

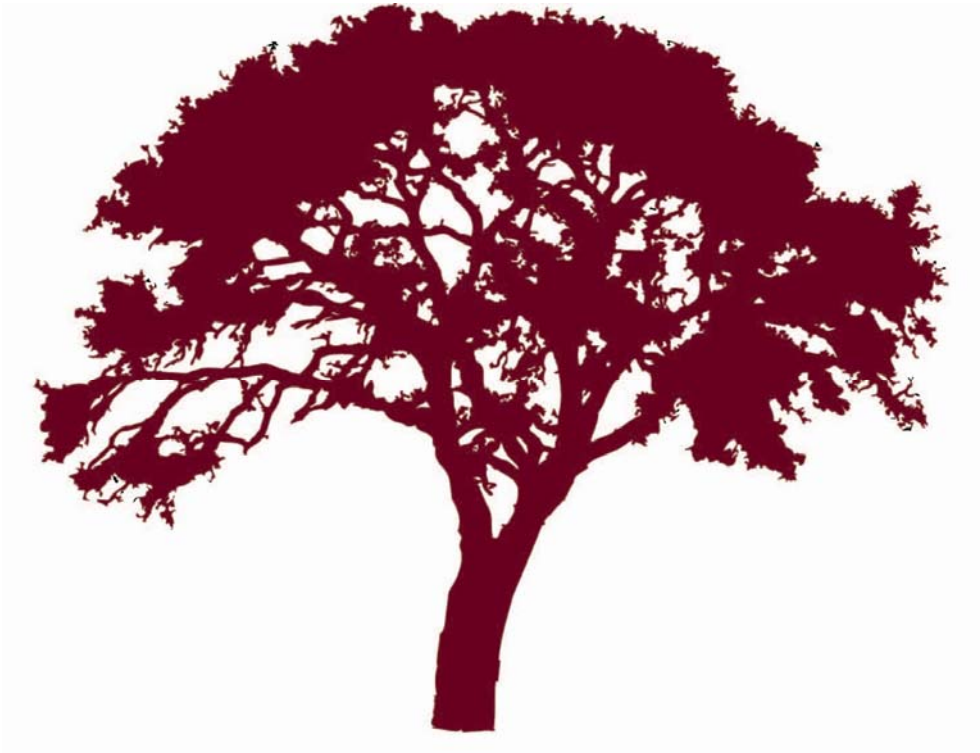
# City of Oakland Office of the City Auditor

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July 14, 2011

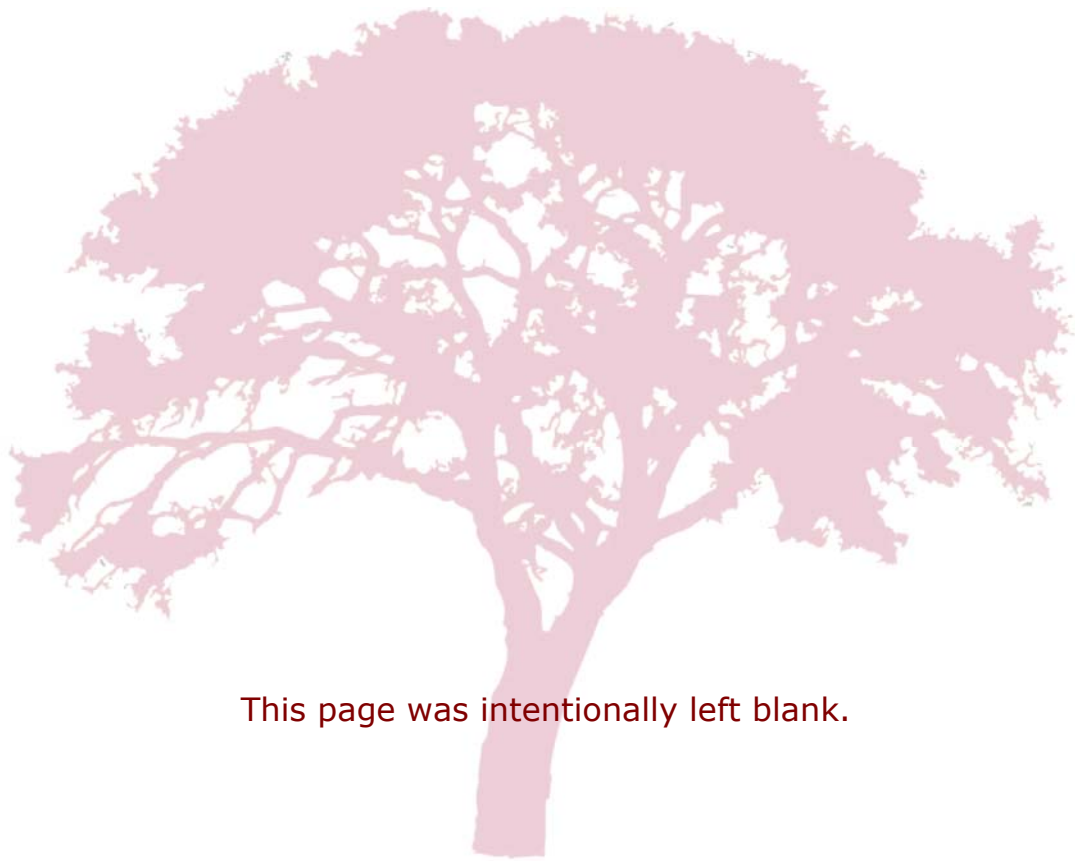
## Measure M Performance Audit FY 2007-08 and FY 2008-09

*The City dispersed Emergency Medical Services funds appropriately but failed to fully implement recommendations from the 2008 audit regarding the Fund Balance*



City Auditor  
Courtney A. Ruby, CPA, CFE

# PERFORMANCE AUDIT



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July 14, 2011

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

**RE: MEASURE M (FY 2007-08 AND FY 2008-09) PERFORMANCE AUDIT**

Dear Mayor Quan, President Reid, Members of the Council, City Administrator Ewell and Oakland Citizens:

Attached is a performance audit analyzing the City's use of parcel tax proceeds from the Emergency Medical Services Retention Act of 1997 (Measure M). Ballot measures are designed specifically to address the public's desire to fund certain services annually. In 1997, the City of Oakland (City) voters passed Measure M, which imposed a special tax on all parcels in the City to raise the necessary revenue to retain and enhance emergency medical services.

The objectives of our audit were to determine whether or not:

- Proceeds from Measure M were properly disbursed in accordance with the objectives established in the ballot measure
- The Administration implemented the 2008 audit recommendations

Our audit found that, when disbursed, proceeds were in accordance with the Measure, and that the Administration significantly reduced the Fund balance, as recommended in the 2008 audit. However, the City did not take steps to develop the necessary controls to monitor the fund balance and establish an appropriate reserve.

As the City struggles with record deficits, ballooning pension liabilities and an aging infrastructure in dire need of repair, the Administration now more than ever should be committed to:

- Ensuring policies and procedures are in place and operating to reassure the public that their parcel tax dollars are being utilized in a timely manner
- Addressing the audit's recommendation for proper internal controls and fiscal management with haste and in full
- Monitoring all special funds with increased scrutiny to ensure every opportunity to alleviate the General Fund burden is taken

While the Oakland Fire Department (OFD) cited valid reasons for maintaining a portion of the balance in the Measure M Fund, the audit found that OFD's Projected Balance and Spending Plan did not accurately project or otherwise account for Measure M's fund balance. In fact, the Department's lack of internal controls resulted in inadequate cost projections, incomplete analysis and a lack of expenditure time frame.

We are in extraordinary times, and yet this audit highlights the Administration's choice to not implement management systems that reassure the public their tax payer dollars are being monitored appropriately and the intent of Measure M is being met. Addressing this audit's recommendation is a first step in reestablishing the public's trust in the management of parcel taxes.

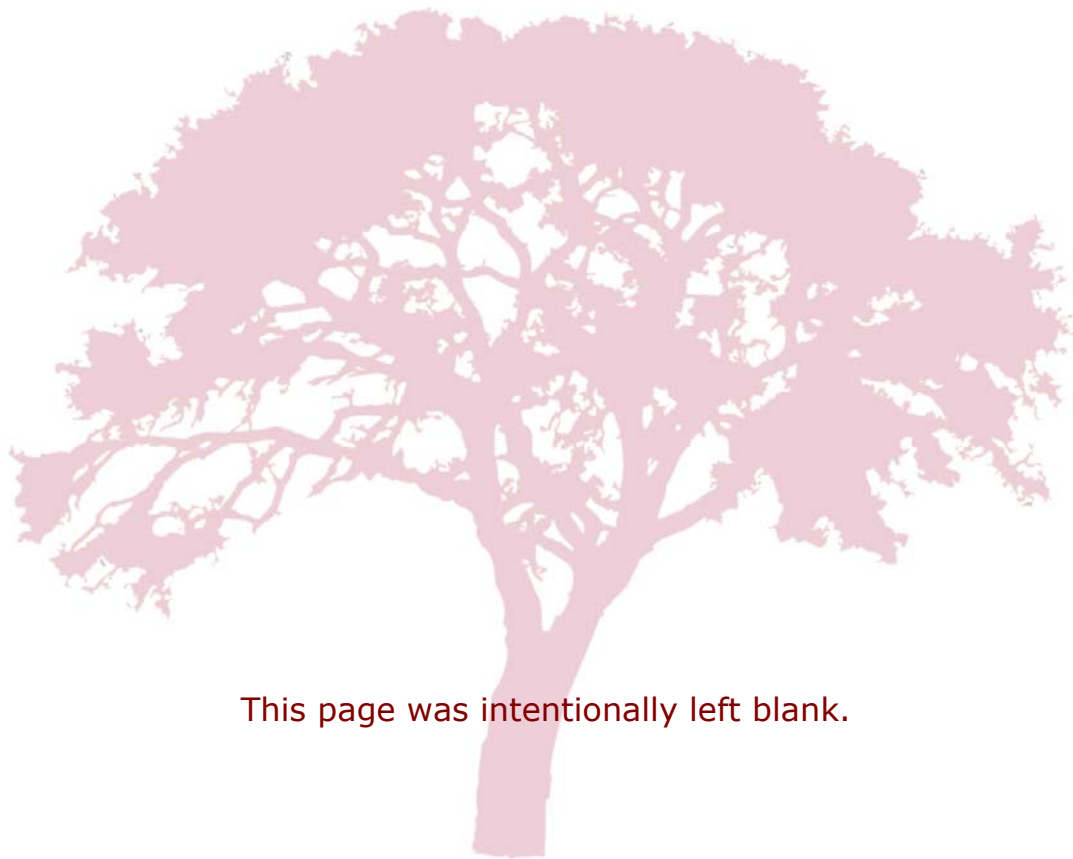
Respectfully submitted,

A handwritten signature in cursive script that reads "Courtney A. Ruby". The signature is written in black ink and is positioned to the left of the typed name.

COURTNEY A. RUBY, CPA, CFE  
City Auditor

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## Measure M: Emergency Medical Services Retention Act (FY 2007-08 AND FY 2008-09) PERFORMANCE AUDIT REPORT SUMMARY

### Internal Controls

*Overall, the City Administration complied with Measure M provisions; however, internal controls remain inadequate over Measure M funds.*

### Overview

The Office of the City Auditor conducted a performance audit of the City Administration's compliance with Measure M terms for FY 2007-08 and FY 2008-09. The objectives of the audit were to determine whether or not:

- The City's increases to the parcel tax rates during FY 2007-08 and FY 2008-09 were based on increases to the consumer price index, as required by Measure M
- The City's Finance and Management Agency (FMA) properly accounted for the receipt of revenues for Measure M from the County during FY 2007-08 and FY 2008-09
- Oakland Fire Department (OFD) processed Measure M purchases in accordance with its guidelines
- OFD expended Measure M funds during FY 2007-08 and FY 2008-09 in accordance with the intent of Measure M
- OFD implemented the recommendations reported in the June 2008 audit report on Measure M

### Key Findings

The following are key findings from the audit:

- Parcel tax rate increases were in accordance with the consumer price index
- FMA properly accounted for the receipt of revenues for Measure M from the County
- OFD processed Measure M purchases in accordance with its guidelines
- OFD expended Measure M funds consistent with the intent of Measure M

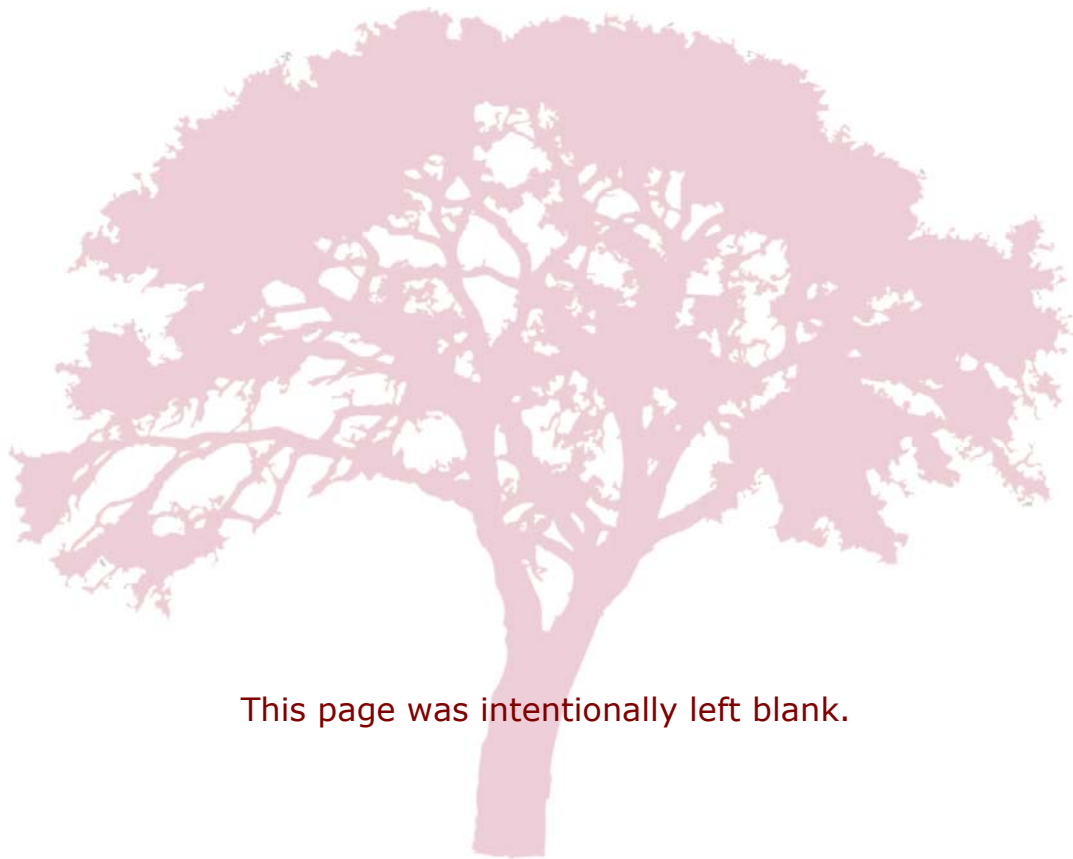
However, the audit found that OFD did not fully implement the two recommendations from the June 2008 Measure M audit report:

- No policy and procedure was developed to define how Measure M monies can be used
- OFD reduced the \$1.4 million FY 2006-07 year-end balance of the Measure M fund identified in the June 2008 audit report, through the purchase of three fire engines totaling \$1,059,551 and transferring the cost of two dispatchers to the Measure M Fund. While OFD developed the Projected Balance and Spending Plan to establish future balances and uses for the Measure M fund, the audit's assessment found the document was not comprehensive and inadequately projected expenditures and the fund balance

### Key Recommendations

To address the audit's findings, the report includes one key recommendation:

- Formalize OFD's Measure M 2412 Projected Balance and Spending Plan, by working with the City Administration and the FMA Management to develop an Administrative Instruction (AI) that establishes a policy on an appropriate reserve for the Measure M fund balance, policies for projecting costs of items to be covered by the Measure M fund balance and necessary to carryout its vital operations, and appropriate procedures to identify projected costs, timeframes, and related information necessary to ensure that the fund balance spending plan is reasonably reliable and adequately tracks the fund balance



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## Introduction

The City of Oakland (City) has been operating in an environment of severe budget deficits since fiscal year (FY) 2007-08. Within this context of limited resources, voter-approved funding for City programs and services ensures a minimum level of service and provides relief to the City's General Fund. To ensure the City Administration successfully met the objectives of Measure M, which was passed by voters in 1997 to provide funding for emergency medical services, the Office of the City Auditor (Office) conducted a performance audit of the City Administration's management and oversight of the voter-approved Measure M funds.

## Background

In 1978, Alameda County (County) received a grant that allowed each local jurisdiction within the County to manage its own emergency calls which began implementation of the 9-1-1 system. In 1991, the County began to provide Emergency Medical Dispatch services and collected a special assessment to fund County-wide emergency medical services. The City collected a supplemental Emergency Medical Services assessment to offset the costs of providing a dispatch service for the County-wide emergency medical services.

In 1996, California voters passed State Proposition 218, which amended California Constitution Articles XIIIC and XIIID, and required local governments to obtain voter approval to impose tax assessments on property. The City's voters passed the Emergency Medical Services Retention Act of 1997, also known as Measure M, which approved parcel tax assessments to fund emergency services in the City of Oakland.

### Major Provisions of Measure M

Measure M was passed for the sole purpose of raising revenue necessary to retain and enhance emergency medical services for the City. To ensure that Measure M's purpose is carried out, Measure M sets forth other terms. Measure M:

- Imposes parcel taxes based on size and type of structures
- Requires that parcel tax rate increases on the parcels may occur only on a finding that the consumer price index (CPI) for all items in the immediate San Francisco Bay Area has increased and limits the increase to the CPI's increase to no more than five percent of the parcel taxes in the immediate preceding fiscal year
- Permits the reduction or elimination of parcel taxes by City Council for a subsequent fiscal year upon a vote of the City Council on or before June 30<sup>th</sup> in any year in which the City Council determines that after such reduction or elimination there will be sufficient revenues available to balance the City's Adopted Policy Budget
- Requires the City's Director of Finance to collect and receive all parcel taxes

- Authorizes the Oakland City Council to have Alameda County collect taxes and impose penalties and additional fees for unpaid taxes according to the rules, regulations and procedures utilized by Alameda County

#### 911 Dispatch Operations

The Oakland Fire Department (OFD) uses Measure M funds to provide emergency dispatch services for the City through its 911 dispatch center. The OFD's 911 dispatch center is responsible for responding to emergency calls for the City and receives approximately 58,000 calls annually, 80 percent of which are medical in nature. The center dispatches emergency calls first to the Oakland Police Department and routes calls to the Fire Department that are determined to be medical in nature.

During FY 2007-08 and FY 2008-09, OFD employed between 21 to 23 Emergency Medical Dispatchers (EMDs) to cover three eight-hour shifts per day. When hired, dispatchers are required to have two years of experience as a dispatcher or experience in a related field. OFD trains dispatchers on-the-job for 12 months to become operational and subsequently sends the dispatchers to the National Academies of Emergency Dispatch where the dispatchers become certified as medical priority dispatchers. Certified medical priority dispatchers are able to identify medical issues and problems and provide the caller with helpful information before the fire trucks and ambulances arrive. OFD maintains and provides public records of emergency medical responses.

Additionally, OFD provides EMDs continuing education training as required by Title 22 of the California Code of Regulations. EMDs must be re-certified every two years and obtain 24 hours of training for re-certification. OFD provides EMDs re-certification training, which is given by a nationally certified trainer. Additionally, OFD provides EMDs radio training to prioritize calls and CPR training. OFD maintains EMD training records as required by Title 22.

OFD employs an EMD quality improvement program for its 911 dispatch center as required by Title 22. The quality improvement program monitors the EMD performance and provides direct feedback on three percent of all calls received.

## Objectives, Scope & Methodology

### Audit Objectives

The objectives of the audit were to determine whether or not:

- The City's increases to the parcel tax rates during FY 2007-08 and FY 2008-09 were based on increases to the consumer price index, as required by Measure M
- The City's Finance and Management Agency (FMA) properly accounted for the receipt of revenues for Measure M from the County during FY 2007-08 and FY 2008-09
- OFD processed Measure M purchases in accordance with its guidelines
- OFD expended Measure M funds during FY 2007-08 and FY 2008-09 in accordance with the intent of Measure M
- OFD<sup>1</sup> implemented the recommendations reported in the June 2008 audit report on Measure M

### Audit Scope

The scope of this audit covered FY 2007-08 and FY 2008-09 revenues, expenditures and transactions. Additionally, the audit reviewed the Measure M fiscal year-end balance for FY 2009-10.

### Audit Methodology

To determine whether or not the City's increases to the parcel tax rates for fiscal year (FY) 2007-08 and FY 2008-09 complied with Measure M's requirements, the audit reviewed the Bureau of Labor Statistics' reported changes to the Consumer Price Index (CPI) for year-end 2005 to 2007. The audit also reviewed the parcel tax rate increases for FY 2007-08 and FY 2008-09 and compared these increases with the CPI increases at the end of calendar years 2005 to 2007 to determine whether the parcel tax increases were permitted by Measure M.

To evaluate the Finance and Management Agency's accounting of Measure M revenues received from Alameda County, the audit reviewed Property Tax Remittance Advices from Alameda County for FY 2007-08 and FY 2008-09 and independently calculated the total parcel taxes received for Measure M from the County. The audit's totals were compared with the FMA totals and entries in the Oracle System to determine the accuracy of the calculations.

To assess OFD's compliance with its purchasing guidelines, the audit reviewed OFD's written procurement guidelines, which describes OFD's purchasing and accounts payable procedures. The audit also selected a random sample of Measure M purchases completed during FY 2008-09. Five purchases of at least \$100 and above were randomly selected out of a total universe of 16 purchases for FY 2008-09. The audit further reviewed purchase orders, invoices, and receipts associated with the purchases to determine if OFD procedures were followed in making the purchases.

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<sup>1</sup> The recommendation was made to the former Fire Services Agency, which is now referred to as the Oakland Fire Department.

To ascertain whether or not OFD's expenditures fell within Measure M's purpose, the audit gathered and analyzed information on the intent of Measure M and the nature of programs supported by Measure M funds. The audit assessed whether or not the nature of the programs was consistent with Measure M's purpose. The audit also reviewed Title 22 of the California Code of Regulations, interviewed OFD officials and gathered and analyzed Measure M expenditure data for FY 2007-08 and FY 2008-09.

To determine whether or not OFD implemented the recommendations reported in the June 2008 audit report on Measure M, the audit reviewed Measure M year-end fund balances for FY 2006-07, FY 2007-08, FY 2008-09 and FY 2009-10 to confirm changes in the fund balances. Additionally, the audit reviewed OFD's Measure M 2412 Fund Projected Balance and Spending Plans for FY 2007-08 and FY 2008-09 and all revisions to the plans. The audit also interviewed OFD officials regarding the existence of large fund balances and changes in the fund balances.

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.

## **City's Measure M Overall Compliance Assessment**

Overall, the audit found that the City complied with the following Measure M terms during FY 2007-08 and FY 2008-09:

- Parcel tax rate increases were in accordance with the consumer price index
- FMA properly accounted for the receipt of revenues for Measure M from the County
- OFD processed Measure M purchases in accordance with its guidelines
- OFD expended Measure M funds consistent with the intent of Measure M

However, the audit found that OFD did not fully implement the two recommendations from the June 2008 Measure M audit report:

- No policy and procedure was developed to define how Measure M monies can be used. As a result, the City continues to lack any formal guidance on how Measure M monies can be used and discretion over expenditures remains with OFD staff with insufficient oversight to ensure consistent and proper use of the monies
- OFD reduced the \$1.4 million FY 2006-07 year-end balance of the Measure M fund identified in the June 2008 audit report, through the purchase of three fire engines totaling \$1,059,551, of which Measure M funds covered 80 percent. In addition, the audit found that the cost of two dispatchers was transferred to the Measure M Fund. At the end of FY 2008-09, the Measure M fund balance was \$494,256, and by the end of FY 2009-10, was \$383,850. While OFD developed the Projected Balance and Spending Plan to establish

future balances and uses for the Measure M fund, the audit's assessment found the document was not comprehensive and inadequately projected expenditures and the fund balance

As a result of the City Administration not fully implementing both recommendations, internal controls over Measure M fund balances remain inadequate and the City continues to lack any formal guidance on how these monies can be used.

Parcel tax rates were increased in accordance with the consumer price index

The audit found that, during FY 2007-08 and FY 2008-09, the City increased parcel tax rates in accordance with the provisions of Measure M. The parcel tax rate increases imposed by the City ranged from 3.2 percent to 3.3 percent during FY 2007-08 and FY 2008-09, as shown in Exhibit 1.

<b>Exhibit 1: PARCEL TAX RATE INCREASES DURING FY 2007-08 AND FY 2008-09</b>					
Type of Structure	FY 2006-07 Parcel Taxes	FY 2007-08 Parcel Taxes	Tax Rate Increase	FY 2008-09 Parcel Taxes	Tax Rate Increase
Single Family Residential	\$10.99	\$11.34	3.2%	\$11.70	3.2%
Small Residential (2-4 units)	\$21.97	\$22.67	3.2%	\$23.41	3.3%
Large Residential (5 or more units)	\$54.92	\$56.67	3.2%	\$58.52	3.3%
Commercial	\$21.97	\$22.67	3.2%	\$23.41	3.3%
Industrial	\$43.93	\$45.33	3.2%	\$46.82	3.3%
Rural	\$10.99	\$11.34	3.2%	\$11.70	3.2%
Institutional	\$10.99	\$11.34	3.2%	\$11.70	3.2%

*Source: City Ordinances 12806 and 12878*

Measure M permits parcel tax rate increases based on a finding that the cost of living reflected in the U.S. Department of Labor's Consumer Price Index (CPI) for all items in the immediate San Francisco Bay Area has increased. Measure M limits the parcel tax rate increases to the increase in the CPI and prohibits increases that exceed five percent of the tax rates imposed by the City in the immediate preceding fiscal year.

From 2006 through 2009, the CPI for the San Francisco-Oakland-San Jose, California Urban areas did increase for all items. The CPI increases ranged from 0.7 or less than one percent in 2009 to 3.3 percent in 2007 as shown in Exhibit 2.

<b>Exhibit 2: CONSUMER PRICE INDEX INCREASES FROM 2006 TO 2009</b>		
Year	Reported Annual CPI	Percent Increase in CPI
2005	202.7	N/A
2006	209.2	3.2%
2007	216.048	3.3%
2008	222.767	3.1%
2009	224.395	0.7%

*Source: Bureau of Labor Statistics, Table CUURA422SA0*

The City's parcel tax increases for FY 2007-08 and FY 2008-09 were based on the CPI increases, as required by Measure M, between calendar years 2005, 2006 and 2007. The City's parcel tax increases did not exceed the five percent limit imposed by Measure M. Accordingly, the City complied with Measure M's requirements in imposing the parcel tax increases.

FMA properly accounted for Measure M revenues received from the County

The audit found that FMA properly accounted for parcel taxes received from the County. Measure M requires the City's Director of Finance to collect and receive all parcel taxes. As permitted by Measure M,<sup>2</sup> the County collects parcel taxes for the City and remits them to FMA.

FMA receives parcel tax proceeds from the County and performs a reconciliation process to account for the total amount of parcel taxes received. This process, which is performed by FMA's Treasury Division, consists of the following steps. The Treasury Division:

- Receives from the County a remittance advice and supplemental reports, listing the parcel taxes collected, including those for Measure M
- Confirms receipt of the taxes with the bank statement
- Re-calculates the total amounts of taxes received to confirm the accuracy of the totals
- Determines the amounts of tax proceeds due to the various assessments, including those for Measures M and others
- Develops a written schedule of the tax proceeds and assessments for posting to the City's Oracle system
- Reconciles the cash receipt to the County's remittance advice with the City's bank statement to verify that all taxes are accounted for
- Submits the cash receipt and supporting documents to an FMA analyst for review prior to entry into Oracle
- Posts the tax amounts to Oracle upon approval by the FMA analyst, applying a procedure of double-checking the entries

The audit observed those transactions described in FMA's reconciliation process which are applicable to Measure M parcel taxes and determined that FMA complied with its process.

Revenues raised from Measure M parcel taxes and reported in the City's Oracle System amounted to approximately \$1.7 million for both FY 2007-08 and FY 2008-09, as shown in Exhibit 3.

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<sup>2</sup> In accordance with Measure M, the City has authorized the County to collect parcel taxes for Measures M, among other taxes, and process claims for unpaid taxes. In turn, the City compensated the County 1.73 percent of the total taxes assessed.

### Exhibit 3: MEASURE M REVENUE FOR FY 2007-08 AND FY 2008-09

Revenue Source	FY 2007-08	FY 2008-09
Parcel Tax Revenue from County	\$1,632,760	\$1,711,707
Interest	\$52,601	\$19,132
Other Revenue	0	\$1,242
<b>Total Revenue</b>	<b>\$1,685,361</b>	<b>\$1,732,081</b>

Source: Oracle Financial Reports

The audit's review of the total taxes received from Alameda County as compared with the total taxes reported in the Oracle System by FMA showed that FMA's determination of the total parcel taxes received for Measure M were accurate. Thus, the audit concluded that the FMA properly accounted for the Measure M parcel taxes received from the County.

#### OFD processed Measure M purchases in accordance with its guidelines

The audit found that, during FY 2007-08 and FY 2008-09, OFD followed its documented procurement process, which includes general written purchasing guidelines for the department. OFD's written purchasing procedures, at a minimum, require that purchase orders or purchase requests must be approved by the division manager or supervisor.

OFD's guidelines indicate that responsibility for approving purchase orders and invoices or payments rests with separate individuals as a means of ensuring that no one individual controls all key aspects of a purchase transaction. In particular, the guidelines state that division personnel identify a purchasing need and the requestor obtains approval from the division manager or a supervisor to place a purchase order (PO). Depending on the dollar amount of the purchase, the requestor is required to follow different procedures to obtain approval for the PO. If the purchase is under \$500, the requestor may shop for the item in accordance with Administrative Instruction 4323 (Procurement – Goods and Services). If the purchase is above \$5,000, the Budget and Planning Division creates a PO and submits it to Purchasing Division for approval before the order is placed. The Budget and Planning Division provides the PO document to the requesting Division (OFD) which places the order. The division manager is required to approve the invoice, signifying that payment for the purchase is authorized, and submit the invoice to the Budget and Planning Division for processing.

Written policies and procedures that address purchasing transactions are an internal control activity that helps ensure management's objectives and directives are properly carried out and comply with laws and regulations, such as with Measure M. Internal controls provide reasonable, though not absolute assurance, that management's objectives will be carried out. Controls over purchasing transactions take into account division or segregation of key duties and responsibilities among different people to reduce risk of error or fraud, or otherwise ensure that purchases are properly authorized.

To review OFD’s internal controls over purchases, the audit tested OFD purchases made with Measure M funds for compliance with its written procedures. As part of this review, the audit randomly selected five purchases out of a total of 16 purchases made during FY 2008-09.

The audit found that OFD followed purchasing procedures for purchases made with Measure M funds during FY 2008-09. The audit’s review of the purchases showed that one of the five purchases was initiated through a Direct Payment Request and was properly approved. The other four purchases were submitted through purchase orders and were associated with encumbrances. The encumbrance documents had signed authorizations, and the purchase orders were separately approved in the Oracle System by the Division Manager.

The audit furthermore found that the purchase transactions involving purchase orders, encumbrances, and invoices were approved by different individuals, showing that purchases approved and made were appropriately segregated among different individuals. The audit concluded that OFD processed purchases funded by Measure M monies in accordance with its written guidelines on purchasing.

OFD expended Measure M funds consistent with the intent of Measure M

The audit found that during FY 2007-08 and FY 2008-09, OFD’s total expenditures of Measure M funds were over \$1.5 million and \$2.7 million, respectively, as shown in Exhibit 4. These expenditures covered the costs of personnel, operations and maintenance (O+M), and overhead. OFD’s largest Measure M expenditures were for personnel costs. During FY 2007-08, personnel costs amounted to 91 percent of OFD’s total costs. In FY 2008-09, personnel costs fell to 57 percent of the total Measure M costs, due to the purchase of three fire engines in the O+M category. Accordingly, OFD’s expenditures for O+M were two percent and 39 percent of the total costs in FY 2007-08 and FY 2008-09, respectively. OFD’s overhead expenditures were seven and four percent of the total costs during FY 2007-08 and FY 2008-09, respectively.

<b>Exhibit 4: MEASURE M EXPENDITURES FOR FY 2007-08 AND FY 2008-09</b>				
<b>Expenditures</b>	<b>FY 2007-08</b>	<b>Percent*</b>	<b>FY 2008-09</b>	<b>Percent*</b>
Personnel	\$1,420,489	91%	\$1,559,859	57%
Operations & Maintenance	\$34,172	2%	\$1,065,716	39%
Overhead	\$105,682	7%	\$124,111	4%
<b>Total</b>	<b>\$1,560,343</b>		<b>\$2,749,686</b>	
<i>*Percents were adjusted upward or downward to reflect whole numbers            Source: Oracle Financial Reports</i>				



Measure M was passed for the purpose of raising revenue necessary to retain and enhance emergency medical services. Measure M's tax assessment for emergency medical services was aimed at funding emergency dispatch services for the City, and thus, required that expenditures of Measure M monies be used for the purpose of retaining and enhancing emergency dispatch services and related activities.

During FY 2007-08 and FY 2008-09, OFD used Measure M funds to retain emergency medical dispatchers to provide for emergency medical services (EMS) as required by Measure M. During this time period, OFD also expended Measure M funds to enhance EMS through its provision of continuing education for dispatchers as required by Measure M and maintain continuing education records on its EMDs. To provide for EMS, as required by Measure M, the audit found that OFD is also required to comply with Title 22 of the California Code of Regulations which requires that OFD, as the local EMS provider, implement an EMS Quality Improvement Program.

The audit found that OFD's expenditures of Measure M funds were for programs and activities that provided emergency medical services and related activities. OFD's personnel costs covered salaries and benefits for staff that provide Emergency Medical Dispatch services. They also included the costs of two additional dispatchers, whose salaries were allowed under Measure M, but were originally funded by the General Fund.

OFD's expenditures for operations and maintenance covered the costs of:

- Emergency Medical Dispatch Center operations for the City of Oakland
- EMD training for dispatcher trainees to become certified and re-certified
- Continuing education training for EMDs, including CPR training
- Conducting EMD quality assurance
- EMD record keeping
- Maintaining public records for emergency medical responses

As discussed, during FY 2008-09, OFD expended Measure M funds to purchase three fire engines to provide emergency services. Additionally, a major part of OFD's Measure M activities was for training to EMDs. EMDs are required to obtain continuing education for recertification and OFD provides continuing education training to re-certify EMDs. During FY 2007-08 and FY 2008-09, OFD provided 359 hours and 314 hours, respectively, in continuing education training to EMDs.

Overhead expenditures covered the support service costs associated with those operations providing direct services as described in Administrative Instruction 1303.<sup>3</sup> These costs, which are calculated by FMA, were charged to Measure M, at a rate of 12.29 percent and 8.76 percent for FY 2007-08 and FY 2008-09, respectively.

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<sup>3</sup> AI 1303 provides for overhead expenditures for direct services related to the costs of retirement benefits, Citywide and departmental administrative support costs, among other costs.

The audit concluded that OFD's expenditures of Measure M funds in support of emergency medical dispatch services and related activities were consistent with Measure M's purpose.

OFD did not fully implement the recommendations from the 2008 audit report and internal controls over Measure M fund balances remain inadequate

The audit found that OFD did not fully implement the recommendations from the June 30, 2008, audit report on Measure M. The 2008 audit found that at the end of FY 2006-07, the Measure M Fund had a balance of over \$1.4 million and recommended that OFD Management work with the City Administrator's Office and FMA Management to take steps to reduce the year-end balance for the Measure M fund. The steps were to include:

- Establishing a policy on an appropriate reserve for the Measure M Fund
- Developing a long term expenditure plan for Measure M monies
- Budgeting expenditures commensurate with the estimated annual revenues
- Monitoring the Fund balance
- Identifying other uses for the Measure M funds

The 2008 audit report also recommended that the City should consider suspending the annual parcel tax rate increases until the fund balance was reduced to an acceptable level. Measure M provides a method for reducing or eliminating the annual parcel tax increases in the event that revenues from the parcel taxes are determined to be sufficient.

***Year-end fund balance reduced but internal controls not developed***

The recommendation follow-up determined that OFD reduced the Measure M fund balance at the end of FY 2008-09 through a purchase of three fire engines totaling \$1,059,551, of which Measure M funds covered 80 percent. Additionally, a transfer of two dispatchers to the Measure M Fund from the General Fund occurred. Though OFD substantially reduced the Measure M fund balance, the audit found a fiscal year end balance remained in the Measure M Fund. At the end of FY 2008-09, the Measure M fund balance was \$494,256, and by the end of FY 2009-10, was \$383,850.

In response to the audit determination that the Measure M year-end fund balance remains at a significant level, OFD Management explained that an appropriate level of fund balance must be maintained to meet operational needs. OFD Management further cited emergencies or unforeseeable conditions as a reason for requiring the maintenance of a balance in the Measure M Fund to ensure funds were available. Additionally, it referred to the need to replace dispatch equipment and software as a basis for maintaining a balance in the Measure M fund.

Though OFD Management cited valid reasons for maintaining some balance in the Measure M Fund, the audit found that OFD Management did not have a formal mechanism to forecast, monitor, and control Measure M fund balances and OFD Management concurred that it did not have a formal policy to address the need for having an appropriate reserve for the fund.

A primary responsibility of management is to ensure that its organization is accountable to the public for its programs and finances by developing and maintaining an organization's internal controls. To ensure appropriate oversight of the Measure M Fund, control activities by OFD Management should be:

- An integral part of the entity's planning, implementing, reviewing and accountability for stewardship of government resources
- Clearly and accurately documented in management directives or administrative policies

The audit found that OFD Management did not fully implement the internal controls that were recommended in the June 2008 audit report.

***Inadequate cost projections, incomplete analysis, and lack of expenditure timeframe***

To address the recommendation for a long-term expenditure plan for Measure M, OFD Management provided the City Auditor's Office with an internal fund balance spending plan, the Measure M Fund 2412 Projected Balance and Spending Plan. According to OFD Management, this document was used to identify, document, and support its needs and uses for the Measure M fund balances. OFD Management stated that this plan was developed as part of budget planning and that fund balance planning should continue. The audit found that this plan represents OFD's major control mechanism over the Measure M fund balances for FY 2007-08 and FY 2008-09, contained information on OFD Management's projected revenues, expenditures, fund balances, and fund balance spending plans. The fund balance spending plan also identified items for which expenditures from the fund balances would be made.

The audit found that OFD Management's Measure M Fund 2412 Projected Balance and Spending Plan did not accurately project or otherwise account for the Measure M fund balances. Additionally, the plan's projected costs were not based on information that was reasonably complete and consequently the plan's projected costs were inadequate. While internal control standards do not require absolute assurance that management's objectives of an organization's internal control mechanism will be met, they do require reasonable assurance that the objectives will be met.

The audit also found the following deficiencies in OFD Management's Projected Balance and Spending Plan:

- Incorrectly identified projected fund balances for FY 2007-08 and FY 2008-09. The audit's review of the Measure M Fund 2412 Projected Balance and Spending Plans for FY 2007-08 and FY 2008-09 showed OFD Management's projected fund balances for FY 2006-07 and FY 2007-08 were \$1,386,842 and \$1,511,860, respectively. However, rather than reflect projected balances, these amounts were the actual fund balances reported in the Oracle System, which indicated Management's inappropriate revision of a planning document to report actual fund activity
- Did not always provide reasonably complete information on the projected costs, which OFD expects to incur, and which OFD Management stated formulates the basis for the need to maintain the Measure M fund balance. For example, the fund balance spending plan projected spending of \$200,000 to maintain a reserve "buffer" to prevent fund lagging behind spending obligations. OFD Management's fund balance spending plan did not provide information on how these projected costs were derived or otherwise calculated. Therefore, there was no basis to determine whether these costs were reasonably accurate. OFD's fund balance spending plan also projected \$200,000 be used to replace dispatch equipment and software. The fund balance spending plan did not present cost data on the dispatch equipment and software or how these projected costs were determined. Thus, there was no basis to determine whether or not these costs are reasonably accurate
- Did not provide timeframes for when costs were expected to be incurred. For example, OFD's FY 2008-09 fund balance spending plan, which designates \$200,000 in projected costs to replace dispatch equipment and software, did not reflect when the replacement was to occur. As a result, information on the projected costs necessary to support the need for and size of the Measure M fund balance was not reasonably complete, nor reasonably accurate

In conclusion, OFD's internal plan, the Measure M 2412 Fund Balance and Spending Plan, its major control mechanism over Measure M fund balances, was not based on information that was reasonably complete, and consequently, was inadequate. Thus, OFD was not able to accurately account for the Measure M fund balance needed to provide for future, long-term, essential expenditures and did not have adequate controls over the Measure M fund balance.

Measure M is unlike other voter-approved ballot measures, such as Measures K/D (children and youth services baseline funding) and Q (public library funding). Measures K/D and Q require voter approval to increase taxes, while Measure M does not. Measures K/D and Q also have expiration dates, whereas Measure M does not. Furthermore, Measures K/D and Q have citizen oversight groups to monitor expenditures, whereas Measure M does not. The differences between Measure M and other enacted ballot measures highlight the importance for developing and implementing a formal

Projected Balance and Spending Plan, which is OFD Management’s sole means to ensure proper oversight and accountability for Measure M funds.

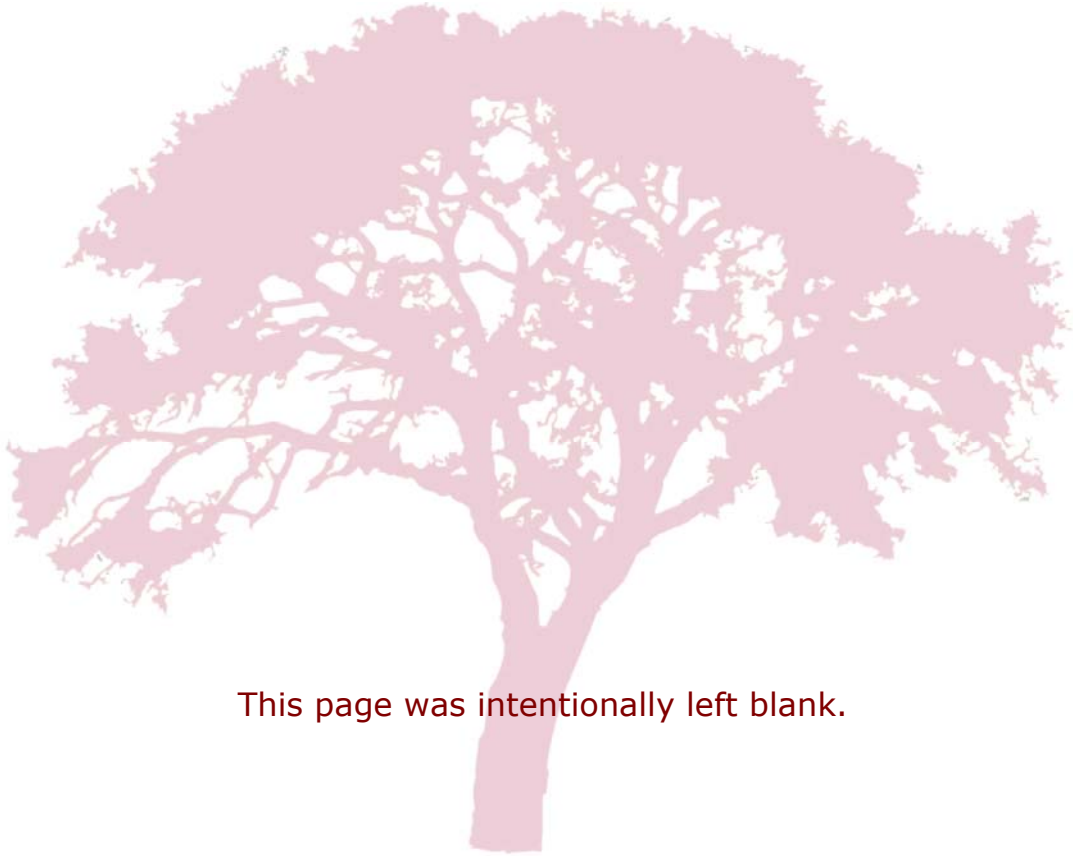
OFD Management should formalize its Measure M 2412 Projected Balance and Spending Plan, by working with the City Administration and FMA Management to develop an Administrative Instruction (AI) that establishes a policy on an appropriate reserve for the Measure M fund balance, policies for projecting costs of items to be covered by the Measure M fund balance and necessary to carryout its vital operations, and appropriate procedures to identify projected costs, timeframes, and related information necessary to ensure that the fund balance spending plan is reasonably reliable and adequately tracks the fund balance.

## RECOMMENDATION

### We recommend that OFD Management:

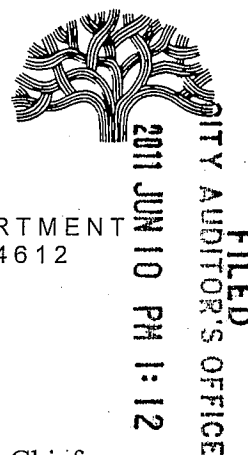
Recommendation #1

Formalize its Measure M 2412 Projected Balance and Spending Plan, by working with the City Administration and the FMA Management to develop an Administrative Instruction (AI) that establishes a policy on an appropriate reserve for the Measure M fund balance, policies for projecting costs of items to be covered by the Measure M fund balance and necessary to carryout its vital operations, and appropriate procedures to identify projected costs, timeframes, and related information necessary to ensure that the fund balance spending plan is reasonably reliable and adequately tracks the fund balance.



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# CITY OF OAKLAND



FINANCE & MANAGEMENT AGENCY • OAKLAND FIRE DEPARTMENT  
150 FRANK H. OGAWA PLAZA OAKLAND, CALIFORNIA 94612

**TO:** Courtney Ruby, City Auditor  
Yiaway Yeh, Assistant City Auditor  
**FROM:** Joseph Yew, Finance Director and Mark H. Hoffmann, Interim Fire Chief  
**CC:** P. Lamont Ewell, Interim City Administrator  
**DATE:** June 9, 2011

**SUBJECT:** Response to Internal Audit of Measure M Fund

The purpose of this memo is to respond to the City Auditor's draft report of May 18, 2011. The following are the Auditor's statements and our responses.

## Auditor's Statement:

"OFD did not fully implement the recommendations from the 2008 audit report and internal controls over Measure M fund balances remains inadequate."

## Response:

We respectfully disagree with the City Auditor's statement above. It is true that the City of Oakland, not OFD, did not fully implement the recommendations from the 2008 audit report on Measure M. This was a conscious decision made by the City Administrator who did not agree with the City Auditor's recommendations. The 2008 audit report is attached as a reference, as is the City Administrator's response.

1

2

The City Administrator felt strongly that the Measure M ballot language was clear with regards to the purposes for which these funds can be utilized. The City Administrator did not desire to write an administrative instruction describing procedures for monitoring just one of the City's funds and stated that the Budget document is the policy document describing uses of funds. The response also stated that the City's purchasing guidelines monitor the expenditures of Measure M funds, just like any other fund.

3

Second, the Fire Department does indeed have strong internal controls in place to monitor not only the Measure M fund balance, but also the Measure M spending plan and the actual expenditures made each year. The fact that these internal controls exist and are sound, is proven by the fact that the City Auditor continues to find, with each internal audit, that this fund has

**Note:** The reference numbers in the left margin correspond to the reference numbers in the next section of the audit report: City Auditor's Response and Summary of Actions Necessary to Close the Report.

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been expended appropriately. The Department continues to enact a reasonable spending plan each year, while maintaining a reasonable fund balance that is based on projected needs of the fund in future years.

**Auditor's Recommendation for Measure M:**

“Formalize its Measure M 2412 Projected Balance and Spending Plan, by working with the City Administration and the FMA Management to develop an Administrative Instruction (AI) that establishes the purpose for maintaining the Measure M fund balance, policies for projecting costs of items to be covered by the Measure M fund balance and necessary to carryout its vital operations, and appropriate procedures to identify projected costs, timeframes, and related information necessary to ensure that the fund balance spending plan is reasonably reliable and adequately tracks the fund balance.” (page 12)

**Response:**

4

OFD already has a formal policy and procedure and a comprehensive fund balance management plan in place designed to ensure tight internal controls and accurately project future fund balances for internal purposes. This plan outlines expenditure controls through the chain of command and holds every level of OFD's operations responsible and accountable to the City's taxpayers. This plan also specifically outlines procedures to compute the fund balance, to use due diligence in obtaining the best cost estimates, and to exercise sound judgment in anticipation of operational needs. In addition, all levels of staff and management are held accountable in their spending of Measure M funds. Spending plans are also reviewed by the Budget Office staff as part of the budget adoption process. Finally, it is a part of the budget document submitted to the Finance & Management Committee and the City Council during the budget adoption process.

5

In the 2008 response letter from the Finance Director, the appropriate fund balance level was determined to be \$300,000. This level of fund balance was determined by taking into account the funds needed for a healthy reserve and to allow for equipment replacement needs. The Governmental Accounting Standard Board (GASB 54) recommends maintaining a fund balance reserve between 5% to 10% of the annual operating budget, which in this case is \$170,000, as the annual operations costs are approximately \$1.7 to \$1.8 million. The Measure M fund balance is projected to be \$284,117 by the end of FY 2010-11.

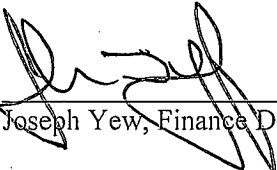


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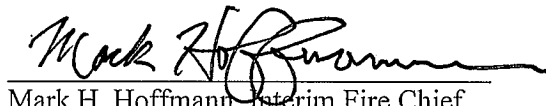
2

The Fire Department currently maintains an internal policy and procedure document that describes the proper uses for this fund and the appropriate procedures to follow to ensure that the Department creates and maintains an annual spending plan and maintains a healthy fund balance. There is no need to develop a citywide Administrative Instruction to duplicate this effort when this fund is managed and used by only one Department.

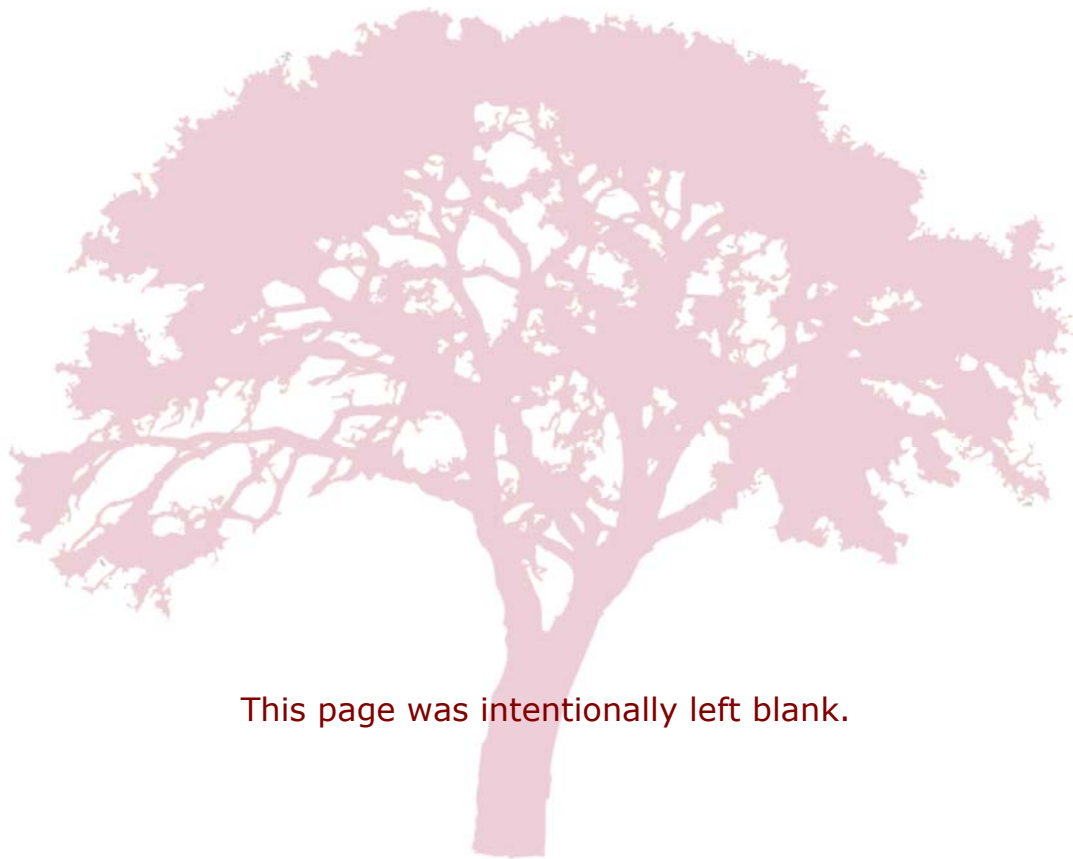
Sincerely,



Joseph Yew, Finance Director



Mark H. Hoffmann, Interim Fire Chief



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## RESPONSE & SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

We provided a draft audit report to the City Administration (Administration) for review and comment in compliance with Generally Accepted Government Auditing Standards (GAGAS). The Administration's comments and details regarding the actions it has taken or plans to implement in response to the audit's recommendations have been included in the previous section of the report. Their comments comprise responses from the City Administrator's Office (CAO), Finance and Management Agency (FMA), and the Oakland Fire Department (OFD).

This section of the report provides clarification on the status of the report recommendations, including the follow-up actions needed to be completed to close the report. The reference numbers in the left margin below correspond directly to the reference numbers in the Administration's response.

Five areas highlighted in the Administration's response require clarification. The areas needing further clarification are:

- (1) Measure M Ballot Language
- (2) Administrative Instruction
- (3) Improvements Needed in Internal Controls
- (4) Policies and Procedures
- (5) Appropriate Reserve Balance

The remaining balance of the Office of the City Auditor's (Office) comments focuses on the disposition of each recommendation.

1

### Measure M Ballot Language

In its response, the Administration stated that the Measure M ballot language:

*...was clear with regards to the purposes for which these funds can be utilized. The City Administrator did not desire to write an administrative instruction describing procedures for monitoring just one of the City's funds and stated that the Budget document is the policy document describing uses of funds.*

The Administration's position is consistent with its position following the June 2008 audit. The Office continues to disagree with the points of the Administration, and maintains our 2008 response to the Administration:

*First, we believe that the language in the measure is so broad that additional written guidance is needed on how the monies can and cannot be used. The ballot measure charges the Director of Finance with the enforcement of the ordinance and authorizes the Director of Finance to prescribe, adopt, and enforce rules and regulations relating to the administration and enforcement of the ordinance.*

*Additionally, the City's budget is a high level document that appropriates funding programmatically but does not specifically address how Measure M monies can and cannot be used. Finally, the Administration suggests that the procedure for the expenditure of Measure M funds falls within the City's existing purchasing guidelines and procedures. The City's general purchasing procedures are intended to be the framework for the City's overall purchasing requirements. Thus, these procedures do not define specific allowable costs associated with any measure. It is the City's responsibility to use Measure M monies in accordance with the measure and to ensure consistent and proper use of these monies. In the absence of procedures to ensure consistent and proper use of these funds, the City cannot provide the public with reasonable assurance of its compliance with Measure M. [From City Auditor Office's 2008 response to the Administration]*

2

Administrative Instruction

In its response, the Administration’s objected to writing an administrative instruction for just one of the City’s funds. This position does not recognize the following factors that highlight the need for additional internal controls and oversight of Measure M:

- Measure M is a voter-approved ballot measure that resulted in the creation of the City’s Measure M Fund (Fund 2412), which differentiates it from other City funds. Given the decision by voters to commit funds to emergency medical services, the City Administration should develop policies and procedures at the highest level of Oakland’s government to provide the appropriate level of oversight for the voter-mandated Measure M fund
- During the audit’s exit conference, OFD Management provided a draft of the Measure M Administrative Instruction, which was shared with the City Auditor’s Office, City Administrator’s Office, and Finance and Management Agency Management. The City Administrator’s Office and Finance and Management Agency Management should finalize the administrative instruction drafted for Measure M
- Drafting of an administrative instruction was already underway for the voter-approved Kids First Fund (Measure D) during the Measure M audit, which established a precedent for the City Administration to develop administrative instructions to provide greater transparency and accountability for voter-approved ballot measures
- Measure M is unlike other voter-approved ballot measures, such as Measure D and Measure Q (public library funding). Measure D and Measure Q require voter approval to increase taxes, while Measure M does not. Measure D and Measure Q also have expiration dates, whereas Measure M does not. Furthermore, Measure D and Measure Q have citizen oversight groups to monitor expenditures, whereas Measure M does not. An administrative instruction should address these gaps in oversight structure between voter-approved ballot measure mandates by clearly defining the policies and procedures in place to properly oversee Measure M funds. This would enable the City Administrator’s Office to provide reasonable assurance to the public that oversight of Measure M’s objectives is being met

In conclusion, the points above highlight how the Measure M fund, as a voter-approved measure, is significantly different from other funds and warrants increased scrutiny. The audit does not diminish the essential role of OFD Management in providing oversight for the Measure M fund; however, the administrative instruction provides the appropriate level of oversight and transparency for the voter-approved Measure M funds.

3

Improvements Needed in Internal Controls

In its response, the Administration stated that:

*...the Fire Department does indeed have strong internal controls in place to monitor not only the Measure M fund balance, but also the Measure M spending plan and the actual expenditures made each year. The fact that these internal controls exist and are sound, is proven by the fact that the City Auditor continues to find, with each internal audit, that this fund has been expended appropriately. The Department continues to enact a reasonable spending plan each year, while maintaining a reasonable fund balance that is based on projected needs of the fund in future years.*

The Administration’s statement is not accurate because the audit found that the City’s internal controls were not formalized and did not fully address the deficiencies identified in the June 2008 Measure M audit. Specifically, the 2011 audit found:

	<ul style="list-style-type: none"> <li>• No policy and procedure was developed to define how Measure M monies can be used</li> <li>• OFD Management did reduce the \$1.4 million FY 2006-07 year-end fund balance to \$383,850 by the end of FY 2009-10. However, while OFD developed the Projected Balance and Spending Plan to establish future balances and uses for the Measure M fund, the audit’s assessment found the document was not comprehensive or accurate and inadequately projected expenditures and the fund balance</li> </ul> <p>Though OFD Management cited valid reasons for maintaining some balance in the Measure M Fund, the audit found that OFD Management did not have a formal control mechanism to forecast, monitor and control Measure M fund balances.</p> <p>The audit also found that the Measure M Projected Balance and Spending Plan constituted OPD’s major control mechanism over the Measure M fund balance and identified the following deficiencies with the plan:</p> <ul style="list-style-type: none"> <li>• Inadequate cost projections</li> <li>• Incomplete analysis</li> <li>• Lack of expenditure timeframe</li> </ul> <p>Without the administrative instruction and formal policies and procedures in place, the City Administration is not currently following a clear and consistent process that can be tracked by an independent party to determine a reasonable basis exists for the City Administration to properly plan, expend, and report on Measure M funds.</p> <p>It is essential that the City Administration complete the development of an administrative instruction for the Measure M fund to assure the public that its internal controls over Measure M funds are fully effective, proposed changes in the parcel tax rate are justified, and that the measure’s objectives are being met.</p>
<p>4</p> <p>Policies and Procedures</p>	<p>During the audit, OFD Management provided an internal policy on the general purchasing <u>process</u> for the department. However, the City Administration <u>did not</u> provide any formal policy and procedure document that addressed “a comprehensive fund balance management plan designed to ensure tight internal controls and accurately project future fund balances.”</p> <p>The audit found that the Measure M Projected Balance and Spending Plan constituted OFD’s major control mechanism over the Measure M fund balance and identified the following deficiencies with the plan:</p> <ul style="list-style-type: none"> <li>• Inadequate cost projections</li> <li>• Incomplete analysis</li> <li>• Lack of expenditure timeframe</li> </ul> <p>The audit’s findings are completely contrary to the Administration’s statement in its response that “this plan specifically outlines procedures to compute the fund balance, to use due diligence in obtaining the best cost estimates, and to exercise sound judgment in anticipation of operational needs.”</p> <p>Clear policies and procedures would have resulted in documentation where an independent reviewer could review the process used by OFD Management to accurately project future fund balances for internal purposes, use due diligence in obtaining best cost estimates, and to exercise sound judgment in anticipating operational needs.</p>

5

Appropriate Reserve Balance

The Administration refers to a calculation of the appropriate fund balance level of \$300,000 in its 2008 response letter; however the Office's review of the 2008 audit report showed that the issue of calculating an appropriate reserve balance was not addressed.

Our audit recommendations in 2008 and in this 2011 audit acknowledge the need for a reasonable reserve for the Measure M fund, and the development of an administrative instruction would be the appropriate document to state the criteria relied upon by OFD Management to calculate the reserve level, rather than in a written response to an audit.

## SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The "Summary of Actions Necessary to Close the Report" provides our summary of the City Administrator's Office's comments and the proposed actions required to close the report. The status of the one recommendation at the time of publication for this report is unresolved. The Administration has not agreed with the audit report findings and has stated it will not implement the recommendation that was provided in the report.

### Recommendation #1

**Unresolved** – The Administration did not agree to develop an Administrative Instruction that establishes policies and procedures for the Measure M fund.

**To close this recommendation, the City Administrator's Office should direct OFD Management and FMA Management to finalize the administration instruction already drafted by OFD Management that (1) establishes a policy on an appropriate reserve for the Measure M fund balance, (2) policies for projecting costs of items to be covered by the Measure M fund balance and necessary to carryout its vital operations, and (3) appropriate procedures to identify projected costs, timeframes, and related information necessary to ensure that the fund balance spending plan is reasonably reliable and adequately tracks the fund balance. The City Administrator's Office should provide this information to the Office of the City Auditor by December 31, 2011.**

The Office followed-up on both June 2008 Measure M audit recommendations:

**Unresolved** (Recommendations #1 and #2) – Implementation of the new Recommendation #1 will close Recommendations #1 and #2 from the previous report, which are reprinted below.

**Recommendation No. 1:** The City Administration should develop a policy and procedure defining how Measure M monies can be used. Specifically, the policy and procedure should clearly state the specific programmatic activities that can be funded with Measure M monies and the allowable costs associated with these activities. This policy and procedure should also identify responsibility for enforcing its provisions.

**Recommendation No. 2:** The Fire Services Agency should work with the Office of the City Administrator and the Finance and Management Agency to reduce the year-end balance for the Measure M Fund. These steps should include developing a policy on an appropriate reserve for the fund, developing a long term expenditure plan for Measure M monies, budgeting expenditures at a level commensurate with the estimated annual revenues, monitoring the fund balance, and identifying other uses for these monies that are consistent with the uses specified in the measure. If the City cannot reduce the fund balance, it should consider suspending the annual parcel tax rate increases until the fund balance is reduced to an acceptable level.