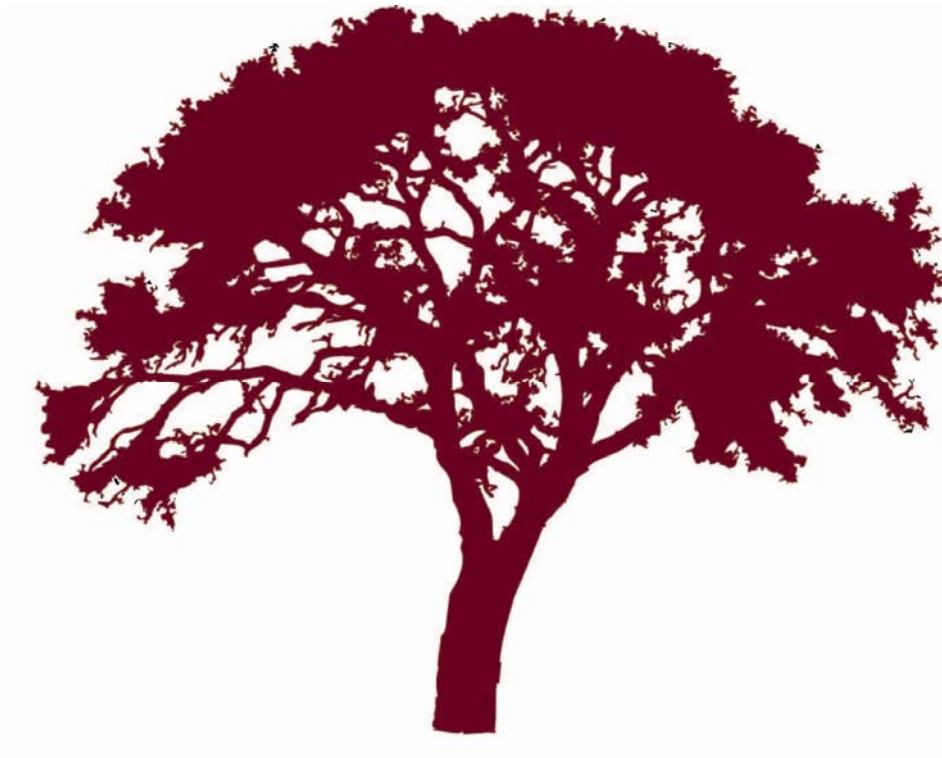


City of Oakland Office of the City Auditor

July 14, 2011

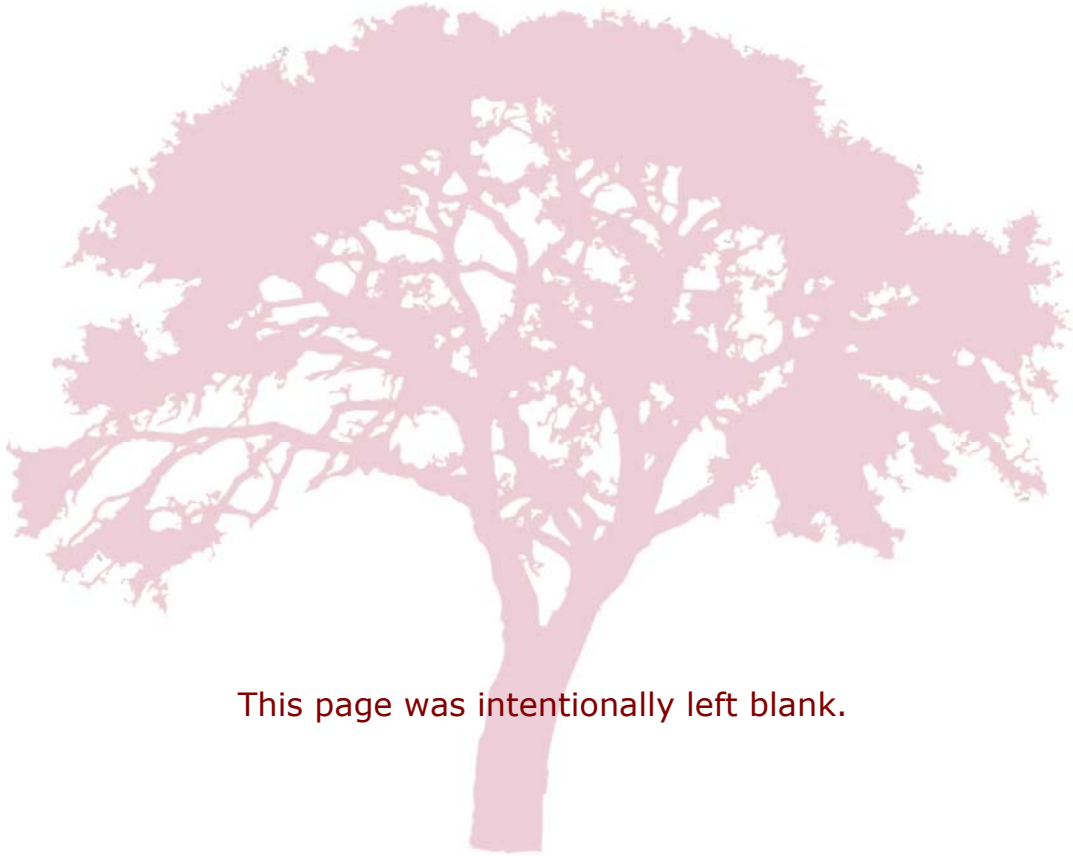
Measure N Performance Audit FY 2007-08 and FY 2008-09

*The City dispersed Paramedic Services funds appropriately
but failed to 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 N (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 Paramedic Services Act of 1997 (Measure N). Ballot measures are designed specifically to address the public's desire to fund certain services annually. In 1997, the voters of the City of Oakland (City) passed Measure N, which imposed a special tax on all parcels in the City to raise the necessary revenue to increase, enhance, and support paramedic services in the City.

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

- The proceeds from Measure N 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, the proceeds were in accordance with the Measure; however, we found that the fund balance has grown by 50 percent. In the 2008 audit, it was recommended that the City take steps to reduce the fund balance and establish an appropriate reserve. Unfortunately, the City did not take those steps. Instead, in FY 2009-10, there was an unspent Fund balance of \$2.1 million despite City staff's continued requests for the City Council to approve an increase on taxpayers for each of the last ten years.

The continued practice of increasing the Measure N fund balance and not expending voter-approved monies is inconsistent with the intent of Measure N. Additionally, it is not in the citizens' best interest for its City to accumulate special tax funds at a time when the General Fund is overburdened to the point Oakland is reducing city services and laying off city employees.

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 N Fund, having \$1 million in excess of identified needs fails to meet the intent of the ballot measure and underscores the Department's lack of internal controls to properly manage the Measure N Fund balance. The Administration response's claim that the City's general purchasing and budget policy is adequate exemplifies just how its management philosophy directly undermines the public's confidence and has resulted in a 50 percent increase in the fund balance.

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 N is being met. Addressing this audit's recommendations is a first step in reestablishing the public's trust in the management of parcel taxes.

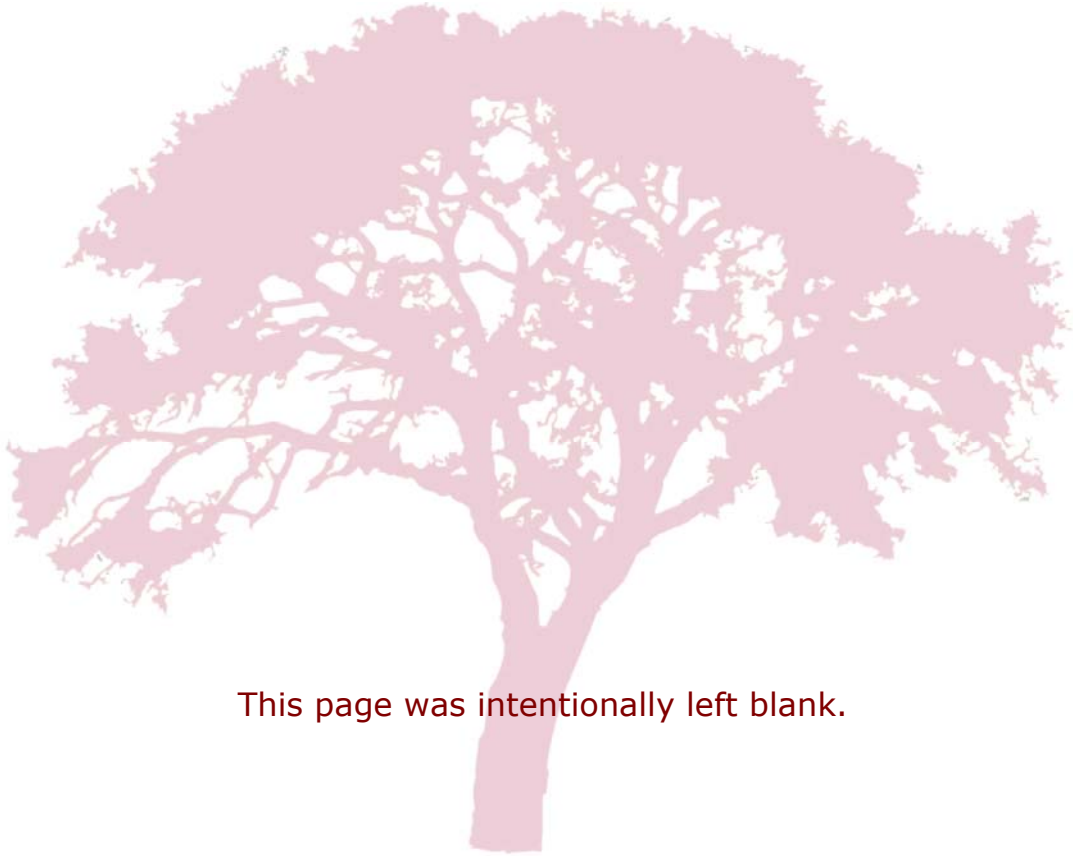
Respectfully submitted,

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

COURTNEY A. RUBY, CPA, CFE
City Auditor

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Measure N: Paramedic Services Act (FY 2007-08 AND FY 2008-09) PERFORMANCE AUDIT REPORT SUMMARY

Internal Controls

Overall the City Administration complied with Measure N provisions; however, Oakland Fire Department (OFD) Management did not reduce the \$1.4 million FY 2006-07 year-end fund balance and allowed it to increase 50 percent to \$2.1 million. As a result, internal controls remain inadequate over Measure N funds.

Overview

The Office of the City Auditor conducted a performance audit of the City Administration's compliance with Measure N 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 N
- The City's Finance and Management Agency (FMA) properly accounted for the receipt of revenues for Measure N from the County during FY 2007-08 and FY 2008-09
- OFD processed Measure N purchases in accordance with its guidelines
- OFD expended Measure N funds during FY 2007-08 and FY 2008-09 in accordance with the intent of Measure N
- OFD implemented the recommendations reported in the June 2008 audit report on Measure N

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 N from the County
- OFD processed Measure N purchases in accordance with its guidelines
- OFD expended Measure N funds consistent with the intent of Measure N

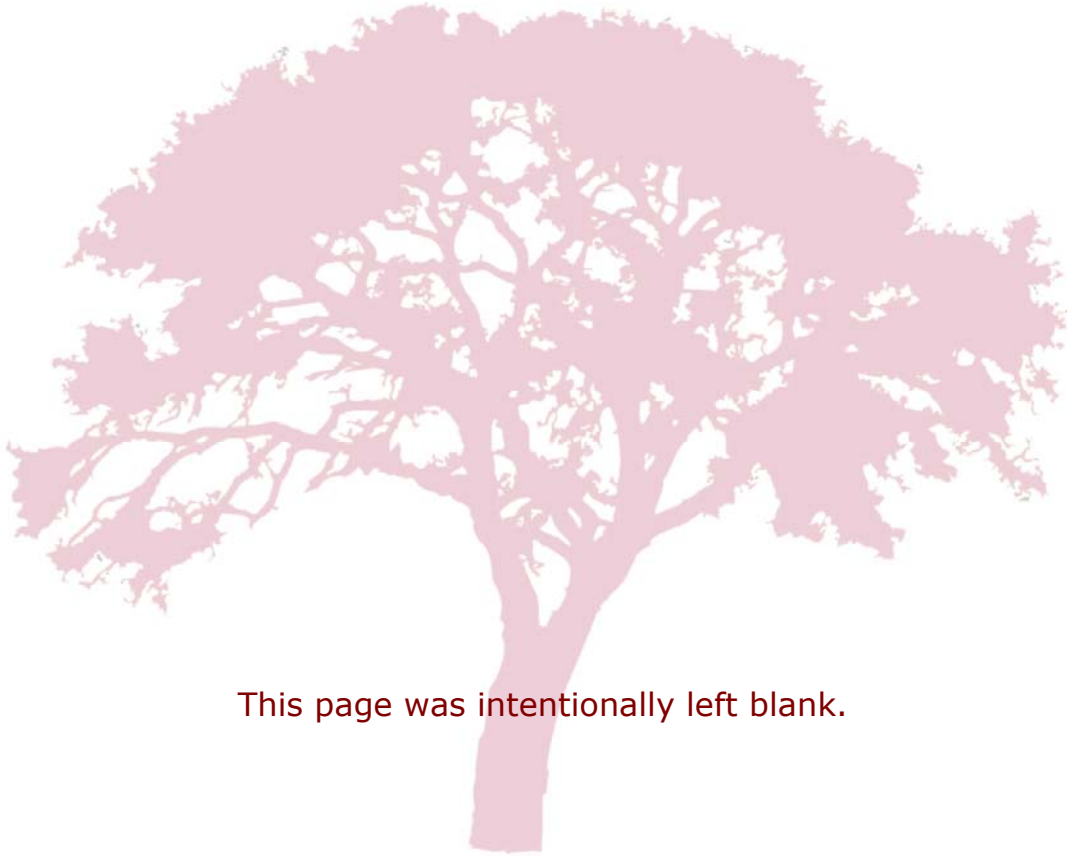
However, the audit found that OFD did not implement the two recommendations from the June 2008 Measure N audit report:

- No policy and procedure was developed to define how Measure N monies can be used
- OFD Management did not reduce the \$1.4 million FY 2006-07 year-end fund balance, and in fact allowed the balance to increase to \$2.1 million, a 50 percent increase, by the end of FY 2009-10. While OFD developed the Projected Balance and Spending Plan to establish future balances and uses for the Measure N 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 two key recommendations:

- Immediately revise OFD's Measure N 2250 Projected Balance and Spending Plan to identify how it will spend down the fund balance, in accordance with Measure N objectives, and submit it to the City Council for approval, thereby providing relief to the General Fund
- Formalize OFD's Measure N 2250 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 N fund balance, policies for projecting costs of items to be covered by the Measure N 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 N, which was passed by voters in 1997 to provide funding for paramedic 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 N funds.

Background

Prior to the passage of Measure N, Alameda County (the County) provided county-wide emergency medical services, including paramedic services through a county-run ambulance service. The County collected a special assessment to cover the costs of providing the emergency medical services.

In 1996, California voters passed State Proposition 218, which amended the California Constitution Articles XIII C and XIII D, and required local governments to obtain voter approval to impose tax assessments on property. Oakland citizens also passed the Paramedic Services Act of 1997, also known as Measure N, which approved parcel tax assessments, to provide for the hiring and training of paramedics. Measure N intended to provide a funding source for paramedic services in the City and to improve response time in emergency medical situations since firefighter paramedics respond to 911 calls in advance of the County's ambulance service arrival time.

Major Provisions of Measure N

Measure N, the Paramedic Services Act of 1997, was passed solely for the purpose of raising revenue necessary to increase, enhance, and support paramedic emergency services in the City. Measure N also sets forth other conditions to carry out its intent. Measure N:

- Imposes parcel taxes based on size and type of structures
- Requires that parcel tax rate increases may occur only on a finding that the consumer price index 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 a five percent increase in the immediately 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 30th 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 the County collect the parcel taxes and impose penalties and additional fees for unpaid taxes according to the rules, regulations and procedures utilized by the County

Measure N Programs

Under Measure N, the Oakland Fire Department, which operates 25 stations, is responsible for providing emergency medical services for residents, businesses and visitors of Oakland. To do so, all of OFD's firefighters are certified Emergency Medical Technicians (EMT) and each of Oakland's 24 fire engines and two fire trucks is assigned a Paramedic for a total of 26 Advanced Life Support units per day.

EMTs provide basic life support, rescue, and emergency medical care to patients. To be an EMT, California regulations require a person to successfully complete 120 hours of EMT coursework, pass EMT examinations, and be certified by an EMT certifying agency. EMT certification consists of two examinations, including written and skills examinations. EMTs re-certify by obtaining 24 hours of continuing education every year. On average, OFD employed 450 EMTs during FY 2007-08 and FY 2008-09.

Paramedics are educated and trained in all elements of pre-hospital advanced life support and provide advanced life support to patients. According to California regulations, to be a paramedic, at a minimum, a person is required to enter an approved paramedic training program, have a high school diploma or GED, possess a current basic cardiac life support card and possess current EMT-I and EMT-II certifications. To be licensed, Paramedics must complete a total of 1,090 hours of training and pass written and skills examinations. Paramedics renew their licenses by completing 48 hours of continuing education every year. On average, OFD employed 93 Paramedics during FY 2007-08 and FY 2008-09. OFD has established a pool of Paramedics to provide paramedic services when other Paramedics are absent or the numbers of Paramedics are insufficient due to staff reductions.

OFD is certified by the County and State of California as an approved Dispatch, EMT and Paramedic Continuing Education Provider. OFD provides training and continuing education to maintain its National Academy of Emergency Dispatch (NAED) Certified Dispatcher, EMT Certification and a California and National Registered Paramedic Licensure.

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 N
- The City's Finance and Management Agency (FMA) properly accounted for the receipt of revenues for Measure N from Alameda County during FY 2007-08 and FY 2008-09
- OFD processed Measure N purchases in accordance with its guidelines
- OFD expended Measure N funds during FY 2007-08 and FY 2008-09 in accordance with the intent of Measure N
- OFD¹ implemented the recommendations reported in the June 2008 audit report on Measure N

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 N 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 N'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 or not the parcel tax increases were permitted by Measure N.

To evaluate FMA's accounting of Measure N revenues received from the County, the audit reviewed Property Tax Remittance Advices from the County for FY 2007-08 and FY 2008-09 and independently reviewed and calculated parcel taxes totals received for Measure N from the County. The audit's totals were compared with FMA's 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 encompass purchasing and accounts payable procedures. The audit also selected a random sample of Measure N purchases completed during FY 2008-09. Ten random purchases of at least \$100 and above were selected out of a total universe of 253 purchases for FY 2008-09. The audit further reviewed purchase orders, invoices, and receipts associated with the 10 purchases to determine if OFD procedures were followed in making the purchases.

¹ The recommendations were 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 N's purpose, the audit gathered and analyzed information on the intent of Measure N and the nature of programs supported by Measure N funds. The audit also reviewed Title 22 of the California Code of Regulations, interviewed OFD officials and gathered and analyzed Measure N 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 N, the audit reviewed Measure N 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 N 2250 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 or 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 N Overall Compliance Assessment

Overall, the audit found that the City complied with the following Measure N 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 N from the County
- OFD processed Measure N purchases in accordance with its guidelines
- OFD expended Measure N funds consistent with the intent of Measure N

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

- No policy and procedure was developed to define how Measure N monies can be used. As a result, the City continues to lack any formal guidance on how Measure N 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 Management did not reduce the \$1.4 million FY 2006-07 year-end fund balance, and in fact, allowed the balance to increase to over \$2.1 million, a 50 percent increase, by the end of FY 2009-10. While OFD Management developed the Projected Balance and Spending Plan to establish future balances and uses for the Measure N fund, the audit's assessment found that the document was not comprehensive and inadequately projected expenditures and the fund balance. Furthermore, the continued practice of increasing the Measure N fund balance and not expending voter-approved monies

is not consistent with the intent of Measure N. In a budget environment where Measure N funds could alleviate the General Fund burden in retaining and enhancing medical services, the City Administration has not done so in a timely manner

As a result of the City Administration not implementing both recommendations, internal controls over Measure N fund balances remain inadequate, the City continues to lack any formal guidance on how these monies can be used, and the will of the voters to expend funds to retain and enhance medical services has not been met by OFD Management’s decision to increase the unspent Measure N fund balance by 50 percent.

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 N. 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.

Exhibit 1: PARCEL TAX RATE INCREASES DURING FY 2007-08 AND FY 2008-09					
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	\$8.75	\$9.03	3.2%	\$9.32	3.2%
Small Residential (2-4 units)	\$17.50	\$18.06	3.2%	\$18.65	3.3%
Large Residential (5 or more units)	\$43.77	\$45.17	3.2%	\$46.62	3.3%
Commercial	\$17.50	\$18.06	3.2%	\$18.65	3.3%
Industrial	\$35.02	\$36.14	3.2%	\$37.30	3.3%
Rural	\$8.75	\$9.03	3.2%	\$9.32	3.2%
Institutional	\$8.75	\$9.03	3.2%	\$9.32	3.2%

Source: City Ordinances 12807 and 12877

Measure N 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 N limits parcel tax rate increases to the increase in the CPI and prohibits increases in excess of 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.

Exhibit 2: CONSUMER PRICE INDEX INCREASES FROM 2006 TO 2009

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 increase between calendar years 2005, 2006 and 2007. The City's parcel tax increases did not exceed the five percent limit imposed by Measure N. Accordingly, the City complied with Measure N's requirements in imposing the parcel tax increases.

FMA properly accounted for Measure N revenues received from the County

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

FMA receives parcel taxes collected by 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 N
- Confirms receipt of the taxes with the City's 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 Measure N 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

² In accordance with Measure N, the City has authorized the County to collect Measure N parcel taxes, among other taxes, and process claims for unpaid taxes. In turn, the City of Oakland compensated the County 1.73 percent of the total taxes assessed.

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

Revenues raised from Measure N parcel taxes and reported in the City’s Oracle System amounted to over \$1.3 million and nearly \$1.4 million in FY 2007-08 and FY 2008-09, respectively, as shown in Exhibit 3.

Exhibit 3: MEASURE N REVENUES FOR FY 2007-08 AND FY 2008-09		
Revenue Source	FY 2007-08	FY 2008-09
Parcel Tax Revenue from County	\$1,299,453	\$1,363,425
Interest and Other Revenue	\$50,066	\$33,472
Total Revenue	\$1,349,519	\$1,396,897
<i>Source: Oracle Financial Reports</i>		

The audit’s review of the total taxes received from the 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 N was accurate. Thus, the audit concludes that FMA properly accounted for the Measure N parcel taxes received from the County.

OFD processed Measure N 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 the 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 Budget and Planning Division for processing.

Written policies and procedures that address significant transactions and events, such as purchasing transactions, of an organization 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 Measure N. 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.

The audit reviewed OFD purchases made with Measure N funds to verify OFD’s compliance with its written procedures. As part of this review, the audit randomly selected 10 purchases out of a total of 253 purchases made during FY 2008-09.

The audit found that OFD followed purchasing procedures for purchases made with Measure N funds during FY 2008-09. The audit found that four of the 10 purchases were commenced in the form of a Direct Payment Request and all were properly approved. Invoices associated with the Direct Payment requests were also properly approved. The other six 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 orders, encumbrances, and invoices were approved by different individuals, showing that purchases approved and made were appropriately segregated among different individuals. The audit concludes that OFD processed purchases funded by Measure N monies in accordance with its written guidelines on purchasing.

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

The audit found that during FY 2007-08 and FY 2008-09, OFD expended over \$1.3 million and \$1 million in Measure N funds, respectively, as shown in Exhibit 4. These expenditures covered personnel, operations and maintenance, and overhead costs. Measure N expenditures for personnel amounted to 76 percent of the total expenditures for FY 2007-08 and 76 percent for FY 2008-09. OFD’s expenditures for operations and maintenance during FY 2007-08 and FY 2008-09 were 19 and 20 percent, respectively. OFD spent four or five percent for overhead during either fiscal years.

Exhibit 4: MEASURE N EXPENDITURES FOR FY 2007-08 AND FY 2008-09				
Expenditures	FY 2007-08	Percent*	FY 2008-09	Percent*
Personnel	\$1,016,060	76%	\$771,267	76%
Operations & Maintenance	\$246,915	19%	\$198,535	20%
Overhead	\$59,496	5%	\$39,562	4%
Total	\$1,322,471		\$1,009,364	

* Percents were adjusted upward or downward to reflect whole numbers
Source: Oracle Financial Reports

Measure N was passed for the purpose of raising revenue necessary to increase, enhance, and support paramedic emergency services in the City. To provide for paramedic services, as required by Measure N, OFD is required to comply with Title 22 of the California Code of Regulations which requires that OFD, as the local EMS provider, offer continuing education, implement a Paramedic Quality Improvement Program, and maintain continuing education records on its Emergency Medical Technicians (EMTs) and paramedics. Measure N's purpose is broad and allows for expenditures that enhance paramedic services, such as training costs for paramedics, or support of paramedic services by providing for personnel costs for staff that directly engage in providing paramedic services.

OFD Management expended Measure N funds for paramedic services, including EMTs. Personnel costs covered salaries and benefits and operations and maintenance expenditures were for training, equipment and supplies for Paramedic and EMT services. Overhead expenditures covered the support service costs associated with those operations providing direct services as described in Administrative Instruction 1303.³ These costs, which were calculated by FMA, were charged to Measure N at a rate of 12.29 percent and 8.76 percent for FY 2007-08 and FY 2008-09, respectively.

According to OFD Management, Measure N expenditures for FY 2007-08 and FY 2008-09 also covered the costs of:

- Paramedic training for firefighters
- EMT training for firefighters
- Recordkeeping
- Quality assurance
- Paramedic field operations which include infection and narcotic control programs
- Advanced Life Support Equipment program
- Alameda County Emergency Medical Services research and collaboration

As discussed, during FY 2007-08 and FY 2008-09, OFD Management used Measure N funds to provide continuing education training to Paramedics and EMTs and to cover salaries and equipment for paramedics in support of paramedic services. OFD Management also used Measure N funds to ensure paramedic services were available to the citizens of Oakland, despite the downturn in the economy and reduction in revenues. When the number of full-time Paramedics was reduced from FY 2007-08 and FY 2008-09 levels, OFD Management increased the numbers of part-time Paramedics in the pool to ensure that paramedic services were available at each fire station in July 2009.

The audit concluded that OFD Management's use of Measure N funds for Paramedic and EMT services were consistent with Measure N's purpose.

³ 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.

OFD did not implement the recommendations from the 2008 audit report and internal controls over the Measure N fund balance remain inadequate

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

- Establishing a policy on an appropriate reserve for the Measure N Fund
- Developing a long term expenditure plan for Measure N monies
- Budgeting expenditures commensurate with the estimated annual revenues
- Monitoring the Fund balance
- Identifying other uses for the Measure N 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 N 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 inappropriately increased and internal controls not developed

The recommendation follow-up determined that Measure N fund balances remained large and actually increased. From FY 2006-07, when the Measure N Fund balance was \$1.4 million, the balance increased to more than \$2.1 million by the end of FY 2009-10, with increases ranging from 1 percent up to 21 percent each year, as shown in Exhibit 5.

Exhibit 5: MEASURE N FUND BALANCE INCREASES FOR FY 2006-07 TO FY 2009-10

Fiscal Year	Fund Balance Amount	Percent Change from prior fiscal year
2006-07	\$1,447,175	N/A
2007-08	\$1,467,385	1%
2008-09	\$1,854,918	21 %
2009-10	\$2,163,037	14 %

Source: Oracle Financial Reports

In response to the audit determination that the Measure N year-end fund balance remained at a significant level, OFD Management explained that an appropriate level of fund balance must be maintained to meet operational needs. OFD Management stated there must be an available fund balance to cover paramedic equipment purchases, including replacement purchases of 37 heart monitor Life Packs at a cost of \$35,120 each, for a total of nearly \$1.3 million and a chest compression device. OFD Management also stated that the fund balance was necessary to comply with California AB 2917 which requires EMTs to have California Department of Justice and Federal Bureau of Investigation criminal background checks. The estimated cost of implementing AB 2917 ranged from \$10,000 to \$200,000. OFD Management further cited the need to maintain a fund balance due to unforeseeable conditions, such as that occasioned by the swine flu pandemic.

Though OFD Management cited valid reasons for maintaining some balance in the Measure N Fund, the audit found that OFD Management did not have a formal control mechanism to forecast, monitor and control Measure N fund balances. 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 N 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 inappropriately allowed the Measure N fund balance to increase without adequate documentation and did not 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 N, OFD Management provided the City Auditor's Office with an internal fund balance spending plan, the Measure N 2250 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 N 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 Measure N 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 N Fund 2250 Projected Balance and Spending Plan did not accurately project or otherwise account for the Measure N 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 the objectives of an organization's internal control mechanism will be met, they do require reasonable assurance that the objectives will be met.

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

- Did not 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 N fund balance. For example, OFD Management's original fund balance spending plan for FY 2007-08 and FY 2008-09 listed a category of equipment replacement but did not provide any description of the type of equipment the \$1.2 million would purchase. OFD Management clarified that this balance was for "mainly the heart monitors." However, earlier OFD Management cost estimates indicated a total cost of \$1.3 million for the monitors. The planned expenditures for the heart monitors shown in the OFD's fund balance spending plan differed by \$100,000 but no documentation was provided stating whether or not there would be a reduction of monitors purchased, where the additional funding would come from, or why heart monitors had been prioritized as the equipment replacement for the fund balance
- Did not explain how \$100,000 would be used to meet a legal mandate. The FY 2008-09 fund balance spending plan referred to implementation of AB 2917 (legal mandate) at a cost of \$100,000. While the description of this legal mandate was specific, the plan did not explain how \$100,000 was determined. In the Agenda Report from OFD Management, dated October 27, 2009, implementation costs of AB 2917 ranged from \$10,000 to \$200,000. During the audit, OFD Management did not provide documentation to support the \$100,000 cost estimate included in the fund balance spending plan. Accordingly, the audit concluded that these projected costs were not reasonably accurate
- Did not identify timeframes for when costs were expected to be incurred. OFD Management identified only one timeframe, which was for the heart monitor equipment replacement to occur between 2011 to 2014. This timeframe lacked specificity in spite of comprising approximately 60 percent of the total fund balance expenditure
- Inaccurately projected the actual fund balances. The difference between OFD Management's projected fund balances and the actual fund balances shown in Oracle for FY 2007-08 and FY 2008-09 increased substantially, as shown in Exhibit 6, indicating the need for more reliable and reasonably accurate Measure N fund balance projections

Exhibit 6: MEASURE N FUND BALANCE INCREASES FOR FY 2006-07 TO FY 2009-10

Fiscal Year	Oracle Reported Fund Balance Totals	OFD's Projected Fund Balance Totals	Difference between Oracle and OFD fund balance totals
2006-07	\$1,447,175	N/A	N/A
2007-08	\$1,467,385	\$1,348,449	\$118,936
2008-09	\$1,854,918	\$1,367,438	\$487,480
2009-10	\$2,163,037	N/A	N/A

Source: Oracle Financial Reports

In conclusion, OFD Management did not develop clear guidance on how to spend Measure N funds to reduce the large Measure N fund balance, as was recommended in the June 2008 audit. As a result of the City Administration not implementing both recommendations, internal controls over Measure N fund balances remain inadequate, the City continues to lack any formal guidance on how these monies can be used, and the will of the voters to expend funds to retain and enhance medical services has not been met due to OFD Management's decision to increase the unspent Measure N fund balance by 50 percent. Instead, the fund balance was inappropriately increased without documentation that sufficiently justified the decision to increase the unspent balance, while also increasing the annual Measure N parcel tax rate.

Furthermore, OFD's internal plan, the Measure N 2250 Fund Balance and Spending Plan, its major control mechanism over the Measure N fund balance, was not based on information that was reasonably complete, and consequently was inadequate. Thus, OFD Management was not able to accurately account for the Measure N fund balance needed to provide for future, long-term, essential expenditures and did not have adequate controls over the Measure N fund balance.

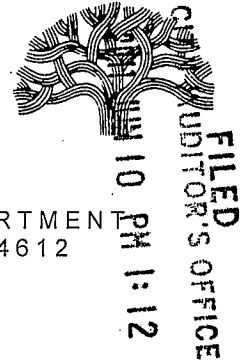
Measure N is unlike other voter-approved ballot measures, such as Measures K/D (children and youth services baseline funding) and Q (public library funding). Measures K/D and Q require voter approval to increase taxes, while Measure N does not. Measures K/D and Q also have expiration dates, whereas Measure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

Given the budget constraints on the General Fund, OFD Management should immediately revise its Measure N 2250 Projected Balance and Spending Plan to identify how it will spend down the fund balance, in accordance with Measure N objectives, and submit it to the City Council for approval, thereby providing relief to the General Fund.

Additionally, OFD Management should work with the City Administration and FMA Management to develop an Administrative Instruction (AI) that establishes a policy on an appropriate reserve for the Measure N fund balance; policies for projecting costs of items to be covered by the Measure N fund balance and necessary to carry out 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.

RECOMMENDATIONS	
We recommend that OFD Management:	
Recommendation #1	Immediately revise its Measure N 2250 Projected Balance and Spending Plan to identify how it will spend down the fund balance, in accordance with Measure N objectives, and submit it to the City Council for approval, thereby providing relief to the General Fund.
Recommendation #2	Formalize its Measure N 2250 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 N fund balance, policies for projecting costs of items to be covered by the Measure N 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.

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 N 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 N 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 N. 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 N 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 N 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 N fund balance, but also the Measure N 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.

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 Recommendations for Measure N:

“Immediately revise its Measure N 2250 Projected Balance and Spending Plan to identify how it will spend down the fund balance, in accordance with Measure N objectives, and submit it to the City Council for approval, thereby providing relief to the General Fund.”

And

“Work with the City Administration and FMA Management to develop an Administrative Instruction (AI) that establishes the purpose for maintaining the Measure N fund balance, policies for projecting costs of items to be covered by the Measure N fund balance and necessary to carry out 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.”

Response:

3

We respectfully disagree that the fund balance projections were “not based on reasonably complete information and consequently the plans’ projected costs were inadequate.” (page 10) OFD staff takes all known information into account for projections and planning. As the Department’s books are audited and closed, the base projections are changed to actual, and this becomes the grounds for future projections.

The Measure N fund balance projected in FY 2007-09 was \$1.36 million. The projected fund balance was planned to replace medical equipment, the AB 2917 implementation, an emergency plan and review update, and unforeseeable medical services. This fund received a one-time, unexpected grant reimbursement for equipment and medical supplies that allowed the Department to recover approximately \$487K worth of expenditures. This was an unexpected windfall for this fund and will allow the Department to create a new plan for these dollars.

4

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.

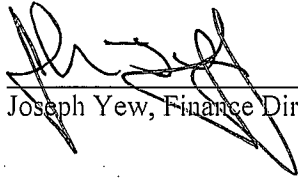
2

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.

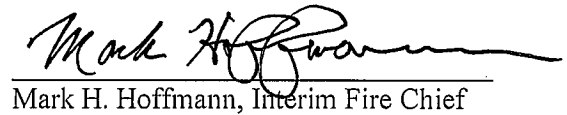
The Fire Department’s sound planning and management has ensured a healthy fund that maintains a reserve balance to ensure that when it is time to replace critical medical equipment estimated at \$1.2 million, this need can be met in a timely manner. This medical equipment was last replaced in 2004 and its life span is seven to 10 years. It will need replacement at any moment, so the Department is prudently reserving these funds for this purpose so that the

General Purpose Fund will not be hit with this one-time significant cost. The Department's internal policy and procedures for managing this fund and its related expenditures and fund balance are strong and have proven to be sound during these difficult economic times.

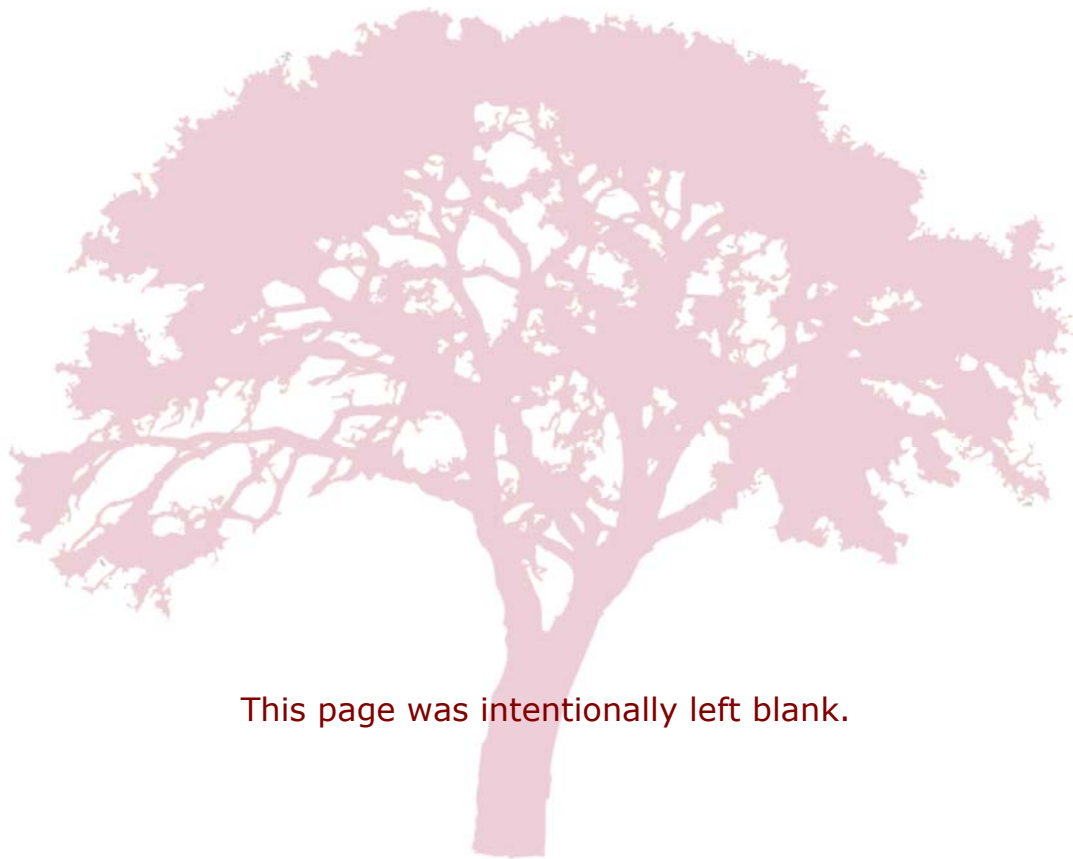
Sincerely,



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.

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

- (1) Measure N Ballot Language
- (2) Administrative Instruction
- (3) Improvements Needed in Internal Controls
- (4) Policies and Procedures

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

1

Measure N Ballot Language

In its response, the Administration stated that the Measure N 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. We believe such guidelines are warranted and other jurisdictions in Alameda County that have passed similar ballot measures have more specific definitions on how their tax monies can be used to pay for emergency medical services.

Additionally, the City's budget is a high level document that appropriates funding programmatically but does not specifically address how Measure N monies can and cannot be used. 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 N. For example, a written policy would clearly identify responsibility for enforcing the provisions of Measure N and thereby provide reasonable assurance that the measure's objectives are being met. [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 N:

- Measure N is a voter-approved ballot measure that resulted in the creation of the City’s Measure N Fund (Fund 2250), which differentiates it from other City funds. Given the decision by voters to commit funds to paramedic 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 N fund
- During the audit’s exit conference, OFD Management provided a draft of the Measure N 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 N
- Drafting of an administrative instruction was already underway for the voter-approved Kids First Fund (Measure D) during the Measure N 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 N 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 N does not. Measure D and Measure Q also have expiration dates, whereas Measure N does not. Furthermore, Measure D and Measure Q have citizen oversight groups to monitor expenditures, whereas Measure N 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 N funds. This would enable the City Administrator’s Office to provide reasonable assurance to the public that oversight of Measure N’s objectives are being met

In conclusion, the points above highlight how the Measure N 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 N fund; however, the administrative instruction provides the appropriate level of oversight and transparency for the voter-approved Measure N 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 N fund balance, but also the Measure N 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 address the deficiencies identified in the June 2008 Measure N audit. Specifically, the 2011 audit found:

- No policy and procedure was developed to define how Measure N monies can be used.
- OFD Management did not reduce the \$1.4 million FY 2006-07 year-end fund balance, and in fact allowed the balance to increase to \$2.1 million, a 50 percent increase, by the end of FY 2009-10. While OFD developed the Projected Balance and Spending Plan to establish future balances and uses for the Measure N fund, the audit's assessment found the document was not comprehensive and inadequately projected expenditures and the fund balance.

With the 50 percent increase in the unspent Measure N fund balance, the Administration does not have a reasonable basis to assert that "this fund has been expended appropriately." Though OFD Management cited valid reasons for maintaining some balance in the Measure N Fund, the audit found that OFD Management did not have a formal control mechanism to forecast, monitor and control Measure N fund balances.

The audit found that the Measure N Projected Balance and Spending Plan constituted OPD's major control mechanism over the Measure N fund balance and identified the following deficiencies with the plan:

- Inadequate cost projections
- Incomplete analysis
- Lack of expenditure timeframe

The City Administration's practice of changing base projections to actuals is not proper. 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 be saving Measure N funds rather than providing relief to the General Fund. For example, given the one-time grant reimbursement highlighted by the City Administration, it is not clear why the balance would be saved and coupled with an increase in the Measure N parcel tax rate. It is the responsibility of the City Administration to assure the public through a transparent process that it is properly using the Measure N funds, creating and maintaining an annual spending plan, and maintaining a reasonable reserve.

Furthermore, the City Administration is not presenting full information to the City Council regarding the Measure N funds. On June 7, 2011, the City Administration presented a staff report to the Finance and Management Committee that included only the proposed parcel tax rate increase and the additional revenue that would be generated. The staff report did not include any information on the \$2.1 million year-end fund balance for FY 2009-10 or that this was nearly \$1 million in excess of the proposed \$1.2 million needed for the replacement heart monitors.

It is essential that the City Administration complete the development of an administrative instruction for the Measure N fund to assure the public that its internal controls over Measure N funds are fully effective, proposed changes in the parcel tax rate are justified, and that the measure's objectives are being met.

Policies and Procedures

In its response, the Administration stated that it provided a policy that describes the proper uses for the Measure N 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.

This statement is inaccurate. During the audit, OFD Management provided an internal policy on the general purchasing process for the department. The Administration did not provide any internal policy and procedure document that identifies proper uses for the Measure N fund or that defines the procedures to ensure that an annual spending plan and healthy fund balance are developed.

The audit found that the Measure N Projected Balance and Spending Plan constituted OPD's major control mechanism over the Measure N fund balance and identified the following deficiencies with the plan:

- Inadequate cost projections
- Incomplete analysis
- Lack of expenditure timeframe

Furthermore, without formal policies and procedures, the Administration's assertion that the a healthy fund balance is maintained is not reasonable given the audit's finding of the \$2.1 million FY 2009-10 year-end fund balance that was nearly \$1 million in excess of the proposed \$1.2 million needed for the replacement heart monitors.

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.

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 each of the two recommendations 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 either of the recommendations that were provided in the report.

Recommendation #1

Unresolved - The Administration did not agree with this recommendation and did not state whether or not it would bring a revised Measure N Fund 2250 Projected Balance and Spending Plan for approval by the City Council.

To close this recommendation, the City Administrator's Office should direct OFD Management to revise the Measure N Fund 2250 Projected Balance and Spending Plan, including at a minimum (1) clear projected expenditure timeframes, (2) the basis for including the expenditure in the plan (e.g., County requirement), (3) the basis for cost estimates with supporting documentation, and (4) any anticipated and reasonable fund reserve, and present the plan to the City Council for review and approval by December 31, 2011.

Recommendation #2

Unresolved - The Administration did not agree to develop an Administrative Instruction that establishes policies and procedures for the Measure N 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 N fund balance; (2) policies for projecting costs of items to be covered by the Measure N 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 N audit recommendations:

Unresolved (Recommendations #1 and #2) - Implementation of the new Recommendation #2 will close Recommendations #1 and #2 from the previous report, which are reprinted on the following page.

Recommendation No. 1: The City Administration should develop a policy and procedure defining how Measure N monies can be used. Specifically, the policy and procedure should clearly state the specific programmatic activities that can be funded with Measure N 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 N Fund. These steps should include developing a policy on an appropriate reserve for the fund, developing a long term expenditure plan for Measure N 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.