

CITY OF OAKLAND



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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,

A handwritten signature in blue ink, appearing to read "Brenda D. Roberts", with a stylized flourish at the end.

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

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Jennifer Lim



OFFICE OF THE CITY AUDITOR

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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 N – Paramedic Services Act

OVERVIEW

In 1997, Oakland voters passed Measure N – the Paramedic Services Act – imposing a parcel tax to support the Medical Services Division (Medical Services) of the Oakland Fire Department (OFD or Department). 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 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 N proceeds were spent as intended by the Measure. However, the audit also identified opportunities for OFD to enhance its existing spending plan, and to strengthen internal controls for better management of its controlled substances.

Finding 1: Measure N's spending plan was incomplete and did not include sufficient detail to support forecasted expenditures.

Finding 2: Department controls over controlled substances were not in place.

RECOMMENDATIONS

To address the audit's findings, the report includes the following recommendations:

1. Medical Services and the City Administrator should finalize and fully develop the OFD's spending plan for the Measure.
2. Medical Services should secure delivery of controlled substances when packages are received. A chain of custody form should be developed to receive and track each shipment.

Executive Summary

3. Medical Services management should update policies and procedures, and train employees accordingly to reinforce this practice.
4. Medical Services management should ensure two paramedics always sign off on controlled substance logs and escalate exceptions as needed.
5. Medical Services management should change the Controlled Substances' safe passcode at least annually, *and* whenever employees who have this information leave the Department.
6. Medical Services management should update policies and procedures accordingly.

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 paramedic services and OFD is properly equipped to provide this critical service.

The audit identifies opportunities for the OFD Medical Services Division to improve its internal processes, thus enhancing, protecting, and preserving paramedic services in Oakland.

Glossary of Terms

Chain of Custody: A formally documented progression of possession, which establishes each person in possession of an item.

Controlled Substances: Drugs regulated by federal or state laws that aim to control the danger of addiction, abuse, and physical and mental harm. The use or sale of these drugs is illegal, unless dispensed under a physician's prescription.

Fentanyl: A drug used to relieve pain. It is classified as a controlled substance (Schedule II) and regulated by the Drug Enforcement Administration (DEA), because it has shown to have a high potential for abuse and dependency.

Internal Controls: A process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

Midazolam: A drug used to sedate patients and for seizure cessation. It is classified as a controlled substance (Schedule IV) and is regulated by the DEA.

Parcel Tax: 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. City Council may approve parcel tax rate increases for cost of living adjustments (COLA). 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.

Introduction & Background

INTRODUCTION

In 1997, Oakland voters passed Measure N - the Paramedic Services Act - imposing a parcel tax to support the Medical Services Division (Medical Services) of the Oakland Fire Department (OFD or Department).

The County of Alameda (County) assesses and collects parcel taxes under Measure N from more than 106,000 Oakland properties. The parcel tax rates vary depending on the type of parcel (see Appendix A). These proceeds are remitted to the City and generated \$1.62 million in fiscal year¹ (FY) 2015-16 and \$1.64 million in FY 2016-17. The proceeds are deposited into a separate, restricted fund, and managed by OFD.

Measure N specifically requires the Office of the City Auditor to 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 support and enhance paramedic emergency services in Oakland - and (2) assess whether internal controls around controlled substances, purchased with these proceeds, are in place to ensure they were properly safeguarded.

BACKGROUND

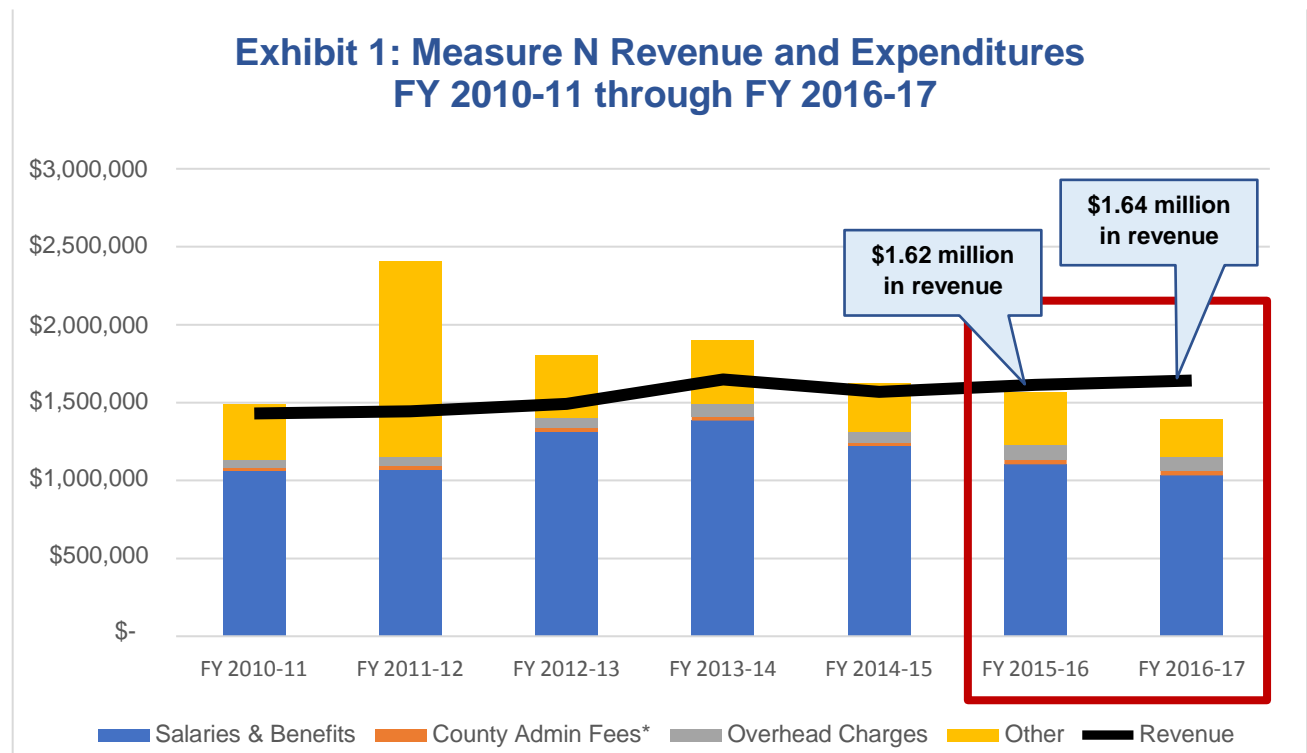
Measure N broadly states proceeds must be used to enhance and support paramedic services. OFD developed an expenditure policy specifying the categories of expenses intended to meet the measure's goals. During the periods audited, OFD spent Measure N proceeds on the following:

- **Salaries & benefits:** One Administrative Assistant, four Emergency Medical Services Coordinators, two Emergency Medical Services Instructors, one Fire Division Manager, one Battalion Chief, one Fire Communications Manager, one Program Analyst, and two Accountants.
- **Other:** Expenditures included items such as consulting fees, medical supplies, medications (including controlled substances), and registration and tuition for Emergency Medical Technicians certification renewals.
- **Overhead cost allocation:** Administration, personnel, and legal support costs.

¹ The City's fiscal year is July 1st – June 30th.

Introduction & Background

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



*1.7% of Measure N proceeds are retained by the County as administrative fees.

Audit Results

The audit found OFD's expenditures of Measure N 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, and strengthen internal controls around the purchasing and safeguarding of controlled substances.

FINDING 1: The Measure N 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 N 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 significant differences between the estimates in the plan and actual expenditures—differences that exceeded \$300,000. Measure N expenditures are approximately \$1.5 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.² Beginning July 2018, the County will no longer provide this additional revenue. Management must actively manage and prioritize Measure N 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 N 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:

² Emergency medical services that may include defibrillation, airway management, and use of drugs and medications.

Audit Results

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

FINDING 2: Department controls over controlled substances are not in place as intended.

Controlled substances are purchased using Measure N proceeds and are an essential part of the medical services provided by paramedics to patients with medical emergencies. Fire engines that provide advanced life support services carry the following controlled substances to stabilize patients:

- Fentanyl - to prevent pain
- Midazolam - to sedate patients

Fentanyl is a powerful medication, administered when necessary in emergency medical situations. However, the United States is seeing high incidents of abuse of this medication, including lives lost. Fentanyl is especially dangerous because it is an opioid, with a high potential for abuse, dependency, theft and trafficking. Due to these risks, securing controlled substances should be a high priority.

Controlled substances are regulated by the Federal Drug Enforcement Administration (DEA). The DEA requires the City to provide adequate security around controlled substances throughout their lifecycles - ordering, delivering, storing, transporting, distributing, and destroying - to guard against theft and improper use, all of which could pose a liability to the City.

The City's Medical Director, who is under contract with the City (as approved by City Council), is responsible for approving the purchase of these drugs before they can be ordered; the oversight of controlled substances and paramedic training; and providing follow up to emergency treatment (see Appendix 2 for OFD's organizational chart).

Audit Results

The audit reviewed the Department's internal controls around these drugs to ensure they were properly purchased and appropriately safeguarded. The following are the audit findings and recommendations regarding the safeguarding of controlled substances.

2.1 – Controlled substances are not secured at delivery.

Once the Medical Director approves the order of controlled substances, they are delivered from the vendor via a common carrier to a centralized OFD location where they remain until distributed to the designated fire engines. Based on inquiry and review, there are no Department procedures around securing shipments of controlled substances upon receipt from the common carrier.

Recommendation 1: Medical Services management should secure delivery of controlled substances when packages are received. A chain of custody form should be developed to receive and track each shipment.

Recommendation 2: Medical Services management should update policies and procedures, and train employees accordingly to reinforce this practice.

2.2 – Inventory is not independently verified at shift change.

Security of controlled substances provides assurances that drugs are used only as intended, and inventory of these products is available when needed.

Controlled substance logs are used to verify drug quantities at each shift change. The log must be signed by two paramedics³ acknowledging the 'hand-off' of the drugs from the paramedic coming off shift to the relieving paramedic at the start of their shift. These signatures affirm the amounts are correct and

place direct accountability for these drugs on each party signing off. This is an important practice to ensure drugs are appropriately transferred between paramedics, accounted for, and properly safeguarded, reducing the risk of theft or loss.

The audit reviewed 287 controlled substance log entries for the two-year audit period. Fifty-four (or 19%) were signed by the *same* paramedic, which defeats the purpose of this critical 'check and balance' and is contrary to OFD's Controlled Substance policy.

³ In the event the second paramedic is unavailable, an authorized designee should sign to verify the amount of drugs.

Audit Results

Although these logs were reviewed by two managers, they did not identify these exceptions, nor did they escalate these for appropriate follow up.

Recommendation: Medical Services management should ensure two paramedics always sign off on controlled substance logs and escalate exceptions as needed.

2.3 – The passcode to the controlled substances safe is not changed regularly.

Once the shipments of controlled substances are verified, Medical Services management secures the substances in a passcode-secured safe.

The audit identified the passcode to the safe was not changed after two Medical Services employees, who knew the passcode, left City service. In fact, Medical Services management was unable to confirm whether the passcode has ever been changed.

Existing Department policies and procedures around controlled substances do not include information relating to passcode security. Changing the passcode periodically reduces the risk of unauthorized access to the drugs.

Recommendation 1: Medical Services management should change the safe passcode at least annually, *and* whenever employees who have this information leave the City or are transferred to other City departments.

Recommendation 2: Medical Services management should update policies and procedures accordingly.

CONCLUSION

Our recommendations are framed to assist City management in the remediation of these findings - enhance its existing spending plan to manage tax proceeds, and strengthen internal controls around purchasing and safeguarding of controlled substances.

Management recognized a need for improvement and has already acted to remediate the findings.

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

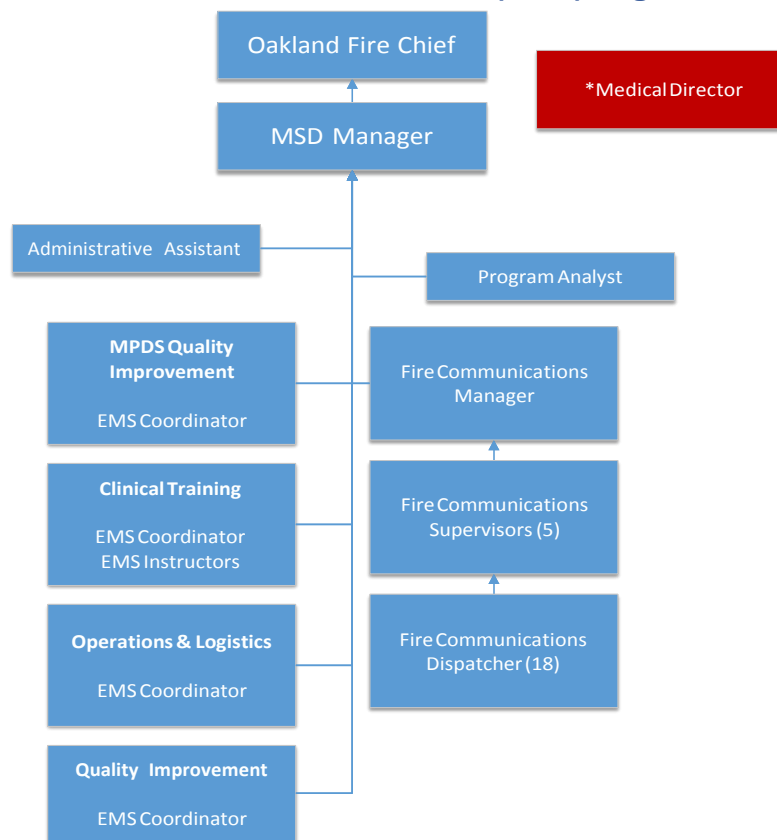
Appendices

APPENDIX A: Measure N 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	\$10.86	\$11.14
Multiple Residential (2-4 units) and Commercial	\$21.70	\$22.26
Industrial	\$43.41	\$44.54
Multiple Residential (5+ units)	\$54.27	\$55.68

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

APPENDIX B: OFD's Medical Services Division (MSD) Organizational Chart



* The Medical Director is a contractor for the City, responsible for oversight of OFD's controlled substance program.

CITY OF OAKLAND



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May 21, 2018

Hon. Brenda Roberts
Oakland City Auditor
1 Frank Ogawa Plaza, 4th 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 N

Management's Response to City Auditor's Report



Finding	City Auditor's Recommendations	Management Response	Responsible Party	Target Date to Complete
1	<p>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:</p> <ul style="list-style-type: none"> Detailed anticipated revenue and expenditure by category, including salaries and benefits; 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. 	<p>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.</p>	FASD Manager, MSD Manager, and Budget Director	July 2018; ongoing
2.1	<p>Rec. #1: Delivery of Controlled Substances - MSD management should secure delivery of controlled substances when packages are received. A chain of custody form</p>	<p>The administration agrees with this recommendation. MSD will begin using FedEx Delivery Manager, an electronic notification system. At the time of delivery, management or an administrative assistant will be notified that a package has been delivered and will</p>	MSD Manager	July 2018; ongoing

OFD - Measure N

Management's Response to City Auditor's Report



Finding	City Auditor's Recommendations	Management Response	Responsible Party	Target Date to Complete
	should be developed to receive and track each shipment.	immediately secure the package.		
2.1	<u>Rec. #2: Update Policies and Training – Delivery of Controlled Substances</u> MSD management should update policies and procedures, and train employees accordingly to reinforce this practice.	The administration agrees with this recommendation. Department policies and procedures will be updated to reflect the new process for delivery of controlled substances and employees will be trained on the new process.	MSD Manager	July 2018
2.2	<u>Management Review of Logs</u> MSD management should ensure two paramedics always sign off on controlled substance logs and escalate variations as needed.	The administration agrees with this recommendation. Management will provide additional staff training and is implementing a new process for reviewing controlled substance logs. The Battalion Chiefs will now be responsible for the first line of review of the controlled substance logs. Additionally, the MSD coordinator will perform random audits of the logs, as a secondary review. This process will be updated in the department's policies and procedures.	MSD Manager	July 2018; ongoing
2.3	<u>Rec. #1: Periodically Change Passcode</u> MSD management should change the safe passcode at least annually, <i>and</i> whenever employees who have this information leave the City or are transferred to other City departments.	The administration agrees with this recommendation. The passcode was changed shortly after learning about this finding.	MSD Manager	Immediately; ongoing

OFD - Measure N

Management's Response to City Auditor's Report



Finding	City Auditor's Recommendations	Management Response	Responsible Party	Target Date to Complete
2.3	Rec. #2: Update Policies – Passcode MSD management should update policies and procedures accordingly.	The administration agrees with this recommendation. Policies will be updated to require that the controlled substances passcode be changed on an annual basis, the first week of January and whenever there is a change in staffing.	MSD Manager	July 2018