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May 23, 2018

OFFICE OF THE MAYOR CITY COUNCILMEMBERS CITY ADMINISTRATOR CITY ATTORNEY RESIDENTS OF OAKLAND

RE: Performance Audits of City of Oakland's Measures M and N

Dear Mayor Schaaf, City Council President Reid, Members of City Council, City Administrator Landreth, City Attorney Parker, and Oakland residents:

Oakland voters passed Measure M - Emergency Medical Services Retention Act - and Measure N - the Paramedic Services Act - in 1997 to impose parcel taxes in support of emergency medical services and paramedic emergency services, respectively.

Our audits reviewed fiscal years 2015-16 and 2016-17, and found that the Oakland Fire Department's (OFD) expenditures of Measures M and N proceeds were spent as intended by the respective measure's objectives. It also identified opportunities for OFD to strengthen internal controls around the management of controlled substances and the division's spending plan.

I want to express our appreciation to the staff in OFD and Finance for their cooperation during these audits and for their commitment to improving the processes in the Medical Services Division.

Respectfully submitted.

BRENDA D. ROBERTS

City Auditor

**Enclosure** 

cc: Darin White, City of Oakland Fire Chief

Stewart McGehee, OFD Medical Services Division Manager Trinette Gist Skinner, OFD Fiscal and Administration Services Division Manager



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City Auditor
Brenda Roberts
CPA, CIA, CFE

May 23, 2018



**Audit Manager** Alessia Dempsey, CIA

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The Office of the City Auditor was created by the Oakland City Charter as an independent office to help establish accountability and improve City services. We conduct performance audits to review aspects of City services or programs and provide recommendations for improvement.

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# **Executive Summary**

## **Measure M – Emergency Medical Services Retention Act**

#### **OVERVIEW**

In 1997, Oakland voters passed Measure M – the Emergency Medical Services Retention Act – imposing a parcel tax to support the Medical Services Division (Medical Services) of the Oakland Fire Department (OFD). The Office of the City Auditor is required to perform audits providing assurance to taxpayers that OFD is spending the proceeds from the parcel tax appropriately.

# SCOPE AND OBJECTIVES

This audit reviewed FY 2015-16 and FY 2016-17 and the objectives were to (1) determine whether OFD spent tax proceeds as intended by the measure, and (2) assess whether internal controls over tax proceeds are in place and effective.

### **KEY FINDINGS**

The audit found OFD's expenditures of Measure M proceeds were spent as intended by the Measure. However, the audit also identified the following:

The Measure M spending plan was incomplete and did not include sufficient detail to support forecasted expenditures.

#### RECOMMENDATIONS

To address the audit's finding, the report includes the following recommendation:

Medical Services and the City Administrator should finalize and fully develop the spending plan, enlisting the guidance of the City's Budget Office.

# WHY THIS AUDIT MATTERS

Public safety is among the top priorities for the Mayor, City Council and residents of the City of Oakland. Everyone should be ensured access to emergency medical services and OFD is equipped to provide this critical service.

The audit identifies opportunities for the Medical Services Division to improve its internal budgeting process, thus enhancing, protecting, and preserving emergency medical services in Oakland.

## **Introduction & Background**

### INTRODUCTION

In 1997, Oakland voters passed Measure M - the Emergency Medical Services Retention Act - imposing a parcel tax<sup>1</sup> to support the Medical Services Division (Medical Services) of the Oakland Fire Department (OFD).

The County of Alameda (County) assesses and collects parcel taxes under Measure M from more than 106,000 Oakland properties. The parcel tax rates vary depending on the type of parcel (see Appendix A). City Council may approve parcel tax rate increases for cost of living adjustments.<sup>2</sup>

These proceeds are remitted to the City and generated \$2.02 million in fiscal year<sup>3</sup> (FY) 2015-16 and \$2.06 million in FY 2016-17. The proceeds are deposited into a separate, restricted fund, and managed by OFD.

Measure M specifically requires the Office of the City Auditor perform audits providing assurance to tax payers that OFD is spending the proceeds (revenue) from the parcel taxes appropriately.

This audit reviewed FY 2015-16 and FY 2016-17 and the objectives were to (1) determine whether OFD spent tax proceeds as intended by the measure – to retain and enhance emergency medical services in Oakland - and (2) assess whether internal controls over tax proceeds are in place and effective.

#### BACKGROUND

Measure M broadly states proceeds must be used to retain and enhance emergency medical services. OFD developed an expenditure policy specifying the categories of expenses intended to meet the measure's goals. During the periods audited, OFD spent Measure M proceeds on the following:

- Salaries & benefits: 12 Fire Communications Dispatchers, one Program Analyst, and two Accountants.
- Other: Expenditures included items such as registration and tuition for conferences and Emergency Medical Dispatch certification.
- Overhead cost allocation: Administration, personnel, and legal support costs.

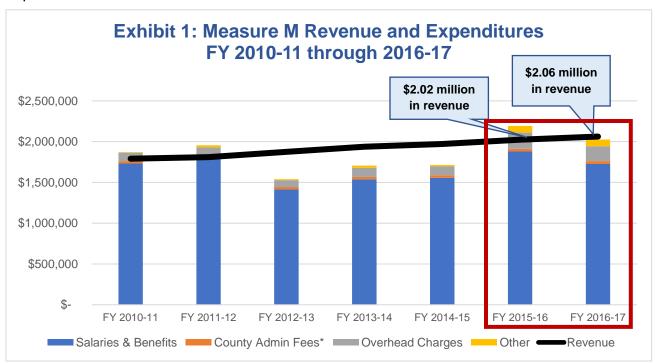
<sup>&</sup>lt;sup>1</sup> Form of property tax assessed at a rate based on the *characteristics* of a unit of property, rather than a rate based on the *assessed* value of property.

<sup>&</sup>lt;sup>2</sup> COLAs are based on the annual cost of living increases in the San Francisco Bay Area, but cannot exceed 5% of the previous year's rates. The City uses the Consumer Price Index (CPI), as reported by the US Department of Labor Statistics, to determine the rate increase.

<sup>&</sup>lt;sup>3</sup> The City's fiscal year is July 1<sup>st</sup> – June 30<sup>th</sup>.

# **Introduction & Background**

The following chart shows historical information relating to Measure M revenues and expenditures.



<sup>\*1.7%</sup> of Measure M proceeds are retained by the County as administrative fees.

## **Audit Results**

The audit found OFD's expenditures of Measure M proceeds were spent as intended by the Measure. The audit also identified opportunities for OFD to enhance its existing spending plan to better manage tax proceeds.

FINDING: The Measure M spending plan was incomplete and did not include sufficient detail to support forecasted expenditures.

OFD's Fund Balance Management Policy requires the preparation of an annual spending plan for the use of Measure M proceeds. This is a common budgetary tool managers use to record current and future expenditures. The annual spending plan should be used to identify the types and amounts of goods, services and staffing required to meet the operational needs within the legal requirements of the Measure. A comparison of estimated amounts to actual expenditures assists management in planning for anticipated expenses.

The spending plan management provided did not have enough detail to show how expenditures for future periods were estimated. Additionally, there was no detail to show anticipated key expenditures, such as salaries and benefits. The plan did not include the latest revision date or formal approval by the Chief of Fire. There were no management explanations for differences between the estimates in the plan and actual expenditures. Measure M expenditures are approximately \$2.1 million per year.

Since FY 2001-02, the County has provided the City with \$15.7 million, in addition to the tax proceeds, to support First Responder Advanced Life Support services.<sup>4</sup> Beginning July 2018, the County will no longer provide this additional revenue. Management must actively manage and prioritize Measure M funds to ensure critical services continue without the County's funding, further highlighting the importance of the annual spending plan as a budgeting tool.

This finding was also noted in the 2011 Measure M audit report.

**Recommendation:** Medical Services and OFD's Fiscal and Administration Services Division staff should finalize and fully develop the spending plan, enlisting the guidance of the City's Budget Office. The spending plan should include the following information and analysis:

 Detailed anticipated revenue and expenditure by category, including salaries and benefits;

<sup>&</sup>lt;sup>4</sup> Emergency medical services that may include defibrillation, airway management, and use of drugs and medications.

# **Audit Results**

- Actual to plan variance analysis with explanations when differences are more than 10% of the spending plan amounts;
- Appropriate approval and date of approval; and
- A developed and specific strategy to address anticipated funding shortfall from the County's First Responder Advanced Life Support services.

## CONCLUSION

Our recommendation is framed to assist City management in the remediation of this finding – to enhance its existing spending plan to better manage Measure M proceeds.

## Statement of Compliance, Audit Scope & Methodology

## Statement of Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Scope**

Measure M proceeds and expenditures for FY 2015-16 and FY 2016-17 (specifically, July 1, 2015 through June 30, 2017).

## **Methodology**

In conducting the audit, auditors:

- Reviewed ballot Measure M and its requirements.
- Reviewed the results of prior Measure M audit reports.
- Reviewed OFD's policies and procedures regarding expenditures, and fund balance management.
- Interviewed OFD, Finance & Treasury staff.
- Reviewed financial reports to identify revenue and expenditures.
- Reviewed Measure M spending plan to determine its completeness.
- Selected a judgmental sample of Measure M expenditures to determine appropriateness against the measure's objectives.
- Re-calculated the related parcel tax increases over the periods audited.

# **Appendix**

# **Measure M Parcel Rate by Property Type**

Parcel Type	Parcel Tax Rate for FY 2015-16	Parcel Tax Rate for FY 2016-17
Single Family, Rural and Institutional	\$13.64	\$13.99
Multiple Residential (2-4 units) and Commercial	\$27.26	\$27.97
Industrial	\$54.53	\$55.95
Multiple Residential (5+ units)	\$68.18	\$69.95

Note: These amounts reflect the cost of living adjustments. The most recent increase was approved in June 2017.



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May 21, 2018

Hon. Brenda Roberts
Oakland City Auditor
1 Frank Ogawa Plaza, 4<sup>th</sup> Floor
Oakland, CA 94612

RE: Mandated Audits of City of Oakland's Measures M and N

Dear City Auditor Roberts:

The City Administration, Oakland Fire Department (OFD), and Finance appreciate the audit of OFD's Medical Services Division, specifically the use of the Measures M and N tax proceeds.

OFD accepts the City Auditor's recommendations and identifies the Medical Services manager as the primary party responsible for the required changes. The attached matrix lists the audit recommendations and includes our comments to each recommendation. We welcome this report and see it as an important management tool as we continue to improve our processes.

I want to thank the City Auditor and her staff for their open communication. Management was kept up to date on all progress and presented with findings of process and control improvements as they were identified.

Sincerely,

Sabrina B. Landreth City Administrator

# OFD - Measure M Management's Response to City Auditor's Report



	City Auditor's Recommendations	Management Response	Responsible Party	Target Date to Complete
1	<ul> <li>Spending Plan - Medical Services         Division (MSD) and Fiscal and Administration Services Division (FASD) management should finalize and fully develop the spending plan, enlisting the guidance of the City's Budget Office. The spending plan should include the following information and analysis:         <ul> <li>Detailed anticipated revenue and expenditure by category, including salaries and benefits;</li> <li>Actual to plan variance analysis with explanations when differences are more than 10% of the spending plan amounts;</li> <li>Appropriate approval and date of approval; and</li> <li>A developed and specific strategy to address anticipated funding shortfall from the County's First Responder Advanced Life Support services.</li> </ul> </li> </ul>	The administration agrees with this recommendation.  Management will enhance its current spending plan and will include explanations for variances in the annual budget narrative memo, which will be signed by the Chief of Fire.	FASD Manager, MSD Manager, and Budget Director	July 2018; ongoing