



PERFORMANCE AUDIT OF MEASURE D: KIDS FIRST! OAKLAND FUND FOR CHILDREN AND YOUTH ACT FISCAL YEARS 2016-17 AND 2017-18

CITY AUDITOR

Courtney Ruby, CPA, CFE

AUDIT TEAM

Assistant City Auditor, Mike Edmonds, CIA
Performance Auditor, Jennifer Lim, CIA

NOVEMBER 10, 2020

Oakland's City Auditor is an elected official and works for, and reports to, the residents of Oakland. The Auditor's job is to provide oversight to the City's activities. The Auditor has the authority to access and audit City financial and administrative records, plus the policies and procedures of all City agencies and departments.

To make sure this work is done objectively and without bias, the City Auditor is not connected to any other City departments and has no day-to-day financial or accounting duties for the City of Oakland. This autonomy allows for independent analyses, ensuring tax dollars and other resources serve the public interest.

Audit Reports

Copies of audit reports are available at: www.OaklandAuditor.com

Alternate formats available upon request.

--

Copias de nuestros informes de auditoría están disponibles en: www.OaklandAuditor.com

Formatos alternativos de los informes se harán disponibles a pedido.

--

審查報告可以在此網頁下載：www.OaklandAuditor.com

可根據要求提供其它格式版本。



Contact

Phone: (510) 238-3378

Email: CityAuditor@OaklandCA.gov

Follow Us



[@OaklandAuditor](https://www.facebook.com/OaklandAuditor)



[@OaklandAuditor](https://www.twitter.com/OaklandAuditor)

Subscribe for Email Updates

www.OaklandAuditor.com or Text AUDITOR to 22828

Independent City Auditor. Serving Oakland With Integrity.



CITY HALL · ONE FRANK H. OGAWA PLAZA, 4TH FLOOR · OAKLAND, CALIFORNIA 94612

Courtney A. Ruby, CPA, CFE
City Auditor

(510) 238-3378
FAX (510) 238-7640
TDD (510) 238-3254
www.oaklandauditor.com

November 10, 2020

HONORABLE MAYOR
HONORABLE CITY COUNCIL
HONORABLE CITY ATTORNEY
CITY ADMINISTRATOR
INTERIM FINANCE DIRECTOR O'BRIEN
RESIDENTS OF OAKLAND
OAKLAND, CALIFORNIA

**RE: PERFORMANCE AUDIT OF MEASURE D: KIDS FIRST! OAKLAND FUND FOR CHILDREN
AND YOUTH ACT FISCAL YEARS 2016-17 AND 2017-18**

Dear Mayor Schaaf, President Kaplan, Members of the City Council, City Attorney Parker,
City Administrator Reiskin, Interim Finance Director O'Brien, and Oakland Residents:

Kids First! Oakland Fund for Children and Youth Act (Measure D or Measure) was passed by voters in 2009. The Measure was established in 1996, when Oakland voters approved Measure K, an amendment to the City Charter. In 2008, Oakland voters repealed and replaced it with Measure OO, and amended it again in 2009 as Measure D. The Measure prioritizes funding programs that provide important services to children and youth with the greatest needs, at no or low cost.

The Measure directs the City to 1) set aside 3 percent of its unrestricted General Purpose Fund *revenues* and designate these monies to the Kids First! Fund to be spent on programs benefitting children and youth and, 2) spend an amount, at least equal to 5.35 percent of the City's General Purpose Fund *expenditures*, on programs and services related to children and youth.

The purpose of this audit was to confirm the City set aside the correct amount to the Kids First! Fund and met the City's annual baseline spending requirements in Fiscal Years (FY) 2016-17 and 2017-18.

We confirmed the Finance Department correctly calculated the set-aside monies and transferred these amounts to the Kids First! Fund in FY 2016-17 and FY 2017-18, and found the City exceeded the baseline spending requirement by a total of at least \$18.56 million in the two fiscal years.

The audit also found that the City is not capturing the *full* amount of the City's spending on children and youth services. Additionally, the Finance Department inadvertently included expenditures in the baseline calculation that did not benefit children and youth, such as services for seniors.

The audit recommends Finance adopt a more comprehensive approach to track its spending on children and youth by improving its communication with other departments about expenditures that can and cannot be counted towards the baseline spending requirement, require city departments to track eligible expenditures, and annually report these expenditures to Finance.

We are pleased the Department has agreed to implement these recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read 'Courtney A. Ruby', with a stylized, flowing script.

COURTNEY A. RUBY, CPA, CFE
City Auditor

Table of Contents

Executive Summary.....	1
Introduction and Background	3
Objective, Scope, and Methodology.....	5
Statement of Compliance	6
Audit Results	7
Finding 1. The Finance Department correctly calculated and set aside the appropriate amount for the Kids First! Fund.....	7
Finding 2. Although the City met the baseline spending requirement, it should improve its tracking process for spending on children and youth	8
Recommendations	12
City Administration’s Response	14
City Administration's Response Letter	14
City Administration's Recommendation Implementation Plan	15

Executive Summary

OVERVIEW

Kids First! Oakland Fund for Children and Youth Act (Measure D or Measure) directs the City to allocate a portion of its annual budget to programs benefiting children and youth. Each year, the City must set aside 3 percent of its unrestricted General Purpose Fund revenues and designate these monies to the Kids First! Fund (Fund). The City must also spend an amount, at least equal to 5.35 percent of the City's General Purpose Fund expenditures, excluding the Fund's monies, on other programs related to children and youth.

BACKGROUND

The Measure was established in 1996, when Oakland voters approved Measure K, an amendment to the City Charter. In 2008, Oakland voters repealed and replaced it with Measure OO, and amended it again in 2009 as Measure D. The Measure requires the City Auditor to perform audits of Measure D monies, which includes verifying the correct set-aside amount was allocated to the Kids First! Fund and confirming the City met the annual baseline spending requirements.

OBJECTIVE

To verify the City correctly calculated and set aside the appropriate amount to the Kids First! Fund and that the City met the baseline spending requirements for FY 2016-17 and FY 2017-18.

WHY THIS AUDIT MATTERS

Measure D prioritizes funding programs that provide services to children and youth with the greatest needs, at no or low cost. These programs focus on developing strong leaders, helping youth excel in academia, teaching important life skills, encouraging community building, instilling confidence, and more generally, transitioning to adulthood. This audit assures Oakland residents and taxpayers that the correct allocated amounts have been set aside and spent on these programs, as intended by Measure D.

Executive Summary

KEY FINDINGS & AUDIT RESULTS

Finding 1: The Finance Department correctly calculated and set aside the appropriate amount for the Kids First! Fund.

We confirmed Finance correctly calculated the set-aside monies and transferred these amounts to the Kids First! Fund in FY 2016-17 and FY 2017-18.

Finding 2: Although the City met the baseline spending requirement, it should improve its tracking process for spending on children and youth.

The City not only met the baseline spending requirement for children and youth, it exceeded it by a total of at least \$18.56 million in the two fiscal years. The City's tracking process for children and youth spending would benefit from more coordination between the Finance Department and the other City departments providing services to children and youth.

RECOMMENDATION

To fully account for the City's spending on children and youth services, the Finance Department should establish a process that includes:

- Guidance to the departments on expenditures that are eligible to be counted towards the baseline spending requirement, as well as expenditures that cannot be counted,
- Guidance to departments on tracking eligible expenditures and annually reporting these expenditures to Finance,
- Methodologies for allocating expenditures that mutually benefit children and youth, and other populations, such as seniors, and
- Methodologies for allocating an appropriate amount of department overhead costs associated with providing services to children and youth.

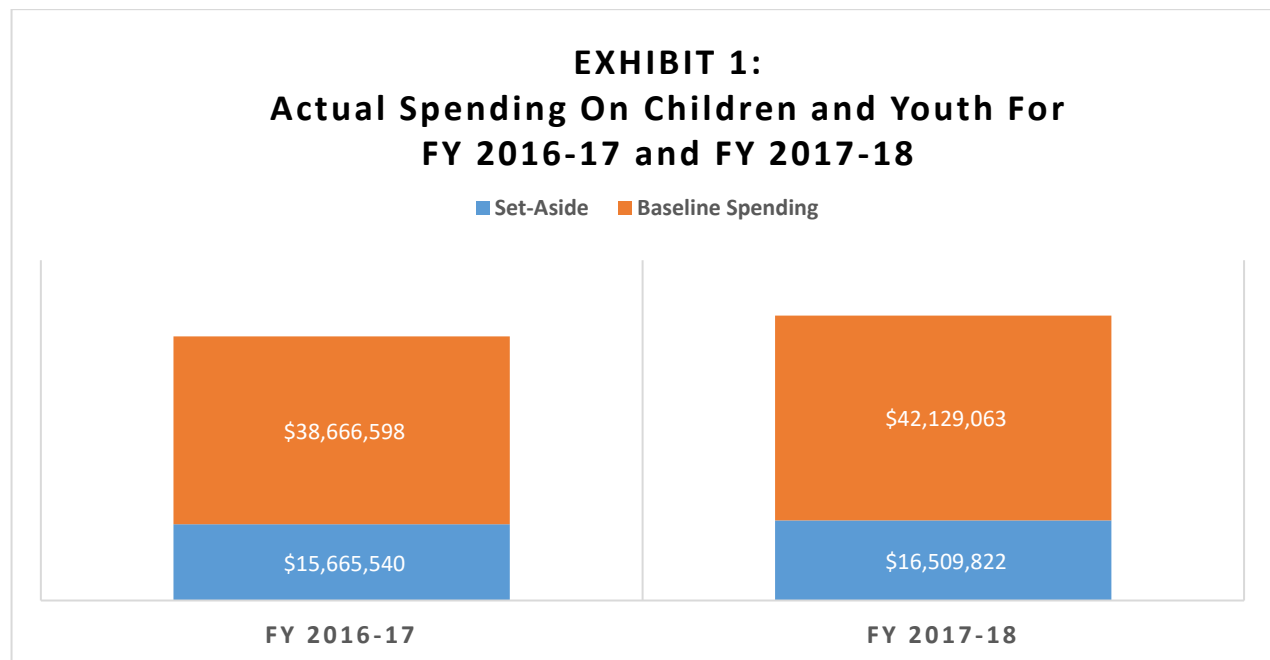
Introduction and Background

Kids First! Oakland Fund for Children and Youth Act (Measure D or Measure) directs the City to allocate a portion of its annual budget to programs benefiting children and youth. The Measure was established in 1996, when Oakland voters approved Measure K, an amendment to the City Charter. In 2009, Oakland voters repealed and replaced it with Measure OO, and amended it again in 2009 as Measure D.

Each year, the City must set aside 3 percent of its unrestricted General Purpose Fund revenues and designate these monies to the Kids First! Fund (Fund). The Human Services Department manages the Fund through the awarding of grants and contracts to nonprofit agencies, the Oakland Unified School District (OUSD), and other City departments that provide programs for children and youth.

The City must also spend an amount, at least equal to 5.35 percent of the City's General Purpose Fund expenditures, excluding the Fund's monies, on other programs related to children and youth. This percentage represents the level of funding for children and youth services in Fiscal Year (FY) 1995-96, when Measure K was initially established. Expenditures that can be counted towards the baseline spending requirement include programs such as Head Start, library tutoring, mentoring, and after school recreational activities.

Between the Fund and baseline spending, the City spent nearly \$113 million on children and youth programs in the past two fiscal years. Exhibit 1 shows the breakdown of children and youth spending by the set-aside and baseline amounts for FY 2016-17 and FY 2017-18.



Source: Created by the Auditor's Office based on Finance Department's calculations

Introduction and Background

The City increased its spending on children and youth by 8 percent from FY 2016-17 to FY 2017-18. On average, the City set aside approximately \$16 million in the two fiscal years and spent an additional \$38.75 million annually on children and youth services.

The Measure requires the City Auditor to perform audits of Measure D monies, which includes verifying the correct set-aside amount was allocated to the Kids First! Fund and confirming the annual baseline spending requirements were met.

Objective, Scope, and Methodology

Objective

To verify that the City correctly calculated and set aside the appropriate amount to the Kids First! Fund and that the City met the baseline spending requirement.

Scope

We assessed whether the City met the Measure D set-aside and baseline spending requirements for FY 2016-17 through 2017-18.

Methodology

- Reviewed Measure D's requirements.
- Interviewed staff from the Finance and Human Services Departments to gain an understanding of their processes for administering Measure D and to identify existing internal controls.
- Verified the calculation of the set-aside and baseline amounts.
- Verified that prior year adjustments were completed.
- Selected a sample of baseline expenditures to confirm whether they benefitted children and youth services.
- Reviewed prior Measure D audits and followed up on previous audit recommendations.

Statement of Compliance

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.

Audit Results

Finding 1: The Finance Department Correctly Calculated and Set Aside the Appropriate Amount for the Kids First! Fund

In accordance with the requirements of Measure D, the Finance Department (Finance) initially sets aside 3 percent of *estimated* unrestricted General Purpose Fund revenues and transfers this amount to the Fund, as part of the City's budgeting process. After the City's year-end financial audit, Finance re-calculates the set-aside amount based on *actual* unrestricted General Purpose Fund revenues. The difference between the estimated and actual revenues is then transferred to the Fund as an adjustment. Exhibit 2 shows the calculation of the set-aside for the Fund for FY 2016-17 and FY 2017-18.

EXHIBIT 2: Calculation of the Set-aside for FY 2016-17 and FY 2017-18		
	FY 2016-17	FY 2017-18
Revenues Subject to the Set-Aside	\$522,184,658	\$550,327,410
Initial Set-Aside Amount	\$14,536,156	\$16,178,477
Actual Set-Aside Amount (3% of Revenues Subject to the Set-Aside)	\$15,665,540	\$16,509,822
Post-Audit Adjustment (Difference Between Actual and Initial)	\$1,129,384	\$331,345

Finance initially calculated the estimated set-aside amount to be \$14.5 million in FY 2016-17 and \$16.2 million in FY 2017-18. The set-aside amount, based on actual revenues, was \$15.7 million in FY 2016-17 and \$16.5 million in FY 2017-18, so adjustments of \$1.1 million and approximately \$330,000, respectively, were needed.

Conclusion

We confirmed Finance correctly calculated the set-aside monies and transferred these amounts to the Kids First! Fund in FY 2016-17 and FY 2017-18.

Audit Results

Finding 2: Although the City Met the Baseline Spending Requirement, It Should Improve Its Tracking Process for Spending on Children and Youth

The City needs to spend 5.35 percent of actual General Purpose Fund expenditures on children and youth

In addition to the set-aside amount, Measure D requires the City to meet the baseline spending requirement, which is an amount at least equal to 5.35 percent of the City's General Purpose Fund expenditures. This percentage is equal to the level of children and youth spending in the City's FY 1995-96 budget. The City calculates the baseline spending amount based on the City's *estimated* expenditures on children and youth programs for the upcoming year. At year end, when the *actual* expenditures are finalized, Finance re-calculates the baseline spending amount based on actual General Purpose Fund spending. If spending on children and youth is below 5.35 percent of General Purpose Fund expenditures, the City must, within the following two years, increase expenditures for children and youth programs for the underfunded amount.

The eligible youth services, to satisfy the baseline spending requirements, as defined in Charter Section 1301, include:

- Supporting the healthy development of young children through school programs, health services, and parent involvement,
- Helping children and youth's academic success and leadership development at all school levels, including the arts, music, sports and civic engagement,
- Preventing and reducing youth violence, crime, and gang involvement, and
- Helping youth transition to productive adulthood through skills training, job placement, internships, leadership development, service learning, and arts expression.

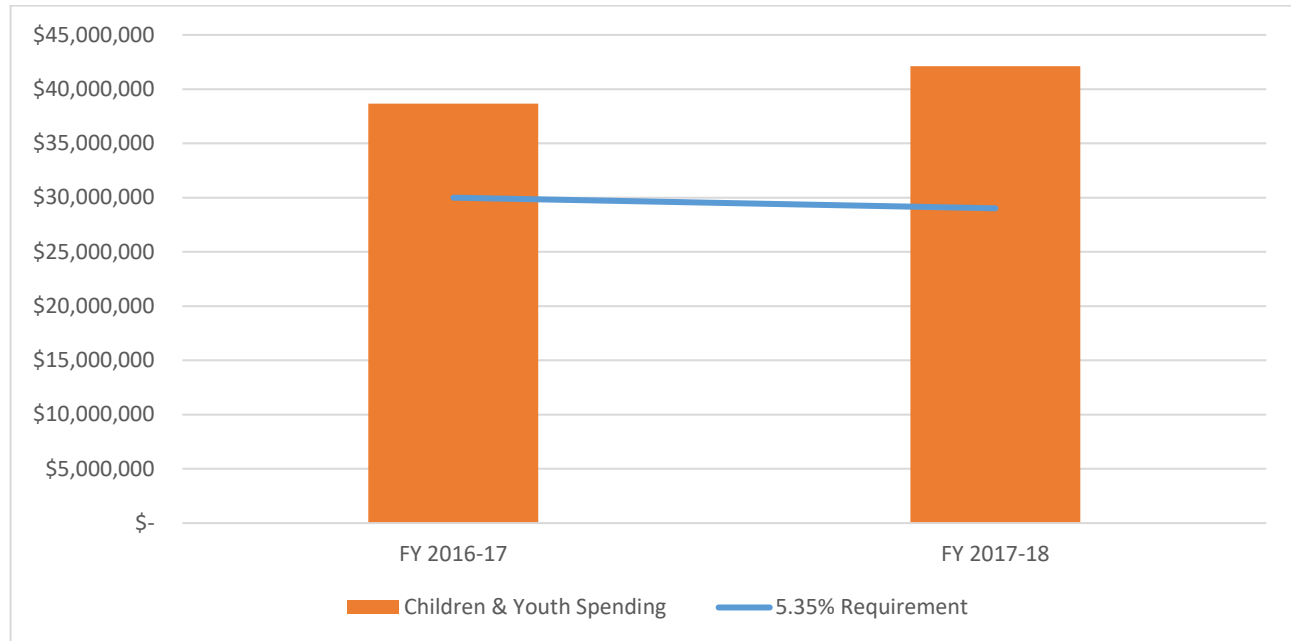
The funding for these children and youth services must come from sources other than the Kids First! Fund.

The City met and exceeded the baseline spending requirement

The baseline spending requirement was approximately \$30 million in FY 2016-17 and \$29 million in FY 2017-18. As Exhibit 3 below shows, Finance calculated that the City significantly exceeded the baseline spending in both fiscal years.

Audit Results

EXHIBIT 3: Comparison of the City's Spending on Children and Youth In FY 2016-17 and FY 2017-18



Source: Created by the Auditor's Office based on Finance Department's calculations

As Exhibit 3 above shows, Finance calculated that the City spent \$38.7 million in FY 2016-17 and \$42 million in FY 2017-18, exceeding the baseline spending requirement by a total of at least \$21.8 million in the two fiscal years.

As mentioned earlier, all expenditures on children and youth services, excluding those from the Fund, are eligible to count towards the baseline spending amount. The City's total baseline expenditures include the following:

- Head Start expenditures totaling \$19.9 million in FY 2016-17 and \$20.3 million in FY 2017-18.
- Police Department's (OPD) expenditures totaling \$7.6 million in FY 2016-17 and \$5.1 million in FY 2017-18, primarily for staff costs associated with various units that provide services to children and youth, including Youth Outreach, Domestic Violence, Gang Unit, Vice/Child Exploitation, Special Victims, and Missing Persons.
- Library expenditures for teen and children's services totaling \$2 million in FY 2016-17 and \$2.5 million in FY 2017-18.
- Parks and Recreation expenditures for recreation centers and youth sports totaling \$1.7 million in FY 2016-17 and \$2.9 million FY 2017-18.

Audit Results

Finance included expenditures in the baseline calculation that did not benefit children and youth services

Finance included expenditures in the baseline calculation that did not benefit children and youth. Specifically, services for seniors totaling approximately \$1.5 million in FY 2016-17 and \$1.7 million in FY 2017-18 were counted towards the baseline spending, but did not benefit children and youth services.

We adjusted the City's baseline expenditure calculation to account for the expenditures that did not benefit children and youth. The adjusted baseline expenditure calculation should have been \$37.2 million in FY 2016-17 and \$40.3 million in FY 2017-18. Despite these adjustments, the City still exceeded the baseline expenditure requirement in both FY 2016-17 and FY 2017-18, by a total of at least \$18.56 million.

Although the City met the baseline spending requirement, the process for identifying spending on children and youth services needs to be improved

The City's accounting system does not automatically break down spending on children and youth services. To identify spending on children and youth, Finance staff manually compile eligible expenditures based on the accounting codes in Oracle (the City's financial reporting system).

The previous Measure D audit report issued in August 2018, recommended that Finance develop policies and procedures for calculating the baseline spending amount. As a result, Finance formally documented the methodology described above.

The City's process for identifying spending on children and youth services, however, could still be improved. The audit identified eligible expenditures that were not included in the reported baseline spending amount. Thus, the City is not capturing the full amount of how much the City has spent on children and youth services.

For example, the Public Safety and Services Violence Prevention Act (Measure Z), approved by voters in November 2014, provides funding for violence prevention services. Approximately \$2 million in Measure Z monies are specifically dedicated to youth related violence prevention services, through the awarding of grant contracts, and should be included in the baseline spending. In FY 2017-18, Finance included \$1.9 million in Measure Z funds in the baseline spending; however, in FY 2016-17, Finance did not include any Measure Z monies in the baseline spending, even though the grant contracts were awarded.

Audit Results

Additionally, the City Auditor's October 2014 Measure D audit report identified an average of more than \$9.4 million in children and youth spending by Parks and Recreation Department in FY 2009-10 through 2011-12. However, in FY 2016-17, the City only included \$1.7 million in spending from the Parks and Recreation Department and \$2.9 million in FY 2017-18. Considering the Parks and Recreation Department spent approximately \$27 million in both fiscal years, the amounts counted towards the baseline appear extremely low.

Similarly, Finance is not capturing all the Library's spending on children and youth services. The Library accounted for an average of \$3.4 million in eligible expenditures in the FY 2009-10 through FY 2011-12. However, the City only reported \$2 million in FY 2016-17 and \$2.5 million in FY 2017-18 in spending from the Library. Again, this amount seems low considering the spending levels found in FY 2009-10 through FY 2011-12.

Further, in 2016 Oakland voters approved the Sugar-Sweetened Beverages Tax (Measure HH). Measure HH allocates a portion of these revenues to support the City's youth food service, sports, and health programs. The City started collecting Measure HH tax revenues in July 2017. Since FY 2017-18 was the first year these revenues were collected, the City spent only \$260,000 of the \$11 million collected. Moreover, Finance included only \$27,000 towards the baseline spending. Although the majority of the funds spent in FY 2017-18 appear to be administrative in nature, the City can include a portion of these expenditures toward the baseline spending amount, assuming these expenditures support children and youth services.

Other examples of expenditures that were not included in the baseline spending amount, but were eligible, include payments by the City to:

- The Oakland Museum of California totaling nearly \$5 million in FY 2017-18. Although all these expenditures may not necessarily support children and youth services, a significant portion of these expenditures benefit children and youth and should be included in the baseline calculation.
- Children's Fairyland totaling \$136,500 in FY 2017-18. Most or all of these expenditures should be counted towards children and youth services.
- The Chabot Space & Science Center totaling nearly \$273,105 in FY 2017-18. Although all these expenditures may not necessarily support children and youth services, a significant portion of these expenditures benefit children and youth and should be included in the baseline calculation.

Audit Results

Conclusion

The City not only met the baseline spending requirement for children and youth, it exceeded it by a total of at least \$18.56 million in the two fiscal years. The City's tracking process for spending on children and youth would benefit from more coordination between the Finance Department and the other City departments providing services to children and youth.

Recommendation

To fully account for the City's spending on children and youth services, the Finance Department should establish a process that includes:

- Guidance to the departments on expenditures that are eligible to be counted towards the baseline spending requirement, as well as expenditures that cannot be counted,
- Guidance to departments on tracking eligible expenditures and annually reporting these expenditures to Finance,
- Methodologies for allocating expenditures that mutually benefit children and youth and other populations such as seniors, and
- Methodologies for allocating an appropriate amount of department overhead costs associated with providing services to children and youth.



This page intentionally left blank

CITY OF OAKLAND



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

OFFICE OF THE CITY ADMINISTRATOR

(510) 238-3301

FAX: (510) 238-2223

TDD: (510) 238-3254

October 28, 2020

The Honorable Courtney Ruby
Oakland City Auditor
1 Frank Ogawa Plaza, 4th Floor
Oakland, CA 94612

RE: City Administrator's Response to the Audit of Kids First

Dear City Auditor Ruby:

The City Administrator's Office and the Finance Department appreciate the Measure D Kids First! Audit, which finds that the Finance Department correctly calculated and set-aside the appropriate amount for the Kids First! Fund for the period of FY 2016-17 and FY 2017-18; and highlights an area for suggested process improvement. Attached is management's response to the recommendations resulting from finding #2.

I want to thank you and your staff for the open communication during this audit. Management was kept up to date on all progress and presented with findings of process improvements as they were identified. This valuable service keeps the City running smoothly and efficiently.

Sincerely,

A handwritten signature in black ink, appearing to read 'Edward D. Reiskin'.

Edward D. Reiskin
City Administrator

cc: Margaret L. O'Brien, Finance Director

Attachment: Management Response to Recommendations



Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date to Complete
2	<p>To fully account for the City's spending on children and youth services, Finance should establish a process to fully account for spending on children and youth services. The process should include:</p> <ul style="list-style-type: none">• Guidance to the departments on expenditures that are eligible to be counted towards the baseline spending requirement, as well as expenditures that cannot be counted,• Guidance to departments on tracking eligible expenditures and annually reporting these expenditures to Finance,• Methodologies for allocating expenditures that mutually benefit children and youth and other populations such as seniors, and• Methodologies for allocating an appropriate amount of department overhead costs associated with providing services to children and youth.	<p>Staff agrees with the recommendation.</p> <p>We will update our process to include additional guidance to departments on eligible expenses, tracking, and reporting. Staff agrees to standardize the guidance and methods currently used for tracking and reporting. The City's current budgeted and actual expenditures are significantly above the 5.35% spending threshold required by the City Charter. While finer-grain coding of all City expenditures would be ideal, we do not have the substantial additional resources that would be needed to develop and implement more complex accounting methodologies and time intensive tracking processes. We believe current methods/processes are sufficient to demonstrate compliance with – and in fact exceedance of – legal requirements. Given the economic fallout from COVID-19 and efforts to tackle serious issues such as homelessness and reimagined public safety, the City must allocate staff time to its most important budget analysis and accounting processes in support of these efforts.</p>	Budget Bureau	December 31, 2020