

# City of Oakland Office of the City Auditor

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October 9, 2014

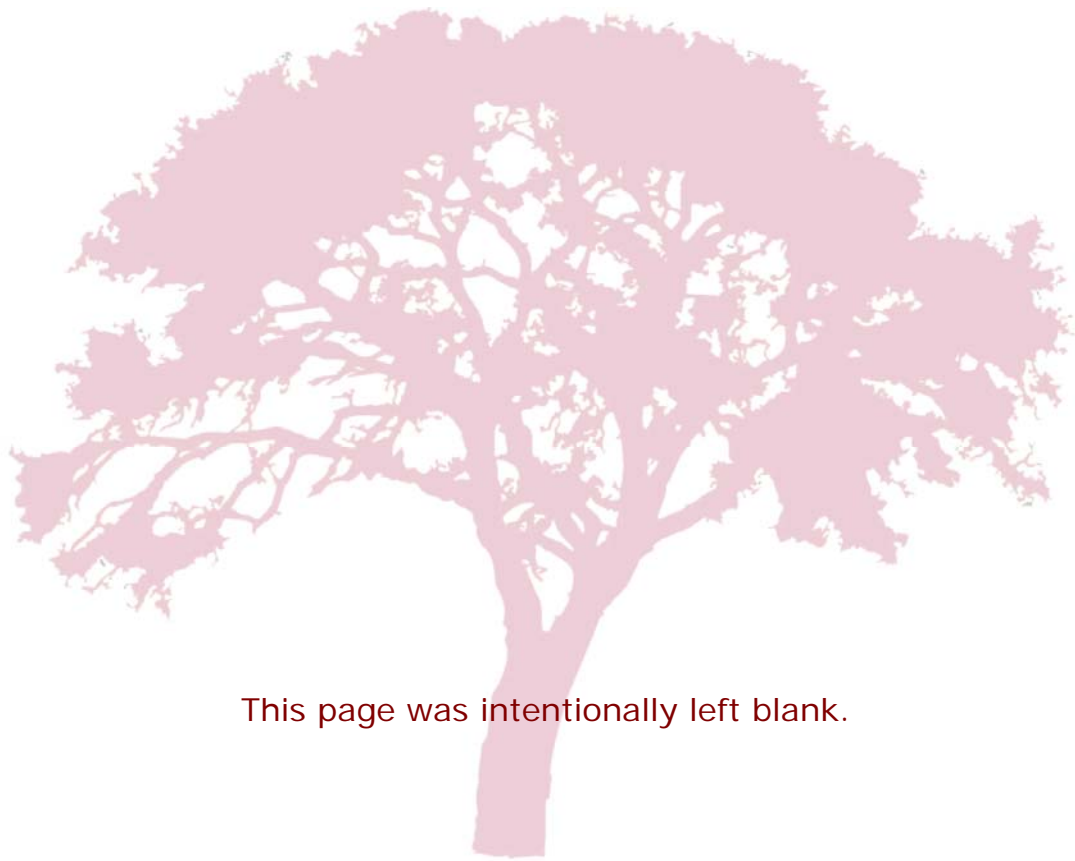
## Measure D Children and Youth Services Baseline Spending and Set-Aside Requirements for the Kids First Fund Audit FY 2009 – 10 through FY 2011 – 12

*The City continues to lack internal controls to ensure compliance with both baseline spending and set-aside requirements.*



City Auditor  
Courtney A. Ruby, CPA, CFE

# PERFORMANCE AUDIT



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CITY HALL • ONE FRANK H. OGAWA PLAZA, 4<sup>TH</sup> FLOOR • OAKLAND, CALIFORNIA 94612

Office of the City Auditor  
Courtney A. Ruby, CPA, CFE  
City Auditor

(510) 238-3378  
FAX (510) 238-7640  
TDD (510) 238-3254  
[www.oaklandauditor.com](http://www.oaklandauditor.com)

October 9, 2014

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

**RE: MEASURE D CHILDREN AND YOUTH SERVICES BASELINE SPENDING AND SET-ASIDE REQUIREMENTS FOR THE KIDS FIRST FUND AUDIT FY 2009-10 THROUGH FY 2011-12**

Dear Mayor Quan, President Kernighan, Members of the City Council, City Administrator Gardner, and Oakland Citizens:

Attached is the Measure D Children and Youth Services Baseline Spending and Set-Aside Requirements for the Kids First Fund Audit FY 2009-10 through FY 2011-12. Measure D requires that the City comply with children and youth services baseline spending and set-aside requirements. The Measure also requires the Office of the City Auditor to annually calculate and publish the City's actual baseline spending and set-aside for children and youth services.

Measure D is the third voter-approved measure to set money aside for programs and services benefiting children and youth, such as counseling, mentoring, recreational, preschool, and job training programs. In 1996, the voters approved the Kids First Measure, Measure K, that required the City to establish a baseline spending percentage for children and youth services each year and provide grants for additional spending on children and youth services by setting aside 2.5 percent of annual unrestricted General Purpose Fund revenues each year for 12 years in a separate fund, the Kids First Fund.

In 2008, the voters replaced Measure K with Measure OO, which revised the required set-aside amount to 1.5 percent of total revenues for the first two years and 2.5 percent each year thereafter. In 2009, Measure OO was replaced by Measure D, which reauthorized funding for the Kids First Fund for an additional 12 fiscal years, FY 2010 through 2022, and changed the set-aside to 3 percent of unrestricted General Purpose Fund revenues.

The audit's objectives were to determine if the City met the Measure D baseline spending requirement for children and youth services (5.35 percent of the unrestricted General Purpose Fund revenue) and the set-aside requirement for the Kids First Fund (3 percent of the unrestricted General Purpose Fund revenue).

The audit found that the City met the Measure D baseline spending requirement for FY 2009-10 and FY 2010-11, but fell short by \$982,522 in FY 2011-12. During the review period, the City set aside 3 percent per the Measure D requirement and appropriately reconciled the set-aside based on the City's audited revenue. The audit also found that the Measure D language has required continuous legal interpretation and may continue to require interpretation, which impacts the City's ability to comply with the Measure.

While the Administration met most of the Measure's requirements, this report calls for the implementation of policies and procedures to ensure compliance with Measure D, as previously identified in our 2008 and 2009 Measure K Baseline Audit and Set-Aside Audit, respectively. We must never lose sight that it is the taxpayers we serve and it is the Administration's responsibility to implement internal controls to ensure the Measure's requirements are met in full.

The Administration has agreed to implement 100 percent of the recommendations provided in the report. I want to express our appreciation to the City Administration, Controller, and staff for their cooperation and commitment to addressing the concerns highlighted in the audit.

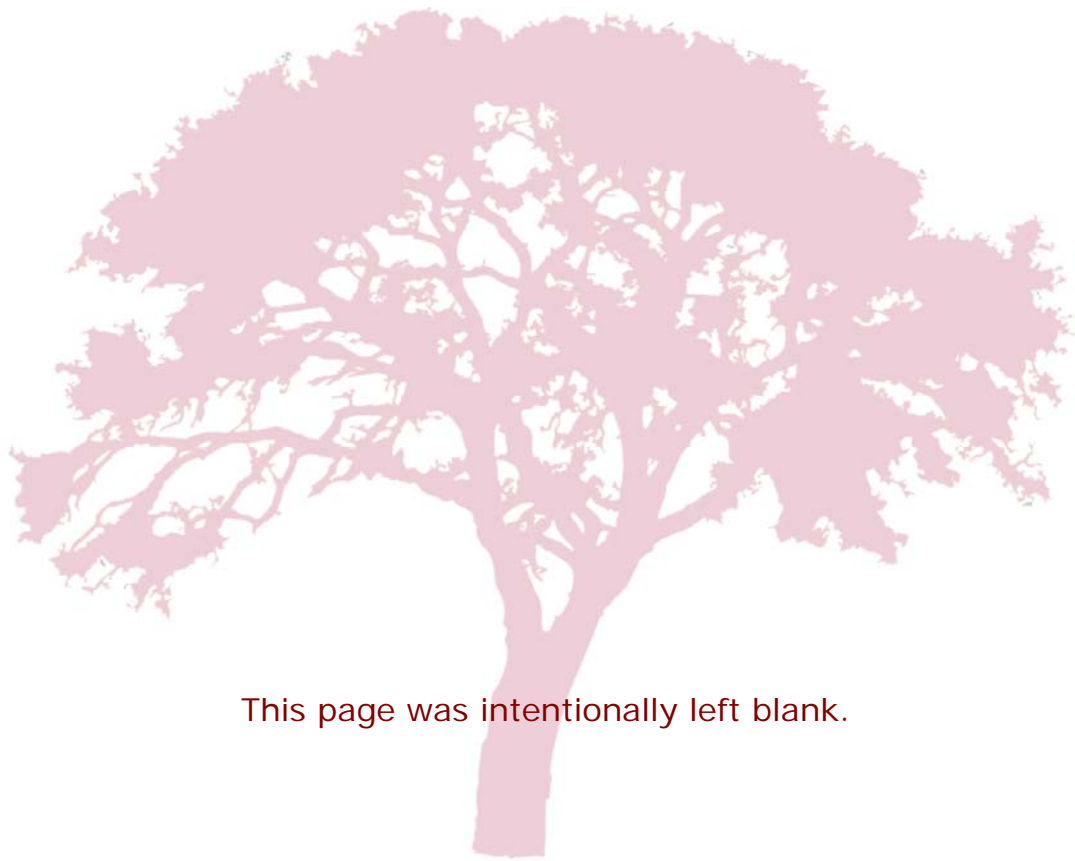
Respectfully submitted,

A handwritten signature in cursive script that reads "Courtney A. Ruby". The signature is written in black ink and is positioned above the printed name of the signatory.

COURTNEY A. RUBY, CPA, CFE  
City Auditor

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# Measure D Children and Youth Services Baseline Spending and Set-Aside Requirements for the Kids First Fund Audit FY 2009-10 through FY 2011-12

## Introduction

The Kids First Measure, formally titled “KIDS First! Oakland Children’s Fund,” requires that the City of Oakland (City) comply with children and youth services baseline spending and set-aside requirements. The Measure also requires that the Office of the City Auditor (Office) annually calculate and publish the City’s actual baseline spending and set-aside for children and youth services.

## Background

In 1996, the voters approved the Kids First Measure, Measure K, to set money aside for programs and services benefiting children and youth,<sup>1</sup> such as counseling, mentoring, recreational, preschool, and job training programs. Measure K required that the City establish a baseline spending percentage for children and youth services that the City must meet each year. Measure K also required that the City provide grants for additional spending on children and youth services by setting aside 2.5% of annual unrestricted General Purpose Fund revenues each year for twelve years in a separate fund, the Kids First Fund.

In 2008, the voters repealed Measure K and replaced it with Measure OO. Measure OO revised the required set-aside amount to 1.5% for the first two years and 2.5% each year thereafter. Measure OO also revised the set-aside calculations to be based on the City’s total revenues rather than unrestricted General Purpose Fund revenues. The City did not fully implement Measure OO because it was soon replaced by Measure D.

In 2009, the voters approved Measure D and amended the City Charter, Section 1300, reauthorizing funding for the Kids First Fund for an additional 12 fiscal years (FY), 2010 through 2022. Measure D requires that the City:

- Continue to spend a baseline amount on children and youth services from its unrestricted General Purpose Fund. The baseline requirement was established using the City’s children and youth appropriations from FY 1995-96.
- Set-aside 3% of its annual unrestricted General Purpose Fund for grants to non-profit and public agencies that provide children and youth services. The set-aside is based on actual unrestricted General Purpose Fund revenue.
- Continue the Planning and Oversight Committee for the Kids First Fund which is tasked with preparing strategic investment plans for appropriating the set-aside funds, soliciting funding applications from non-profit and public agencies, and making recommendations to the City Council to fund specific agencies whose programs support children and youth.
- Every twelve years extend these requirements for twelve more years with approval from the City Council or seek voter approval of the extension.

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<sup>1</sup> The Measure defines youth as less than 21 years old.

Measure D required the Office to determine the City's baseline spending requirement using the City's children and youth appropriations from FY 1995-96. The Office calculated the baseline to be 5.16% of the City's unrestricted General Purpose Fund. However, in 2014 the Office recalculated the baseline percentage, which increased from 5.16% to 5.35%. This recalculation was necessary to account for recent legal opinions regarding the application of the Measure's provisions. For example, it was determined that the City's Head Start overhead waiver should be included as eligible spending on children and youth services under Measure D and that money obtained by the City from capital asset sales should not be included as unrestricted General Purpose Fund revenue.

As shown in Exhibit 1, the baseline spending requirement was \$20,505,656 in FY 2009-10, \$20,355,538 in FY 2010-11, and \$21,432,925 in FY 2011-12. The set-aside requirement was \$11,498,499 in FY 2009-10, \$11,414,320 in FY 2010-11, and \$12,018,462 in FY 2011-12.

<b>EXHIBIT 1: Baseline and Set-Aside Requirements, FY 2009-10 Through FY 2011-12</b>					
<b>Year</b>	<b>Applicable Revenues<sup>A</sup></b>	<b>Baseline Requirement (%)</b>	<b>Baseline Requirement (\$)</b>	<b>Set-Aside Requirement (%)</b>	<b>Set-Aside Requirement (\$)</b>
FY 2009-10	\$383,283,295	5.35%	\$20,505,656	3%	\$11,498,499
FY 2010-11	\$380,477,347	5.35%	\$20,355,538	3%	\$11,414,320
FY 2011-12	\$400,615,421	5.35%	\$21,432,925	3%	\$12,018,462

<sup>A</sup> Applicable revenues include the total actual General Purpose Fund revenue and revenue from the Telecommunications Fund 1760, which in September 2013, the City Attorney's Office determined to be applicable revenue under Measure D.

Source: Calculations based on City's audited financial statements

## **Objectives, Scope & Methodology**

### Audit Scope & Objectives

The objectives of the audit were to determine if the City met the Measure D baseline spending requirement for children and youth services (5.35% of the unrestricted General Purpose Fund revenue) and the set-aside requirement for the Kids First Fund (3% of the unrestricted General Purpose Fund revenue). The scope of the audit includes FY 2009-10 through FY 2011-12.

### Audit Methodology

To conduct the audit, the Office:

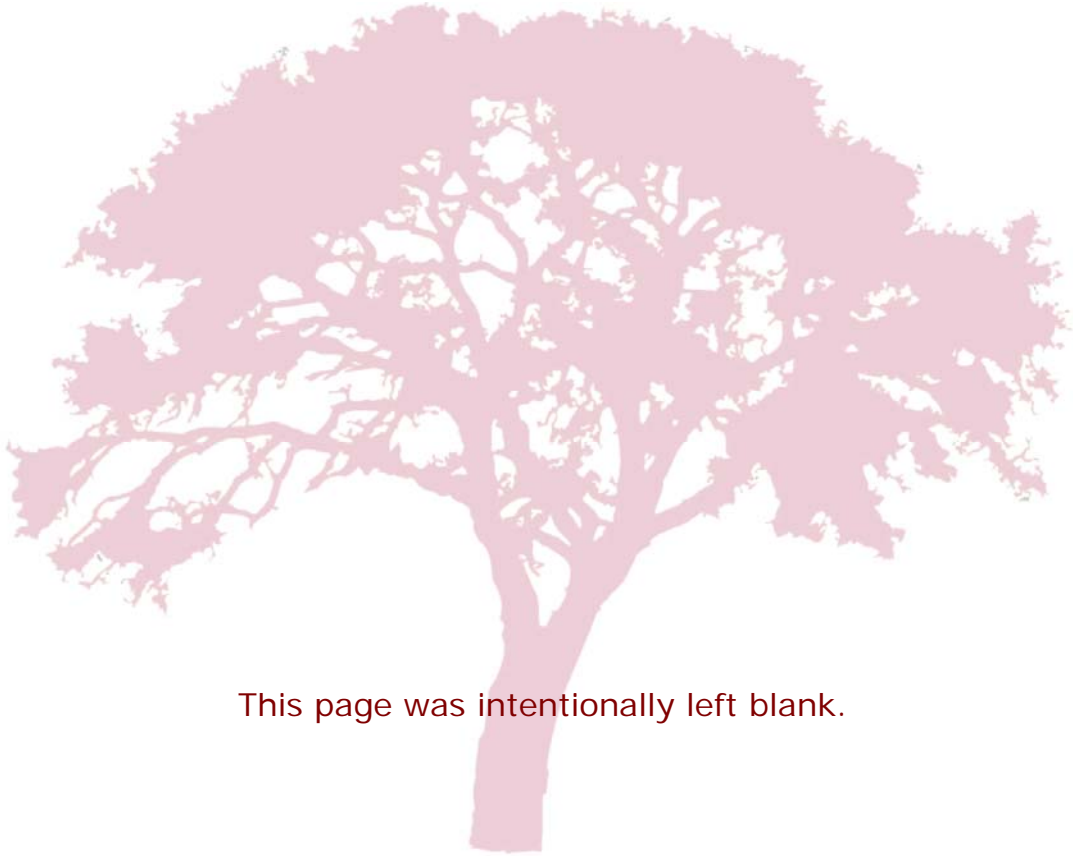
- Reviewed and analyzed all related Measure D legal opinions, previous audits, resolutions, and City Council agenda reports.
- Reviewed departments' data to ensure it was accurate, complete, and supported.
- Reviewed all controls, processes, policies, and procedures related to the City's compliance with Measure D.
- Consulted with the Office of the City Attorney to obtain clarity regarding the provisions and application of Measure D.



- Reviewed departments' spending in FY 2009-10 through FY 2011-12 to determine if the City complied with Measure D.
- Recalculated the City's set-aside amount for FY 2009-10 through FY 2011-12 and evaluated compliance with Measure D.
- Judgmentally sampled revenue transactions to determine if the Administration properly classified General Purpose Fund revenues as restricted and unrestricted.

Measure D requires that within 180 days following the completion of each fiscal year's external audit, the Office shall calculate and publish the actual amount of the City's spending for children and youth services. The Office did not meet the 180 day reporting timeline. In part, this was due to obtaining additional legal clarification on the provisions of Measure D.

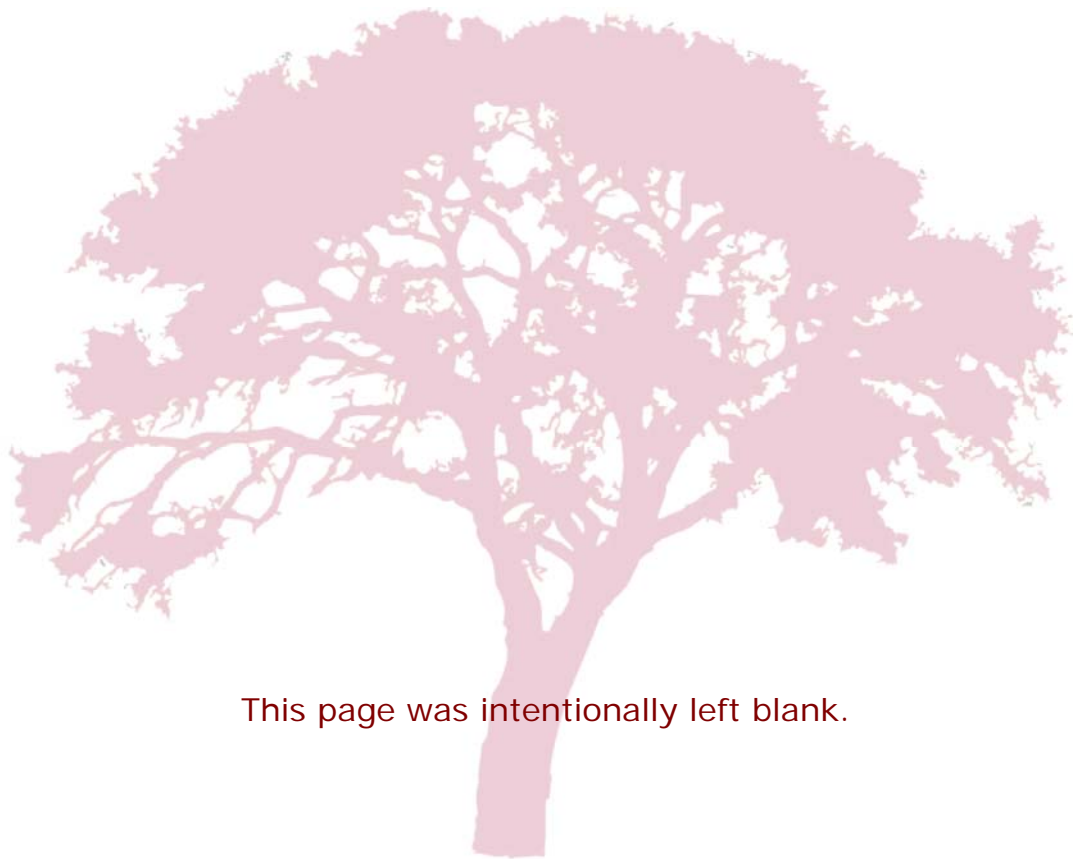
The Office conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). These standards require that the Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit's findings and conclusions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



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**AUDIT RESULTS**



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**Finding 1**

*The City met the Measure D baseline spending requirement for FY 2009-10 and FY 2010-11, but fell short by \$982,522 in FY 2011-12.*

The City met the Measure D baseline spending requirement for FY 2009-10 and FY 2010-11, but fell short in FY 2011-12. The City must increase its spending on children and youth services by at least \$982,522 over a two-year period to ensure that the correct amount of funds are expended, as required.

Exhibit 2 shows that in FY 2009-10 and FY 2010-11, the City was required to spend \$20,505,656 and \$20,355,538 respectively and it spent \$20,806,204 and \$21,636,846, thus exceeding the spending requirement. In FY 2011-12, the City was required to spend \$21,432,925 and it spent \$20,450,403, which did not meet the City's Measure D obligations by \$982,522.

<b>EXHIBIT 2: Eligible Measure D Spending, FY 2009-10 Through FY 2011-12</b>			
<b>Agency, Department or Office</b>	<b>Eligible Spending</b>		
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>
Department for Human Services	\$1,905,490	\$2,179,473	\$1,905,919
Oakland Fire Department	\$360,639	\$538,610	\$509,324
Oakland Public Library	\$3,389,447	\$3,478,363	\$3,468,246
Oakland Museum of California	\$1,030,315	\$2,484,685	\$2,094,390
Office of Parks and Recreation	\$9,693,947	\$9,615,537	\$9,868,851
Oakland Police Department	\$3,352,107	\$2,665,284	\$2,199,414
Mayor / City Council	\$5,181	\$33,400	\$0
Non-Departmental Organizations	\$1,069,078	\$641,494	\$404,259
<b>Total spending</b>	\$20,806,204	\$21,636,846	\$20,450,403
<b>Baseline spending requirement (5.35%)</b>	\$20,505,656	\$20,355,538	\$21,432,925
<b>Over / (Under) baseline spending requirement</b>	<b>\$300,548</b>	<b>\$1,281,308</b>	<b>\$(982,522)</b>

Source: Oracle, City departments' tracking sheets, and staff interviews

The Administration does not provide oversight and guidance for tracking and reporting spending on children and youth services. Additional oversight and guidance may help the City ensure it consistently meets the Measure D requirements. For example, the City may be spending more on children and youth services than reported. The City supported that it spent \$1,069,078 on grants for children and youth services in FY 2009-10, \$641,494 in FY 2010-11, and \$404,259 in FY 2011-12. However, as Exhibit 3 illustrates, the City gave a number of additional, organizational grants where a portion of those grants could potentially have been counted as an applicable children and youth services spending, if appropriate support had been obtained by the City.

**EXHIBIT 3: Additional Grants that may be Partially Eligible Under Measure D**

<b>Grant Recipient</b>	<b>FY 2009-10 Amount</b>	<b>FY 2010-11 Amount</b>	<b>FY 2011-12 Amount</b>
Attitudinal Healing Connection	-	\$25,440	-
Axis Dance Company	-	\$20,373	\$7,144
Cantare Con Vivo	-	\$15,960	-
Creative Growth Art Center	-	\$30,780	-
Crosspulse Inc.	-	\$13,628	\$13,756
Cypress Mandela Training	\$224,000	-	-
Derek Wright	\$4,989	-	-
Diamano Coura West	-	\$9,926	-
Dimensions Dance Theater Inc	-	-	\$9,633
Eastside Arts Alliance Inc.	\$66,489	\$20,450	\$20,641
Eden I&R (Information & Referral), Inc.	\$100,000	-	-
Friends of Peralta Hacienda Historical Park	\$29,155	\$69,791	\$45,900
Higher Gliffs Inc.	-	\$15,960	-
Kristine Holohan	\$4,999	-	-
Oakland Asian Cultural Center	\$80,000	-	-
Oakland Ballet	-	\$20,807	\$21,001
Oakland East Bay Symphony	\$114,650	\$61,799	-
Oakland Interfaith Gospel Choir	-	\$14,537	-
Opera Piccolo	\$32,267	-	-
Prescott-Joseph Center	-	\$4,700	-
Rhythmic Concepts Inc.	\$6,527	\$8,177	-
Rock Paper Scissors Collective	-	\$6,650	-
Sam Mulberry	\$4,999	-	-
Savage Jazz Dance Company	-	\$4,974	-
Spanish Speaking Unity Council	-	\$15,960	-
Stagebridge	\$23,814	\$20,767	\$20,962
<b>Total</b>	<b>\$691,889</b>	<b>\$380,679</b>	<b>\$139,037</b>

Source: Oracle financial records, City Council resolutions, and organizations' websites

Additionally, if departments do not report all applicable amounts spent on children and youth services, those amounts will not be included in the City's total children and youth services spending, which may impact the City's compliance with Measure D. In one instance, the Office found a \$5 million, FY 2011-12 museum grant was not reported to the Office and would not have been included in the City's total had the Office not independently identified the grant. Additional oversight and guidance to departments regarding the type of spending that should be reported and how to track and report all applicable spending may help increase the accuracy of the City's reporting and help ensure that the City consistently meets its annual Measure D requirements.

This finding repeats the previous, 2008 Measure K Audit finding that the City lacked internal controls to ensure compliance with the Kids First Measure spending requirements. While Measure D replaced Measure K, in concept, the recommendations made in the Measure K audit remain relevant to Measure D,

and the Administration should have applied the Measure K recommendations to help ensure compliance with Measure D.

## Recommendations

We recommend that the Administration:

1. Comply with the Measure D baseline spending requirement by increasing its spending on children and youth services to account for its FY 2011-12 shortfall of \$982,522. The Administration should work with the Office of the City Attorney to determine the appropriate timeline for this allocation.
2. Establish and implement policies and procedures to help ensure that the City meets Measure D's annual spending requirement for children and youth services. The policies and procedures should include but not be limited to:
  - Guidance to departments on how to track and report spending on children and youth services, including spending through grants.
  - Clarification on what expenses are eligible children and youth services, including methodologies that departments may apply for programs, grants, and expenses that do not solely serve children and youth.
  - Clarification on the type of documentation needed to support spending on eligible children and youth services, including methodologies using percentage allocations.
  - Regular oversight of Citywide spending on children and youth services to help ensure the City complies with Measure D spending requirements.

## Finding 2

*For FY 2009-10 through FY 2011-12, the City set aside 3% per the Measure D requirement, appropriately reconciled the set-aside based on the City's audited revenue, and is in the process of paying the difference to the Kids First Fund.*

The Administration calculates and sets aside 3% for the Kids First Fund based on the City's budgeted, unrestricted General Purpose Fund revenue. After the City's financials have been audited, the Administration recalculates the set-aside using the actual unrestricted General Purpose Fund revenue and reconciles the actual set-aside to the original, budgeted set-aside. For FY 2009-10 through FY 2011-12, the Administration appropriately set aside 3% based on the budgeted, unrestricted General Purpose Fund revenue and later reconciled the set-aside with the audited, actual revenue.

As shown in Exhibit 4, the Administration's reconciliation for FY 2009-10 through FY 2011-12 identified that the City needed to allocate an additional \$1,035,504 to the Kids First Fund. In part, this difference was due to legal clarification that the City's Telecommunications Fund 1760 should be included as revenue in Measure D calculations and in one year, the City received more revenue than originally budgeted. Since its reconciliation, the Administration has paid the Kids First Fund an additional \$1,083,601 for the fiscal years in the scope of the audit.

## EXHIBIT 4: Kids First Fund 3% Set-Aside Calculations and Reconciliation

	FY 2009-10	FY 2010-11	FY 2011-12
Original 3% Set-Aside <sup>A</sup>	\$11,451,580	\$11,515,710	\$10,928,487
Final 3% Set-Aside <sup>B</sup>	\$11,498,499	\$11,414,320	\$12,018,462
Annual Difference	(\$46,919)	\$101,390	(\$1,089,975)
Total Difference			(\$1,035,504)
Additional Payments Made to Kids First Fund for Set-Aside Reconciliation			\$1,083,601
<sup>A</sup> Original set-aside was calculated using budgeted, unrestricted General Purpose Fund revenue <sup>B</sup> Final set-aside was calculated based on actual unrestricted General Purpose Fund revenue and revenue from Telecommunications Fund 1760, which in September 2013, the City Attorney's Office determined to be applicable revenue under Measure D			

Source: Calculations based on data from Oracle and City Council Agenda Reports

While the Administration has appropriately reconciled its set-aside calculations for FY 2009-10 through FY 2011-12, this process is not formalized. The Administration's policies and procedures should be updated to reflect all changes from recent legal opinions regarding the calculation of unrestricted General Purpose Fund revenues and should clarify the timing of when the City should reconcile and allocate any additional set-aside amounts owed to the Kids First Fund. Updating and formalizing the City's policies and procedures will help ensure that set-aside calculations and reconciliations are performed consistently from year-to-year.

This finding repeats the previous, 2009 Measure K Set-Aside Audit finding that the City lacked internal controls to ensure compliance for calculating the set-aside and reimbursing either the City or the Fund for any differences. While Measure D replaced Measure K, in concept, the recommendations made in the Measure K audit remain relevant to Measure D, and the Administration should have applied the Measure K recommendations to help ensure compliance with Measure D.

### Recommendations

We recommend that the Administration:

3. Formalize its policies and procedures for calculating the Measure D set-aside, including identifying which revenue sources are restricted and unrestricted, and clarifying when the City should:
  - Reconcile its Kids First Fund set-aside.
  - Allocate any additional set-aside amounts owed to the Kids First Fund.



**Finding 3**

*Measure D language has required continuous legal interpretation and may continue to require interpretation, which impacts the City’s ability to comply with the Measure.*

The language of Measure D has required ongoing legal interpretations, which has impacted the City’s ability to comply with the Measure, and could continue to impact the City’s compliance going forward. To date, the Office and the Administration have obtained at least 10 legal opinions interpreting the language of the Measure and the Office has recalculated the Kids First baseline spending percentage twice. Even with these legal clarifications, the City continues to face potential changes regarding what funds and expenses should be included in the baseline spending and set-aside calculations. Exhibit 5 shows three examples of how recent interpretations of Measure D’s application have impacted the City’s compliance with the Measure.

**EXHIBIT 5: Impact from Recent Measure D Legal Clarifications**

Clarification	Impact
<p>1. <b><u>Head Start Overhead Waiver</u></b>                      The City waives overhead fees charged to Head Start. An August 2014 legal opinion found that this waiver is an applicable expense under Measure D, overturning the prior decision to exclude the waiver.</p>	<ul style="list-style-type: none"> <li>Recalculate the FY 1995-96 baseline spending requirement. The baseline requirement increased from 5.16% to 5.35%</li> <li>Recalculate the baseline spending for FY 1997-98 through FY 2011-12<sup>2</sup></li> </ul>
<p>2. <b><u>Telecommunication Fund 1760</u></b>                      City Council approved the unrestricting of Fund 1760 in 2007. Even though this fund is not a General Purpose Fund as defined by Measure D, a September 2013 legal opinion found that the fund applies to Measure D and should be included as unrestricted General Purpose Fund revenue.</p>	<ul style="list-style-type: none"> <li>Recalculate the set-aside allocation and baseline spending for FY 2007-08 through FY 2011-12</li> </ul>
<p>3. <b><u>Sale of Capital Assets</u></b>                      Revenue from the sale of capital assets was originally determined to be applicable unrestricted General Purpose Fund revenue (unless funds were specifically restricted by contract). An October 2013 legal opinion found that such sales are not considered “revenue,” which overturned prior decisions.</p>	<ul style="list-style-type: none"> <li>Recalculate the FY 1995-96 baseline spending requirement</li> <li>Recalculate the set-aside allocation and baseline spending for FY 1997-98 through FY 2011-12</li> </ul>

<sup>2</sup> Measure K did not take effect until FY 1997-98 and FY 2008-09 may be calculated differently because Measure OO was in effect that fiscal year.

The recent, legal clarification that the Telecommunication Fund should be included as revenue in Measure D calculations raises a larger issue of whether there are other unrestricted funds outside of the General Purpose Fund that may be applicable under Measure D. In order to answer this question, the Office of the City Attorney would need to review approximately 18 funds to determine whether each of those funds may or may not be applicable under Measure D. This will likely take a significant amount of time to complete. By basing requirements specifically on unrestricted General Purpose Fund revenue rather than total revenue, the Measure D baseline and set-aside calculations will likely be subject to ongoing interpretation and change. This will likely continue to require significant, additional staff time from the Administration, Office of the City Attorney, and the Office of the City Auditor to interpret and recalculate spending on children and youth services, thus increasing the cost to taxpayers for administering Measure D.

## **Recommendations**

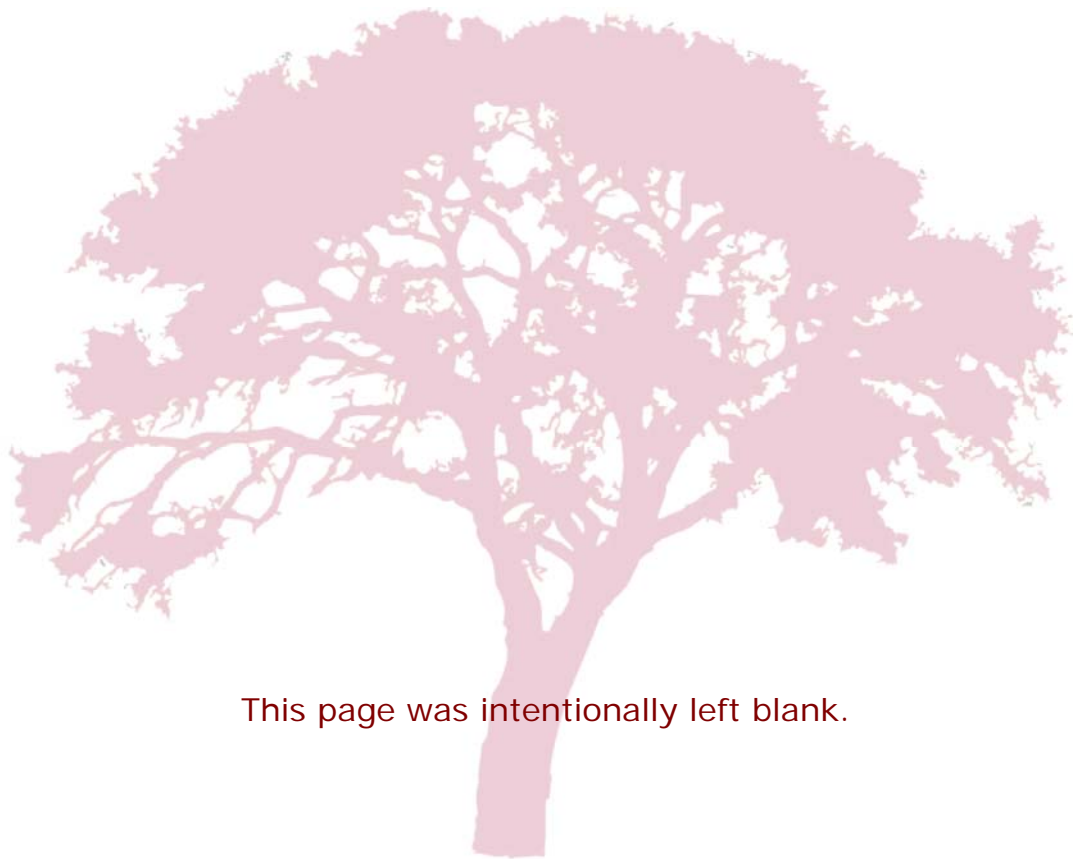
We recommend that the Administration:

4. Work with the Planning and Oversight Committee for the Kids First Fund to convene a working group to clarify Measure D and to bring a revised ballot measure to the voters. This working group should obtain input from the Office of the City Attorney and the Controller's Office.

## FINDINGS

The audit found the following:

Finding 1	The City met the Measure D baseline spending requirement for FY 2009-10 and FY 2010-11, but fell short by \$982,522 in FY 2011-12.
Finding 2	For FY 2009-10 through FY 2011-12, the City set aside 3% per the Measure D requirement, appropriately reconciled the set-aside based on the City's audited revenue, and is in the process of paying the difference to the Kids First Fund.
Finding 3	Measure D language has required continuous legal interpretation and may continue to require interpretation, which impacts the City's ability to comply with the Measure.

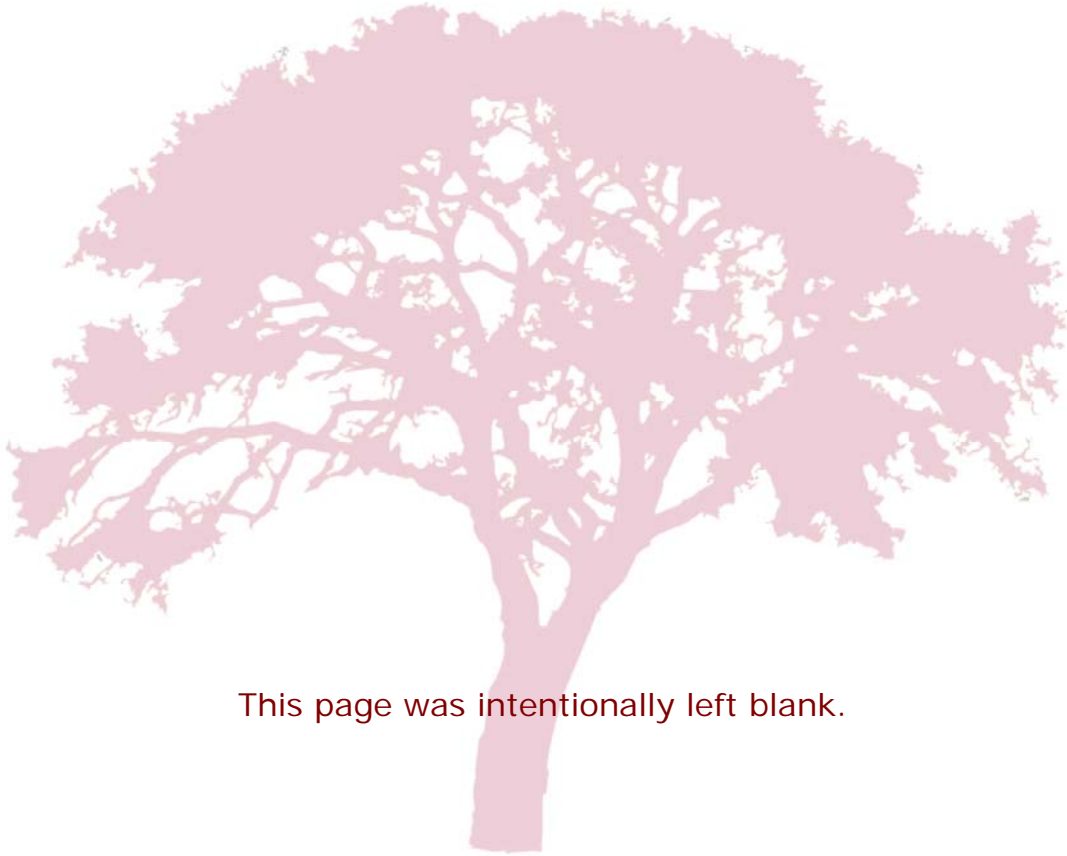


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## RECOMMENDATIONS

### We recommend that the Administration:

<p>Recommendation #1</p>	<p>Comply with the Measure D baseline spending requirement by increasing its spending on children and youth services to account for its FY 2011-12 shortfall of \$982,522. The Administration should work with Office of the City Attorney to determine the appropriate timeline for this allocation.</p>
<p>Recommendation #2</p>	<p>Establish and implement policies and procedures to help ensure that the City meets Measure D's annual spending requirement for children and youth services. The policies and procedures should include but not be limited to:</p> <ul style="list-style-type: none"> <li>• Guidance to departments on how to track and report spending on children and youth services, including spending through grants.</li> <li>• Clarification on what expenses are eligible children and youth services, including methodologies that departments may apply for programs, grants, and expenses that do not solely serve children and youth.</li> <li>• Clarification on the type of documentation needed to support spending on eligible children and youth services, including methodologies using percentage allocations.</li> <li>• Regular oversight of Citywide spending on children and youth services to help ensure the City complies with Measure D spending requirements.</li> </ul>
<p>Recommendation #3</p>	<p>Formalize its policies and procedures for calculating the Measure D set-aside, including identifying which revenue sources are restricted and unrestricted, and clarifying when the City should:</p> <ul style="list-style-type: none"> <li>• Reconcile its Kids First Fund set-aside.</li> <li>• Allocate any additional set-aside amounts owed to the Kids First Fund.</li> </ul>
<p>Recommendation #4</p>	<p>Work with the Planning and Oversight Committee for the Kids First Fund to convene a working group to clarify Measure D and to bring a revised ballot measure to the voters. This working group should obtain input from the Office of the City Attorney and the Controller's Office.</p>



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**APPENDIX 1: ELIGIBLE SPENDING ON CHILDREN AND YOUTH SERVICES, FY 2009-10 THROUGH FY 2011-12**

Department for Human Services	Eligible Spending for Children and Youth Services		
	FY 2009-10	FY 2010-11	FY 2011-12
Head Start	\$1,715,857	\$1,965,238	\$1,772,435
Summer Food Program	\$42,537	\$46,646	\$47,017
A Safe Walk to School Program	\$42,537	\$46,646	\$47,017
Youth Leadership Development	\$104,559	\$81,783	\$915
Administration for Kids First!	\$0	\$39,160	\$38,535
<b>Total</b>	<b>\$1,905,490</b>	<b>\$2,179,473</b>	<b>\$1,905,919</b>

Oakland Fire Department	Eligible Spending for Children and Youth Services		
	FY 2009-10	FY 2010-11	FY 2011-12
Safety Education	\$97,426	\$107,777	\$117,491
Health Fair	\$96,382	\$259,580	\$231,372
School Site Program	\$143,767	\$125,967	\$111,465
National Night Out	\$0	\$4,179	\$4,695
Fire Prevention Week	\$23,064	\$41,107	\$44,301
<b>Total</b>	<b>\$360,639</b>	<b>\$538,610</b>	<b>\$509,324</b>

Mayor/ City Council	Eligible Spending for Children and Youth Services		
	FY 2009-10	FY 2010-11	FY 2011-12
Summer Youth Program	\$4,681	\$0	\$0
Pay-Go Funds – Grant Boys to Men Youth Outreach	\$500	\$0	\$0
District 5 – Museum of Children	\$0	\$18,900	\$0
Friends of Peralta Hacienda	\$0	\$14,000	\$0
Skyline High	\$0	\$500	\$0
<b>Total</b>	<b>\$5,181</b>	<b>\$33,400</b>	<b>\$0</b>

Non-Departmental Organizations	Eligible Spending for Children and Youth Services		
	FY 2009-10	FY 2010-11	FY 2011-12
Chabot Space and Science Center	\$234,478	\$182,356	\$150,936
Safe Passages	\$150,000	\$150,000	\$150,000
Cultural Grants	\$544,600	\$303,448	\$94,734
Oakland School for the Arts	\$140,000	\$0	\$0
National Night Out	\$0	\$5,690	\$8,589
<b>Total</b>	<b>\$1,069,078</b>	<b>\$641,494</b>	<b>\$404,259</b>

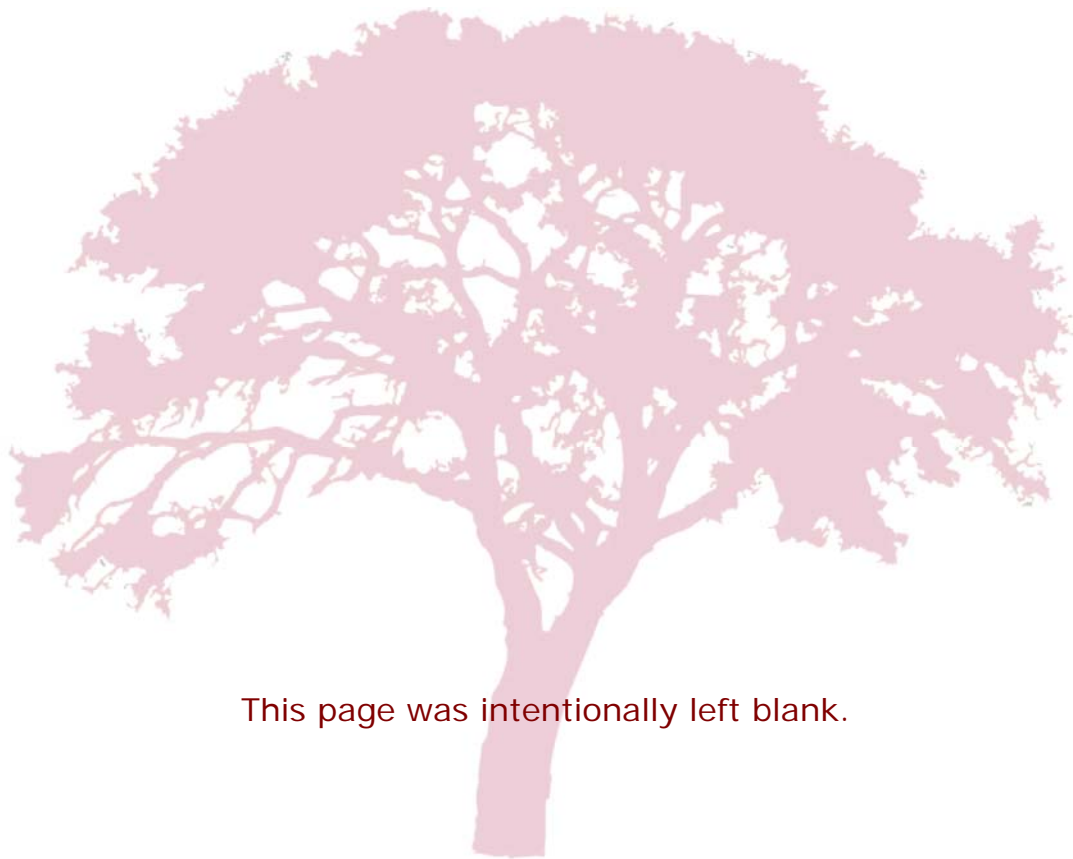
Oakland Museum of California	Eligible Spending for Children and Youth Services		
	FY 2009-10	FY 2010-11	FY 2011-12
Administration and Operations	\$1,030,315	\$2,484,685	\$2,094,390
<b>Total</b>	<b>\$1,030,315</b>	<b>\$2,484,685</b>	<b>\$2,094,390</b>

Oakland Public Library	Eligible Spending for Children and Youth Services		
	FY 2009-10	FY 2010-11	FY 2011-12
Youth Age 21 or less Direct Public Service (Personnel Only)	\$1,298,164	\$1,636,895	\$1,690,850
Youth Age 21 or less Book Budget	\$275,526	\$84	\$0
Youth Age 21 or less Cataloging		\$131,239	\$98,827
Youth Age 21 or less Acquisitions		\$117,614	\$122,132
Children's Services	\$171,690	\$0	\$46,707
Teen Services	\$207,990	\$294,888	\$74,768
System wide Support Services	\$1,436,077	\$1,297,643	\$1,434,962
<b>Total</b>	<b>\$3,389,447</b>	<b>\$3,478,363</b>	<b>\$3,468,246</b>



<b>Office of Parks and Recreation</b>	<b>Eligible Spending for Children and Youth Services</b>		
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>
Competitive Sports	\$199,766	\$34,310	\$45,886
After School Sports	\$725,972	\$762,888	\$640,537
Aquatics Pools	\$732,497	\$985,592	\$820,603
Aquatics Boating	\$168,433	\$191,032	\$223,738
Ball Fields	\$11,870	\$58,248	\$69,098
Central Administration	\$3,302,968	\$2,973,662	\$3,324,602
Contract Management	\$1,150,242	\$806,573	\$681,305
Cultural Arts	\$387,658	\$568,169	\$867,877
Davies Tennis & Citywide Tennis	\$51,482	\$59,004	\$24,033
Camp	\$129,031	\$132,878	\$41,738
Recreation, Cultural Civic	\$2,834,028	\$3,043,181	\$3,129,434
<b>Total</b>	<b>\$9,693,947</b>	<b>\$9,615,537</b>	<b>\$9,868,851</b>

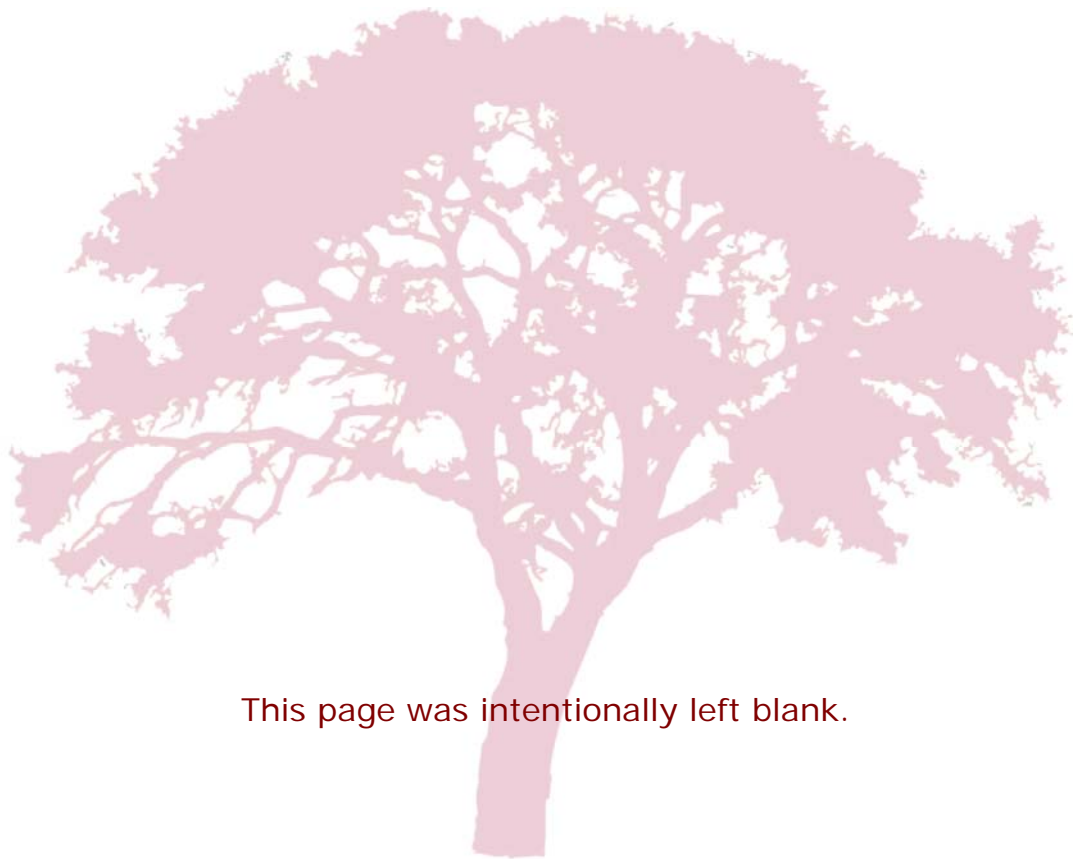
<b>Oakland Police Department</b>	<b>Eligible Spending for Children and Youth Services</b>		
	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>
Youth and Family Services	\$3,010,040	\$2,526,208	\$2,025,082
Cadets Program	\$342,067	\$139,076	\$174,332
<b>Total</b>	<b>\$3,352,107</b>	<b>\$2,665,284</b>	<b>\$2,199,414</b>



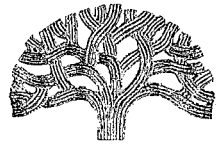
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**ADMINISTRATION'S  
RESPONSE**



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

Office of the City Administrator

(510) 238-3301  
 FAX (510) 238-2223  
 TDD (510) 238-2007

October 3, 2014

Courtney A. Ruby, City Auditor  
 City of Oakland, California  
 1 Frank Ogawa Plaza, 4<sup>th</sup> Floor  
 Oakland, CA 94612

**RE: Response to Measure D Children and Youth Services Audit for FY 2009-10 through FY 2011-12**

Dear City Auditor Ruby:

I am pleased to provide you with the Administration’s response to Measure D - Children and Youth Services Audit for FY 2009-10 through FY 2011-12. We welcome fair and impartial performance audits conducted cooperatively to improve the effectiveness and transparency of City government operations.

The table below summarizes the Measure D baseline and set-aside requirements for FY 2009-10 through FY 2011-12:

**BASELINE & SET-ASIDE REQUIREMENTS FY 2009-12**

FISCAL YEAR	Applicable Revenues <sup>1</sup>	Baseline Requirement (%)	Baseline Requirement (\$\$)	Set-Aside Requirement (%)	Set-Aside Requirement (\$\$)	TOTAL CONTRIBUTION TO YOUTH SERVICES <sup>2</sup>
FY 2009-10	383,283,295	5.35%	20,505,656	3.00%	11,498,499	32,004,155
FY 2010-11	380,477,347	5.35%	20,355,538	3.00%	11,414,320	31,769,859
FY 2011-12	400,615,421	5.35%	21,432,925	3.00%	12,018,462	33,451,387

<sup>1</sup> This includes unrestricted revenues for both the General Purpose Fund (1010) and the Telecommunications Reserve Fund (1760)

<sup>2</sup> The Governmental Funds (1010 & 1760) have contributed an average of \$32.41 million annually to youth services


In summary, the audit provided three (3) recommendations for the Administration:

- Measure D Baseline spending requirement:** In FY 2009-10 and FY 2010-11, the City spent \$1,582,855 over the baseline requirement. In FY 2011-12, the City underspent \$982,522 of the baseline requirement. The Administration will work with the City Attorney Office to comply with the Measure D baseline requirement for FY 2011-12.

2. **Measure D Set-aside 3% requirement:** The Administration has already implemented the set-aside requirement. It should be noted that the administration has overpaid the Kids First Fund by \$48,097. This amount will off-set in the future Kids First Set-aside 3% allocations.
  
3. **Measure D language continuous legal interpretation:** The Measure D language has required continuous legal interpretation and may continue to require interpretation, which impacts the City's ability to comply with the Measure. The Administration will work with the Planning and Oversight Committee, City Auditor Office, and City Attorney Office to clarify how to address the Measure language for easier interpretation in the future.

Attached to this cover letter is the City's detailed response on audit recommendations and process to close out the audit.

Sincerely,

  
Henry L. Gardner  
Interim City Administrator

Cc: Osborn K. Solitei, Director of Finance/Controller

# Administration's Detailed Response to Measure D Children and Youth Services Audit for FY 2009-10 through FY 2011-12

October 3, 2014

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**Finding 1:** The City Met the Measure D Base Spending Requirement for FY 2009-10 and FY 2010-11, but Fell Short by \$982,522 in FY 2011-12.

**Recommendation # 1:** Comply with the Measure D baseline spending requirement by increasing its spending on children and youth services to account for its FY 2011-12 shortfall of \$982,522. The Administration should work with Office of the City Attorney to determine the appropriate timeline for this allocation.

*Administration's Response:* We agree with this recommendation and will take the necessary steps to ensure implementation.

**Recommendation # 2:** Establish and implement policies and procedures to help ensure that the City meets Measure D's annual spending requirement for children and youth services. The policies and procedures should include but not be limited to:

- Guidance to departments on how to track and report spending on children and youth services, including spending through grants.
- Clarification on what expenses are eligible children and youth services, including methodologies that departments may apply for programs, grants, and expenses that do not solely serve children and youth.
- Clarification on the type of documentation needed to support spending on eligible children and youth services, including methodologies using percentage allocations.
- Regular oversight of Citywide spending on children and youth services to help ensure the City complies with Measure D spending requirements.

*Administration's Response:* We agree with this recommendation and will take the necessary steps to ensure implementation.

**Finding 2:** For FY 2009-10 Through FY 2011-12, the City Set-Aside 3% per the Measure D Requirement, Appropriately Reconciled the Set-Aside Based on the City's Audited Revenue, and is in the Process of Paying the Difference to the Kids First Fund

**Recommendation # 3:** Formalize its policies and procedures for calculating the Measure D set-aside, including identifying which revenue sources are restricted and unrestricted, and clarifying when the City should reconcile its Kids First Fund set-aside and allocate any additional set-aside amounts owed to the Kids First Fund.

**Administration's Detailed Response to Measure D Children and Youth  
Services Audit for FY 2009-10 through FY 2011-12**

October 3, 2014

**Administration's Response:** *We agree with this recommendation and have calculated the set-aside for both the General Purpose Fund (GPF) and the Telecommunications Reserve Fund (TRF), and adjusted the adopted budgets to reflect the true-up as shown in the table on the following page. The Administration has overpaid the Kids First Fund by \$48,097 for FY 2009-10 through FY 2011-12. We will document our policies and procedures for calculating the Measure D set-aside.*

**Kids First 3% Set-Aside Calculation & Reconciliation**

DESCRIPTION	FY 2009-10	FY 2010-11	FY 2011-12	Additional Payments	NET Due (To) / From
<b>General Purpose Fund (1010):</b>					
Unrestricted GPF Revenue	381,868,788	379,069,040	399,076,220		
Original Allocation	11,451,580	11,515,710	10,928,487		
Final Revenue Allocation (3%)	11,456,064	11,372,071	11,972,286		
FY 2009-12 True-Up in FY 2013-14 Council Resolution No. 84466 C.M.S.				952,741	
<b>Subtotal Due (To) / From Kids First</b>	<b>(4,484)</b>	<b>143,639</b>	<b>(1,043,799)</b>	<b>952,741</b>	<b>48,097</b>
<b>Telecommunications Reserve Fund (1760):</b>					
Unrestricted TRF Revenue	1,414,507	1,408,307	1,539,201		
Original Allocation	-	-	-		
Final Revenue Allocation (3%)	42,435	42,249	46,176		
FY 2009-12 True-Up in FY 2014-15 Council Resolution No. 85085 C.M.S.				130,860	
<b>Subtotal Due (To) / From Kids First</b>	<b>(42,435)</b>	<b>(42,249)</b>	<b>(46,176)</b>	<b>130,860</b>	<b>-</b>
<b>TOTAL Due (To) / From for FY 2009-12</b>	<b>(46,919)</b>	<b>101,390</b>	<b>(1,089,975)</b>	<b>1,083,601</b>	<b>48,097</b>

**Kids First 3% Set-Aside Summary**

DESCRIPTION	FY 2009-10	FY 2010-11	FY 2011-12	Additional Payments	NET Due (To) / From
Unrestricted Revenue Total	383,283,275	380,477,347	400,615,421		
Original Allocation	11,451,580	11,515,710	10,928,487		
Final Revenue Allocation (3%)	11,498,499	11,414,320	12,018,462		
FY 2009-12 True-Up in FY 2013-14				952,741	
FY 2007-14 True-Up in FY 2014-15				130,860	
<b>TOTAL Due (To) / From Kids First</b>	<b>(46,919)</b>	<b>101,390</b>	<b>(1,089,975)</b>	<b>1,083,601</b>	<b>48,097</b>

*The Administration has implemented procedures to calculate true-up adjustments to the set-aside amounts based on audited revenue receipts for the prior fiscal year during the biennial and mid-cycle budget development processes. For the FY 2014-15 Adopted MidCycle Budget (Resolution No. 85085 C.M.S) the true-up adjustment amounts*



**Administration's Detailed Response to Measure D Children and Youth  
Services Audit for FY 2009-10 through FY 2011-12**

October 3, 2014

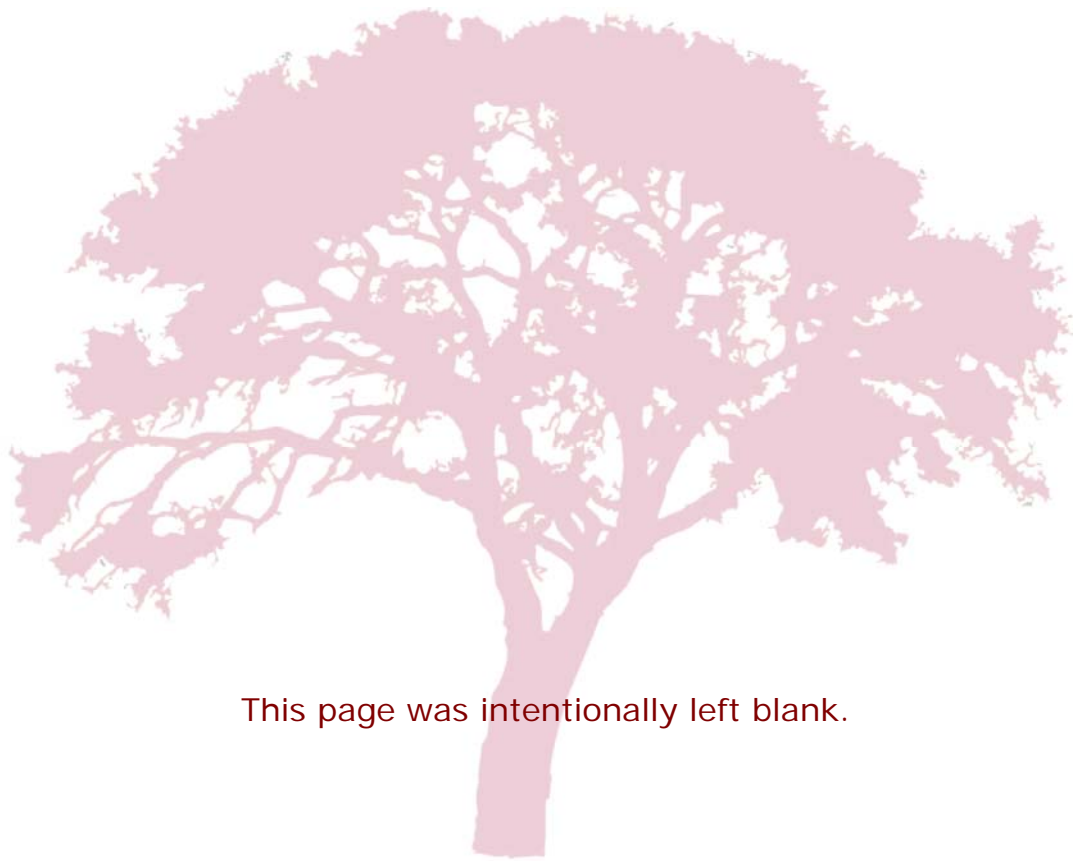
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*necessary for FY 2007-2014 from the TRF (\$280,000 estimated) were appropriated in Kid's First Oakland Children's Fund (1780).*

**Finding 3:** Measure D Language Has Required Continuous Legal Interpretation and May Continue to Require Interpretation, Which Impacts the City's Ability to Comply with the Measure

**Recommendation # 4:** Work with the Planning and Oversight Committee for the Kids First Fund to convene a working group to clarify Measure D and to bring a revised ballot measure to the voters. This working group should obtain input from the Office of the City Attorney and the Controller's Office.

*Administration Response: We agree with this recommendation, the Measure D language has required continuous legal interpretation and may continue to require interpretation, which impacts the City's ability to comply with the Measure. The Administration will work with the Planning and Oversight Committee, City Auditor Office, and City Attorney Office to clarify how to address the Measure language for easier interpretation in the future.*



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## SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The "Summary of Actions Necessary to Close the Report" provides the Office of the City Auditor's (Office) analysis of the City Administration's (Administration) proposed actions required to close the report. At the time of the Administration's response, four recommendations are resolved. There are no unresolved recommendations. **The Administration has agreed to implement 100 percent of the recommendations in the report.**

Recommendation #1

Comply with the Measure D baseline spending requirement by increasing its spending on children and youth services to account for its FY 2011-12 shortfall of \$982,522. The Administration should work with Office of the City Attorney to determine the appropriate timeline for this allocation.

**Resolved** - The Administration agrees with this recommendation and stated that it will take the necessary steps to ensure implementation.

**To close this recommendation, the Administration should provide proof of repayment to the Kids First Fund or the City Attorney approved timeline to repay the funds. This documentation should be provided to the Office by April 8, 2015.**

Recommendation #2

Establish and implement policies and procedures to help ensure that the City meets Measure D's annual spending requirement for children and youth services. The policies and procedures should include but not be limited to:

- Guidance to departments on how to track and report spending on children and youth services, including spending through grants
- Clarification on what expenses are eligible children and youth services, including methodologies that departments may apply for programs, grants, and expenses that do not solely serve children and youth
- Clarification on the type of documentation needed to support spending on eligible children and youth services, including methodologies using percentage allocations
- Regular oversight of Citywide spending on children and youth services to help ensure the City complies with Measure D spending requirements

**Resolved** - The Administration agrees with this recommendation and stated that it will take the necessary steps to ensure implementation.

**To close this recommendation, the Administration should provide Measure D policies and procedures including guidance on tracking and reporting, clarification on eligible expenses and types of supporting documentation needed, as well as implementation of regular oversight to ensure the City complies with Measure D spending requirements. This documentation should be provided to the Office by April 8, 2015.**

Recommendation #3

Formalize its policies and procedures for

**Resolved** - The Administration agrees with this recommendation and stated that it will document policies and procedures for the set-aside.

<p>calculating the Measure D set-aside, including identifying which revenue sources are restricted and unrestricted, and clarifying when the City should:</p> <ul style="list-style-type: none"> <li>• Reconcile its Kids First Fund set-aside</li> <li>• Allocate any additional set-aside amounts owed to the Kids First Fund</li> </ul>	<p><b>To close this recommendation, the Administration should provide documented policies and procedures for reconciling the Kids First Fund set-aside and allocating any additional set-aside amounts owed to the Kids First Fund. This documentation should be provided to the Office by April 8, 2015.</b></p>
<p><u>Recommendation #4</u></p> <p>Work with the Planning and Oversight Committee for the Kids First Fund to convene a working group to clarify Measure D and to bring a revised ballot measure to the voters. This working group should obtain input from the Office of the City Attorney and the Controller's Office.</p>	<p><b>Resolved</b> - The Administration agrees with this recommendation, and stated that the Measure D language has required continuous legal interpretation and may continue to require interpretation, which impacts the City's ability to comply with the Measure. The Administration plans to work with the Planning and Oversight Committee, Office of the City Auditor, and Office of the City Attorney to clarify how to address the Measure language for easier interpretation in the future.</p> <p><b>To close this recommendation, the Administration should provide evidence that it has met with all relevant parties and provide documentation to evidence the plan to clarify Measure D language. This documentation should be provided to the Office by April 8, 2015.</b></p>