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.

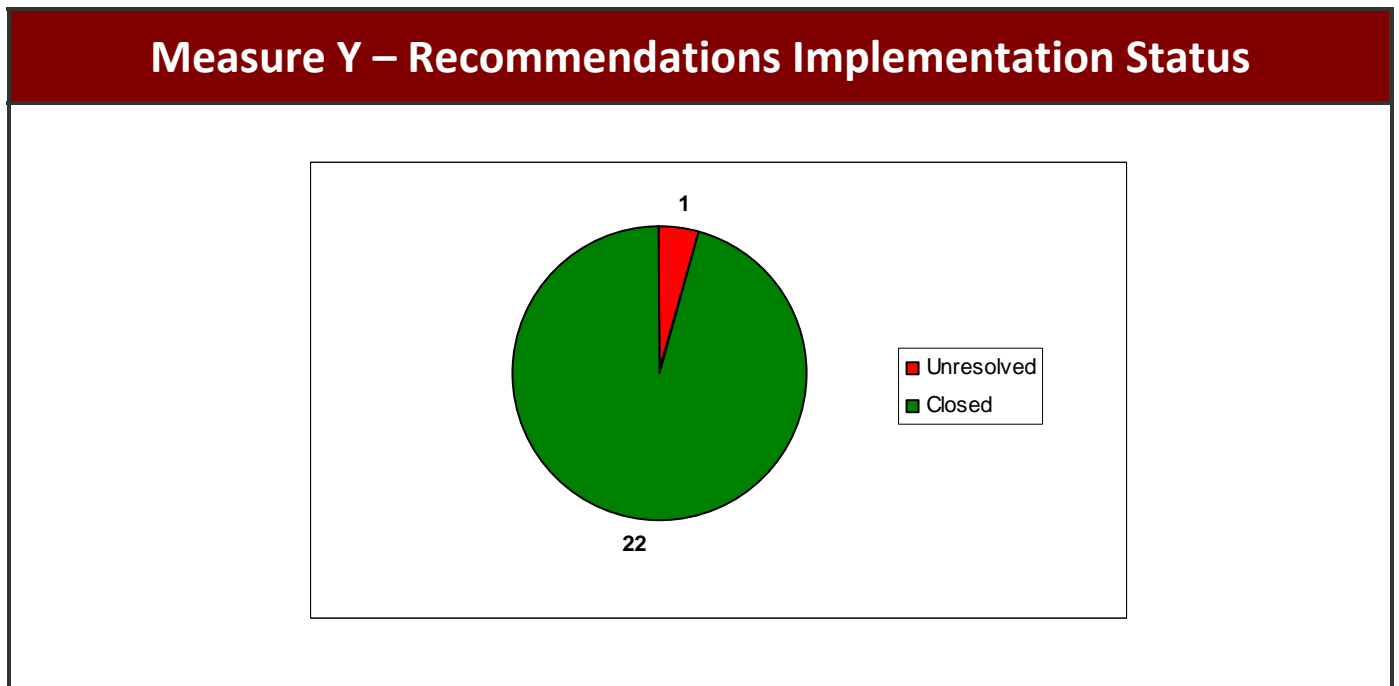
## Measure Y Overview

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

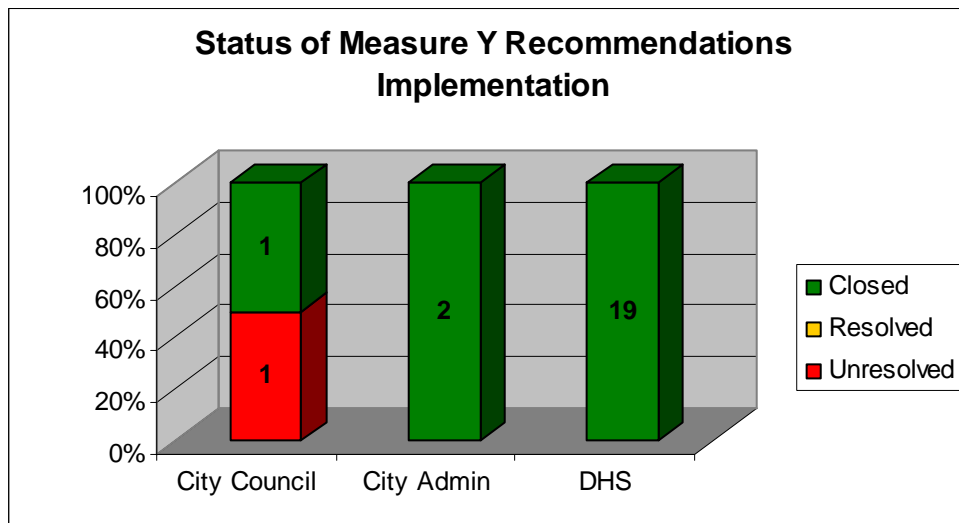
Of the 23 recommendations from the Measure Y audit, one remains open. This final open recommendation is unresolved to reflect the decision by the Office of the City Auditor and the Department of Human Services to direct the recommendation to City Council for policy direction. We commend the City Administration 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.

## Implementation Status of Measure Y Recommendations by Responsible Entity







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.