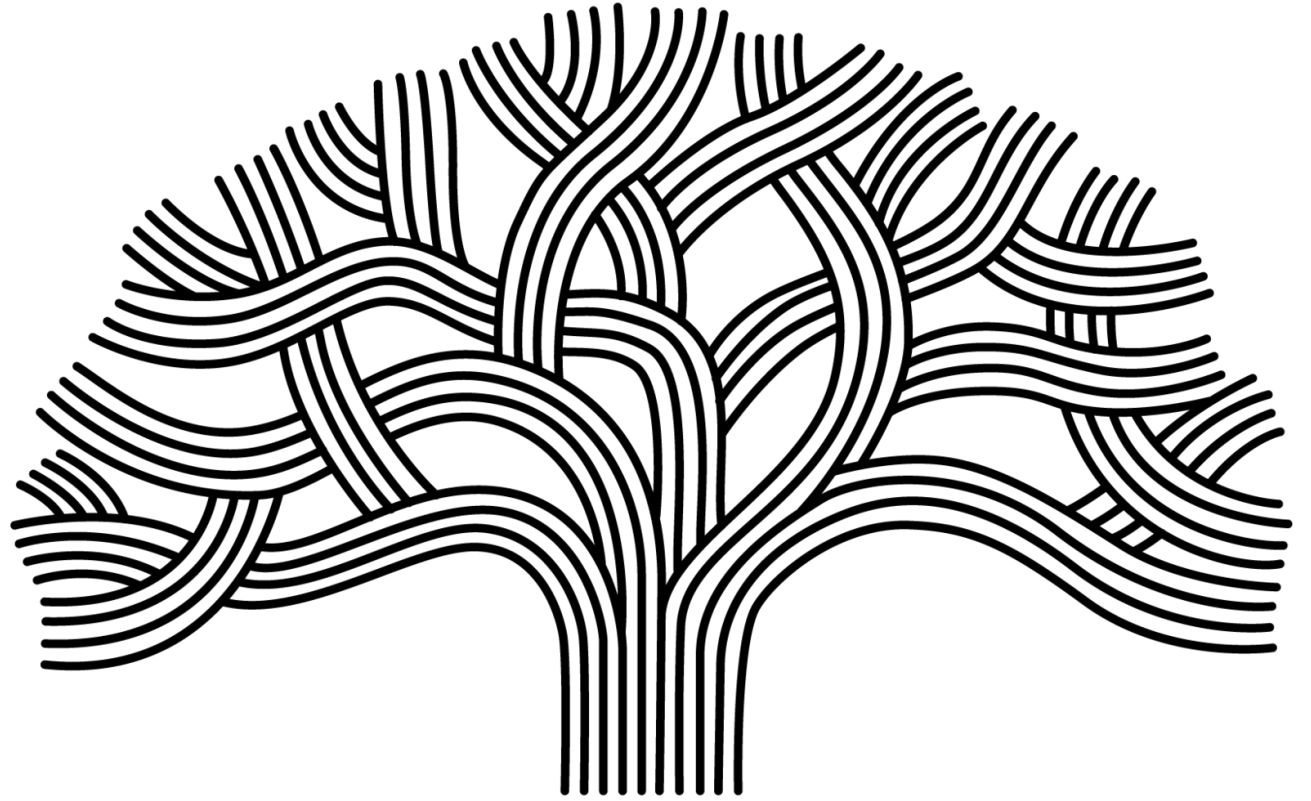


Office of the City
Auditor

Presentation to
the AGA San
Francisco
Chapter Meeting

COURTNEY RUBY, CPA, CFE
City Auditor

May 20, 2020



CITY OF OAKLAND

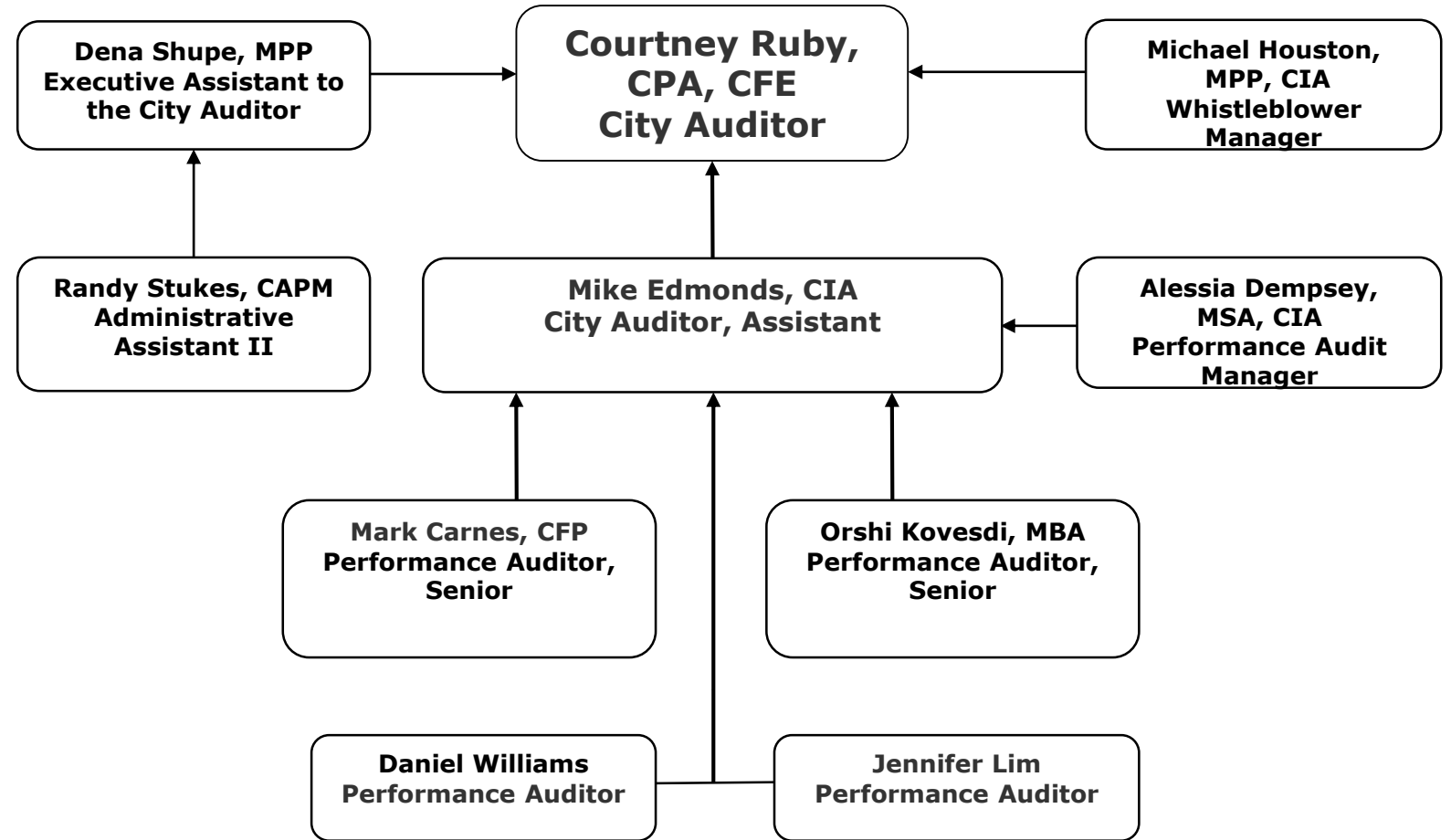
Oakland's City Auditor (again)

- City Auditor from 2007-2014
- City Auditor again in 2019



Office Overview & Structure

- Assumed Office January 7, 2019
 - Term: 4 years
- Authority to audit anything and everything in the City
- Staffing: 10 FTE's
 - 8 Auditors
 - 2 Administrative staff
- Office budget of \$2.3 million
- City budget of \$1.6 billion



How Does the City Auditor Provide Value to Oakland residents?

- Ensures transparency and accountability.
- Protects against fraud, waste, abuse, and mismanagement.
- Ensures public funds are spent in the public interest.
- Identifies areas of greatest risk in government.
- Increases revenue and decrease costs.



Mission Statement

To conduct performance audits and investigations that return in-depth and meaningful results to the residents of Oakland by identifying and auditing the areas of government most vulnerable to mismanagement, fraud, waste, and abuse.



Personal Vision

- Highest standards of performance and professionalism
- Serve the public with the utmost integrity
- Dig Deeper – Greater Impact



How Do We Fulfill Our Mission And Goals?

- Whistleblower Program
- Performance Audits
- Mandated Audits
- Investigation Reports
- And more...



Whistleblower Program Purpose

- Deter, detect and defend against **fraud, waste, abuse** and **mismanagement**
- 46% of fraud is initially detected through hotline tips; drops to 30% without hotline and
- 50% of tips come from employees



Latest Whistleblower Program Results

- *Received* **194** New Cases
- *Closed* **155**
- *Issued* Investigation Reports
 - ✓ **Oakland Promise**
 - ✓ **OFD Controlled Substances**



Audits Issued

Mandated Audits

- Business Tax Refunds FY 2017-18
- Rent Adjustment Program Follow-up
- Limited Public Financing Act



Audits Issued

Performance Audits

- Police Overtime
- Financial Condition of the City
- Workforce Development Follow-up



Audits in Progress

Performance Audits

- Police Commission & Community Policing Review Agency
- Oakland Fire Department – Inspections
- Homeless Services

Mandated Audits

- Measure D – Kids First! Fund
- Measure Q & D – Library Services



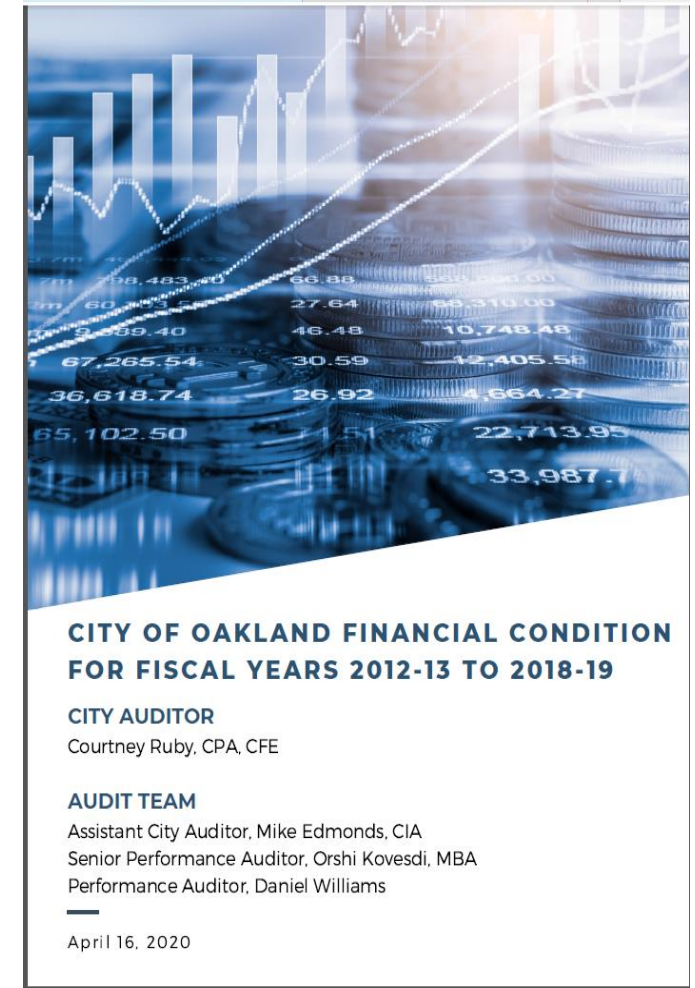
Today's Audit in Review

City of Oakland Financial Condition for Fiscal Years 2012-13 to 2018-19

- Issued April 16, 2020

Audit Team

- Assistant City Auditor, Mike Edmonds, CIA
- Senior Performance Auditor, Orshi Kovesdi, MBA
- Performance Auditor, Daniel Williams



Background

What is Financial Condition?

Financial condition refers to a government ability to (1) generate enough cash over thirty or sixty days to pay its bills (2) generate enough revenues over its normal budgetary period to meet its expenditures (3) have the ability in the long run to pay all the costs of doing business, and (4) provide services at the level and quality that are required for the health, safety, and welfare of the community and that its citizens desire.

What is Fiscal Sustainability?

The ability to continue public services and/or existing programs; to meet financial commitments both now and in the future; to maintain the stability and predictability of future tax burdens, which supports informed long term decision making; to rely on a government's future revenue sources; and to maintain "reasonable" levels of debt.

Background

How Did We Assessed Financial Condition?

- Used financial and economic indicators that are included in the International City/County Management Association's Evaluating Financial Condition Handbook for Local Government.
- The information has been organized around six areas:
 - (1) revenues,
 - (2) expenditures,
 - (3) long-term debt and liabilities,
 - (4) pension and other post-employment benefit liabilities,
 - (5) financial and operating position and
 - (6) demographic and economic indicators.

Audit Objective, Scope and Methodology

Objective

- To assess the City's financial condition by calculating financial ratios, analyzing trends in the City's financial data over the past seven-year period, and compare the results to other cities of similar size.

Scope

- Fiscal Year 2013 to 2019

Methodology

- Based our methodology primarily on Evaluating Financial Condition: A Handbook for Local Government by the International City/County Management Association.
- Reviewed background information on fiscal sustainability from the Governmental Accounting Standards Board.
- Reviewed and analyzed financial information in the City's CAFR's.
- Benchmarked Oakland with CA cities with similar population size.
- We did not audit the accuracy of source documents or the reliability of the data in computer-based systems.

How is Oakland's Financial Health?

What We Found

- Prior COVID-19, Oakland's health relatively stable based on financial analysis thru FY2018-19 Revenues increased, debt was down, City had a balanced budget, and City's liquidity and credit rating were strong
- City needs to do more to address its increasing pensions/OPEB liabilities, quantify its unmet infrastructure needs, and prepare for future 5 year forecast when expenses were to outpace revenues
- Now City must pivot to address immediate and long-term effects of COVID, many which remain unknown
- We found City's total net position (difference between what government owns and what it owes) has declined significantly
 - Primary reason for decline is due to increasing liabilities related to pensions and OPEB
 - These costs are not new, however, requirement for state and local governments to report them occurred during seven year period we audited. (Pension GASB No.68 in FYE 2015 and OPEB GASB No. 75 FYE 2018)

How is Oakland's Financial Health? *continued*

What We Found

- Additionally, we found the City's unrestricted net position, a more realistic and revealing long-range indicator of the City's financial condition, remained negative over the entire seven-year period indicating long term commitments are greater than the City's available resources.
- The City and State have taken steps to rein in pensions and fund more
 - State passed the Public Employees' Pension Reform Act (PEPRA) in 2013
 - Oakland initiate its third pension tier for employees hired after 2013
 - City agrees to contribute \$10 million annually to OPEB Trust
 - City approves OPEB Funding Policy to contribute 2.5% of payroll beginning in FY2019-20
 - City will pay one-time contributions to OPEB Trust when RETT thresholds are met
 - City negotiated agreement with sworn public safety employees (OFD & OPD) to cap retiree medical benefits for the existing employees and add new, lower-cost tiers for employee's hired after January 1, 2019

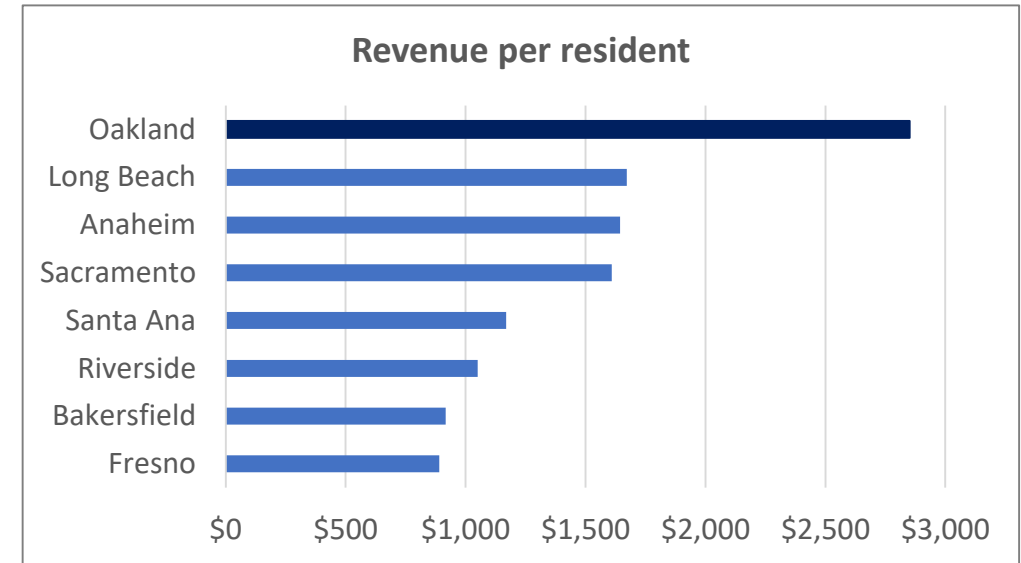
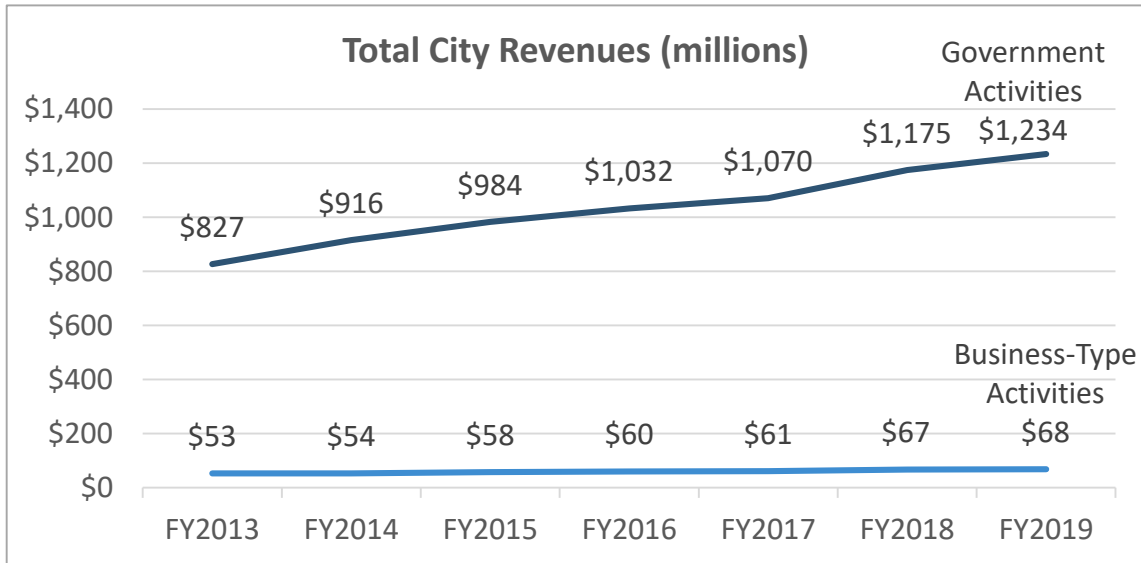
How is Oakland's Financial Health? *continued*

What We Found

- Audit unable to quantify City's financial exposure related to infrastructure
 - City does not produce an annual city-wide capital asset report with condition, replacement value, or identified funding need
- City of Oakland ranks as the highest or worst in most cases when compared to CA cities with similar populations government services provided

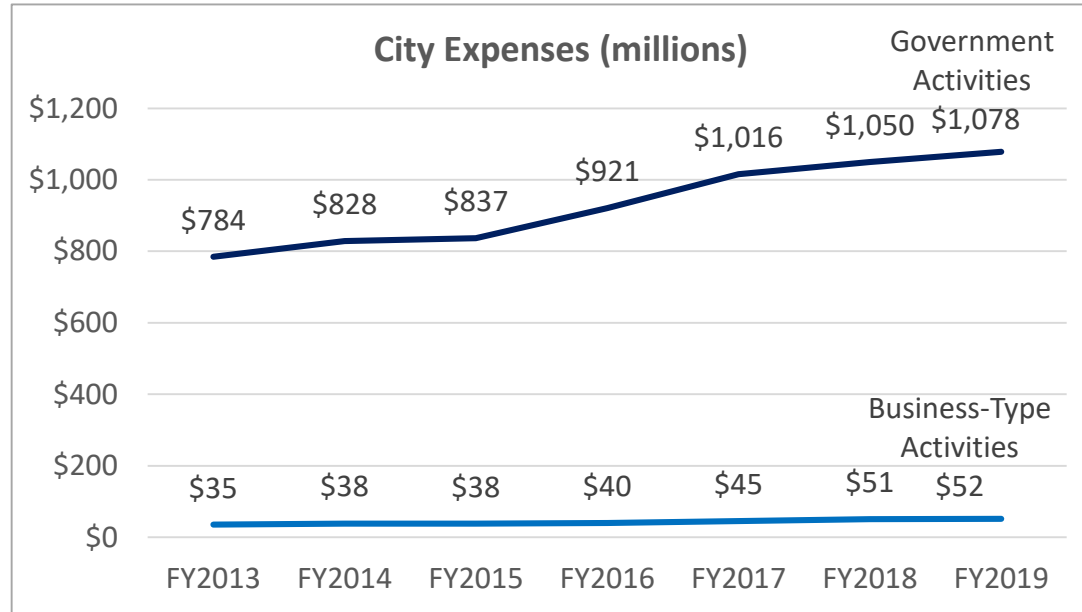
Audit Results - Revenues

Benchmarking

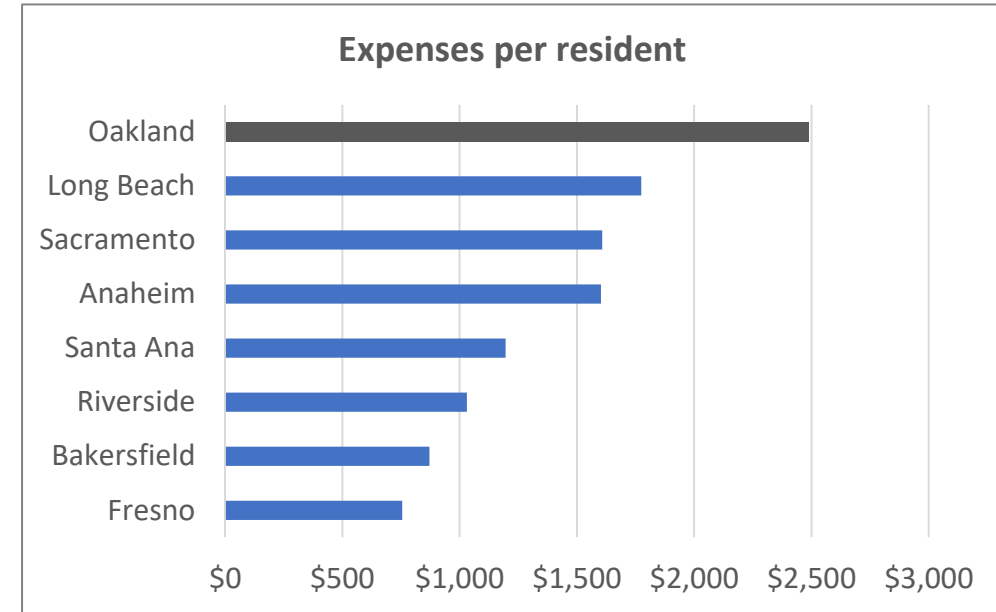


- **Revenues from Governmental activities** increased 49% from \$827 million in FY 2012-13 to \$1.234 billion in FY 2018-19
 - The growth is primarily attributed to the increase in:
 - property taxes by \$102 million, or 40%
 - charges for services by \$77 million, or 60%
 - sales and use taxes by \$32 million, or 53%
 - real estate transfer taxes by 57 million, or 121% and
 - business license taxes by \$39 million, or 65%
- **Revenues from Business-type activities** increased 26% from \$53 million in FY 2012-13 to \$68 million in FY 2018-19
- Oakland has the highest revenue per resident for governmental activities; in FY 2018-19 it was \$2,852

Audit Results - Expenses

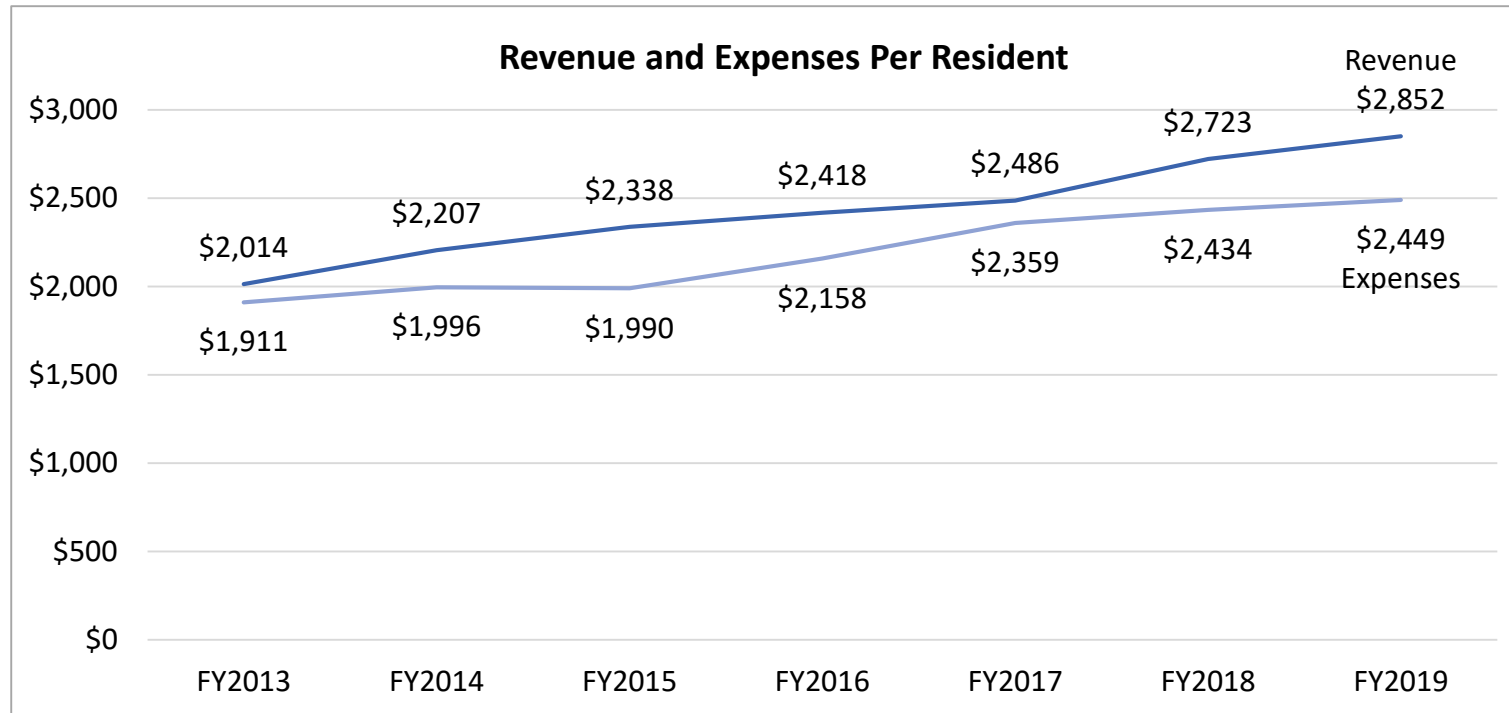


Benchmarking



- **Expenses for Governmental activities** increased 37% from \$784 million in FY 2012-13 to \$1.078 billion in FY 2018-19
 - Police and Fire Departments account for 41% of total expenses
 - Public Works and Transportation Departments grew by 70% over the last 7 years
- **Expenses for Business-type activities** increased by 47% from \$35 million in FY 2012-13 to \$52 million in FY 2018-19
- Oakland has the highest expenses per capital for governmental activities; in FY 2018-19 it was \$2,490

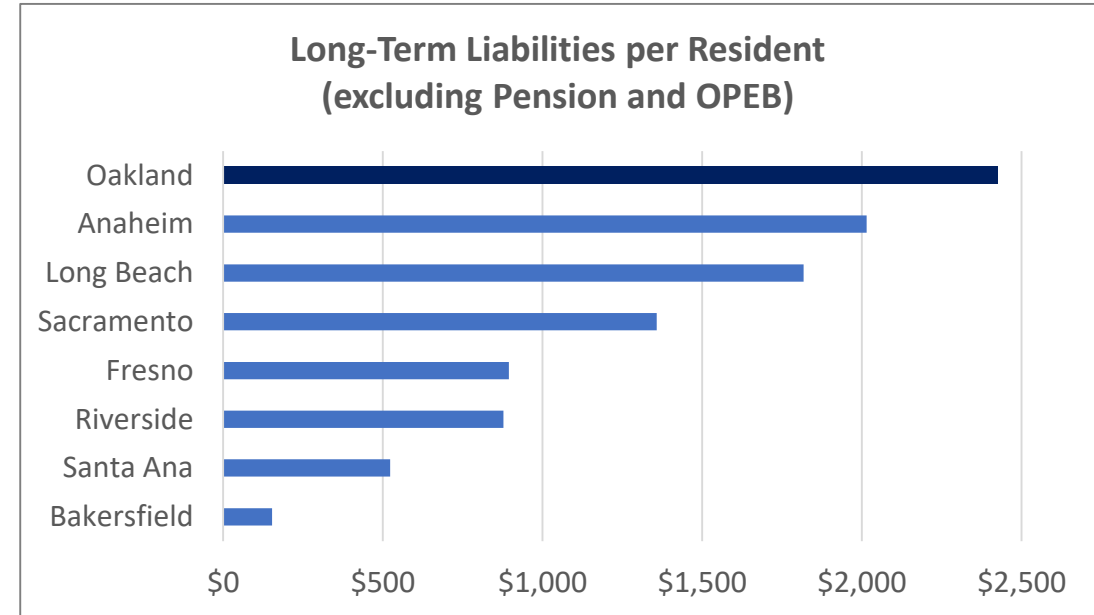
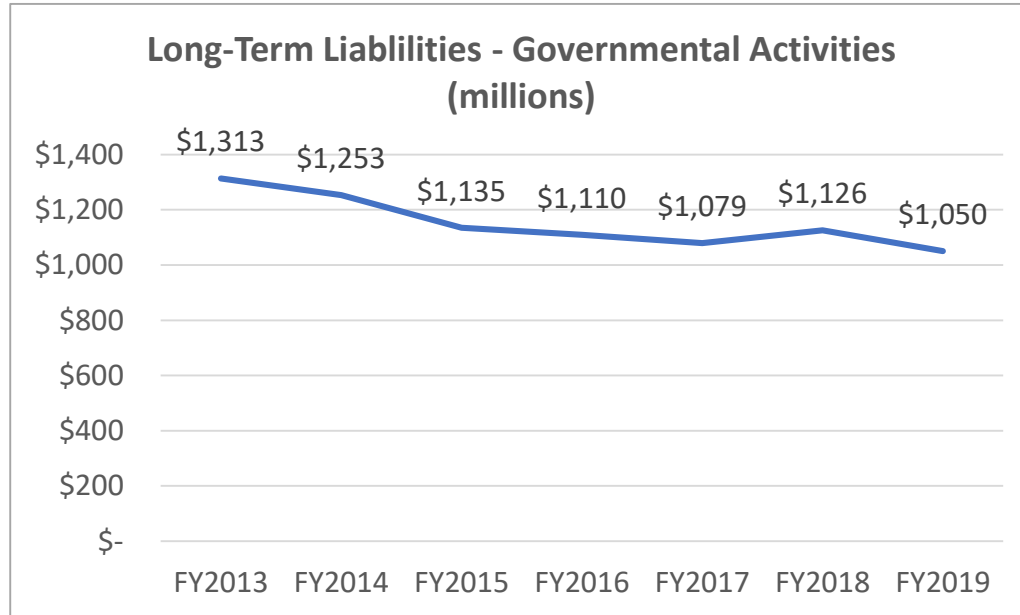
Audit Results – Revenues and Expenses



- Revenue related to governmental activities have exceeded expenses annually for the last 7 years

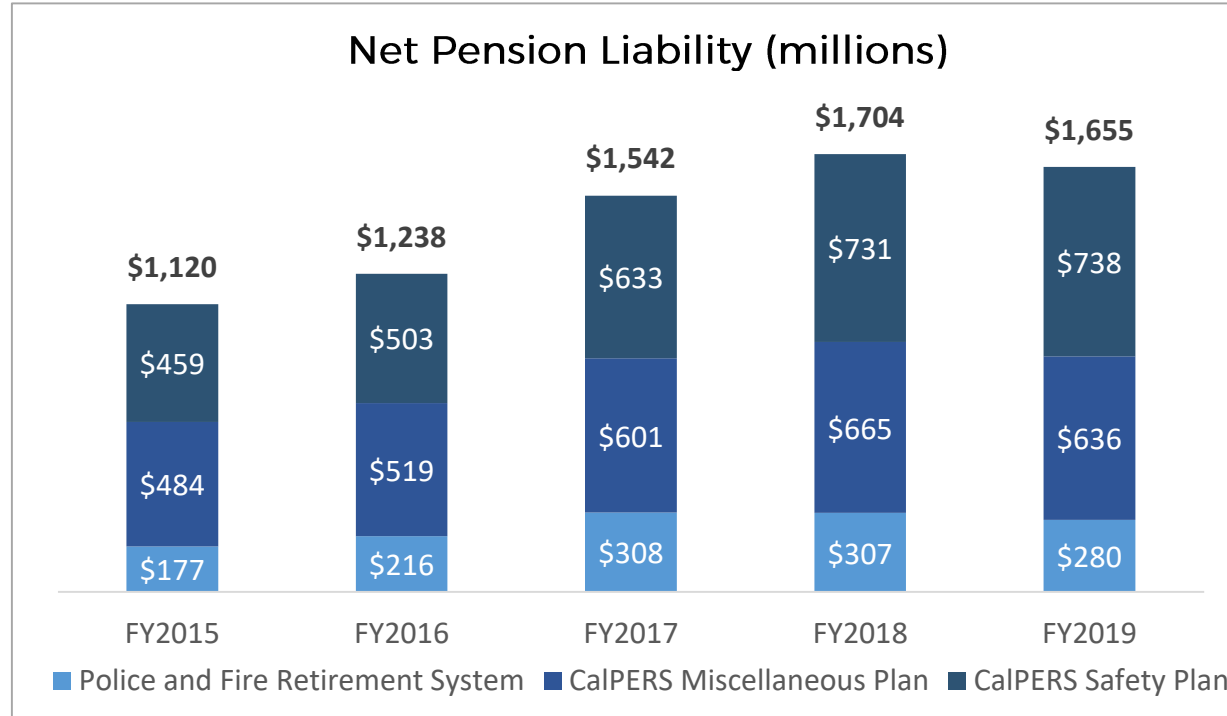
Audit Results - City Long-term Liabilities (not including pension and OPEB)

Benchmarking

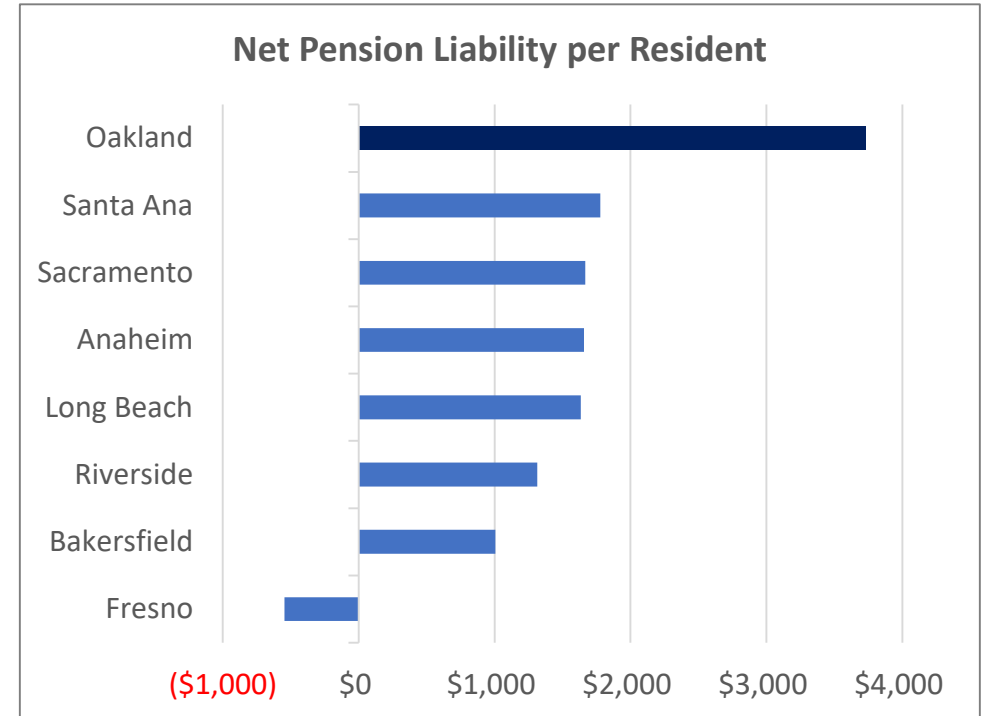


- FY 2018-19, the City owed \$751 million in bonds (general obligation bonds, lease revenue bonds, pension obligation bonds and special assessment district bonds)
- From FY 2012-13 through FY 2016-17 the debt related to bonds steadily decreased. In FY 2017-18 the City issued \$117 million in general obligation bonds associated with Measure KK (Infrastructure and Affordable Housing Bond) that increased the City's long term debt. In FY 2018-19, debt related to bonds again decreased.
- Other types of long term liabilities include loans, capital leases, accrued vacation, City's self-insurance of workers' compensation, the City's self-insurance general liability
- Oakland has the highest long-term liability per resident with \$2,426 in FY 2018-19

Audit Results – Pension and Other Post-Employment Benefits Liabilities

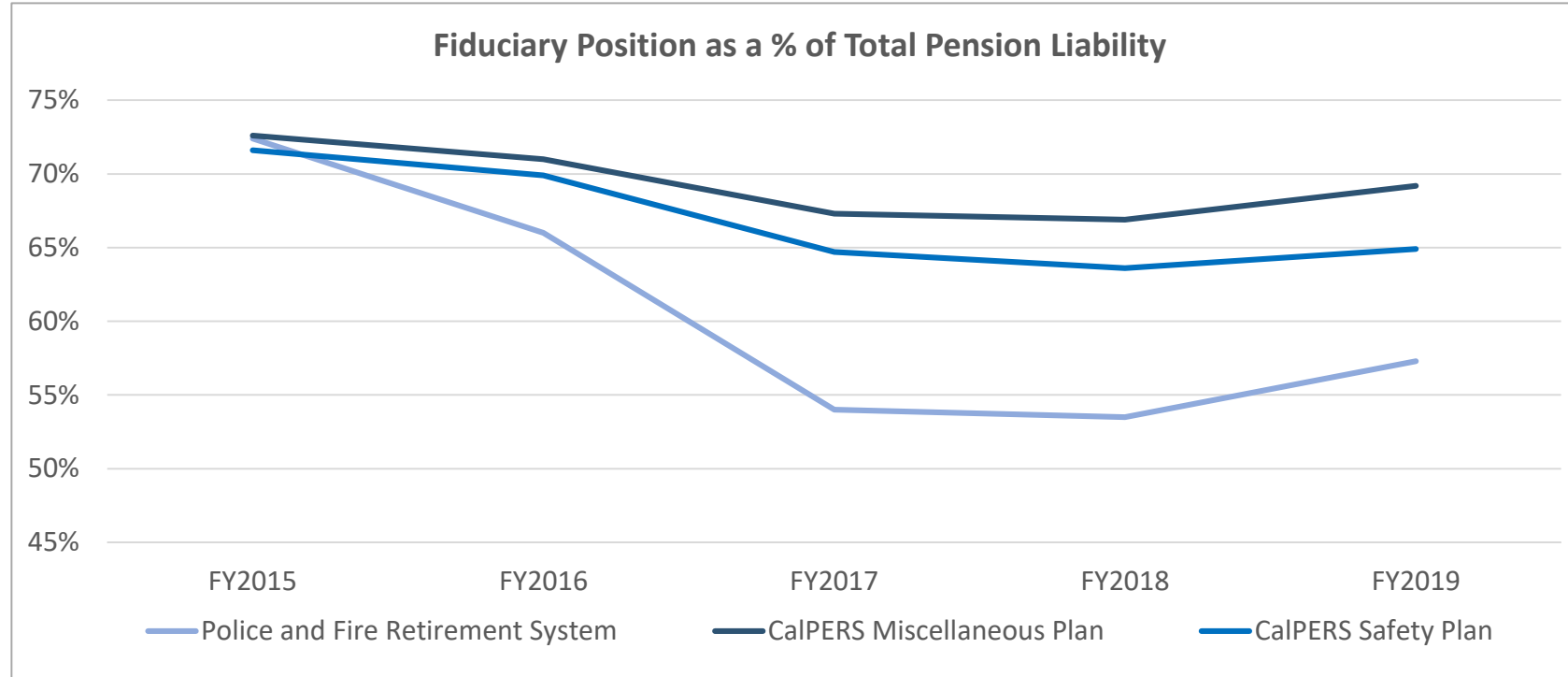


Benchmarking



- Net Pension Liabilities are up 48%, from \$1.120 billion in FY 2012-13 to \$1.655 billion in FY 2018-19
- GASB 68 requires government entities providing defined benefit plans to report the total long-term cost of these benefits as a liability on their annual financial reports. Prior to these requirements, plans only reported the yearly contributions required to cover benefits in annual reporting.
- City had a \$3,727 net pension liability per capital, which is significantly higher than the benchmarked cities.

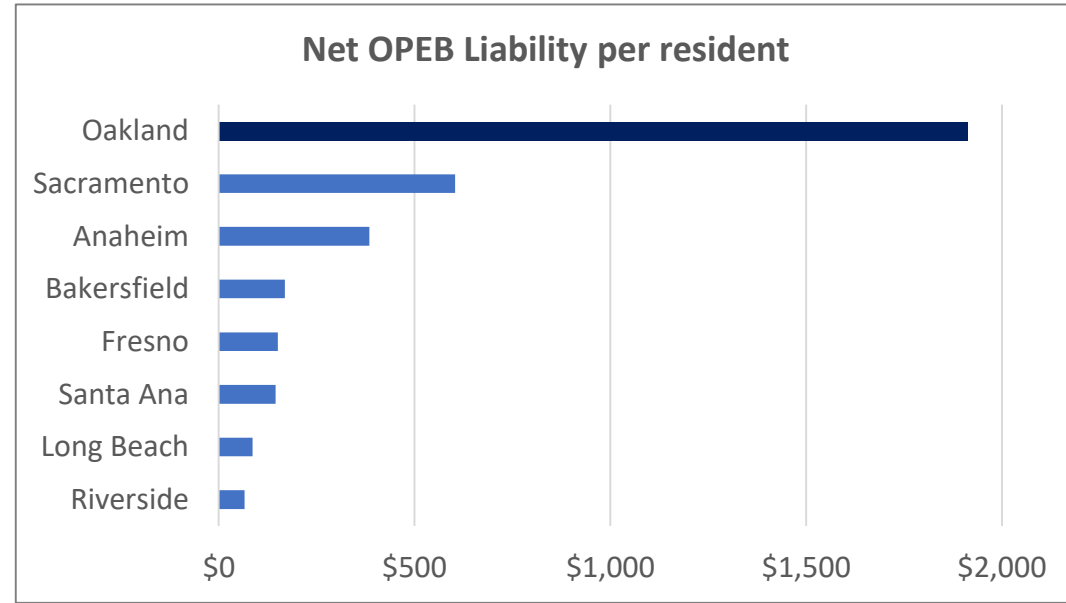
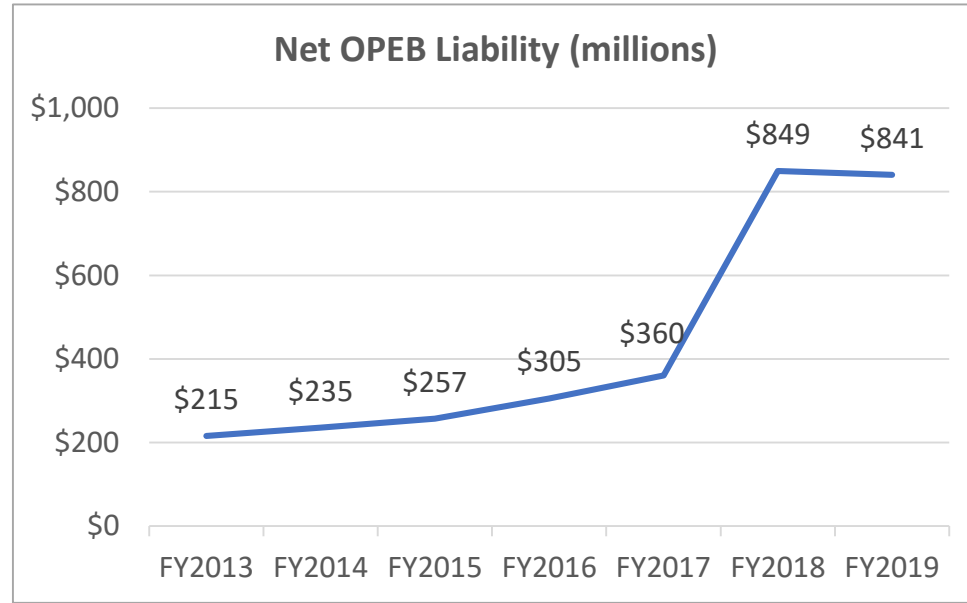
Audit Results – Pension and Other Post-Employment Benefits Liabilities



- Since FY 2014-15, the funded ratios for the three pension plans have all declined
 - PFRS declined from 72% to 57%
 - CalPERS Miscellaneous declined from 73% to 69%
 - CalPERS Safety declined from 72% to 65%

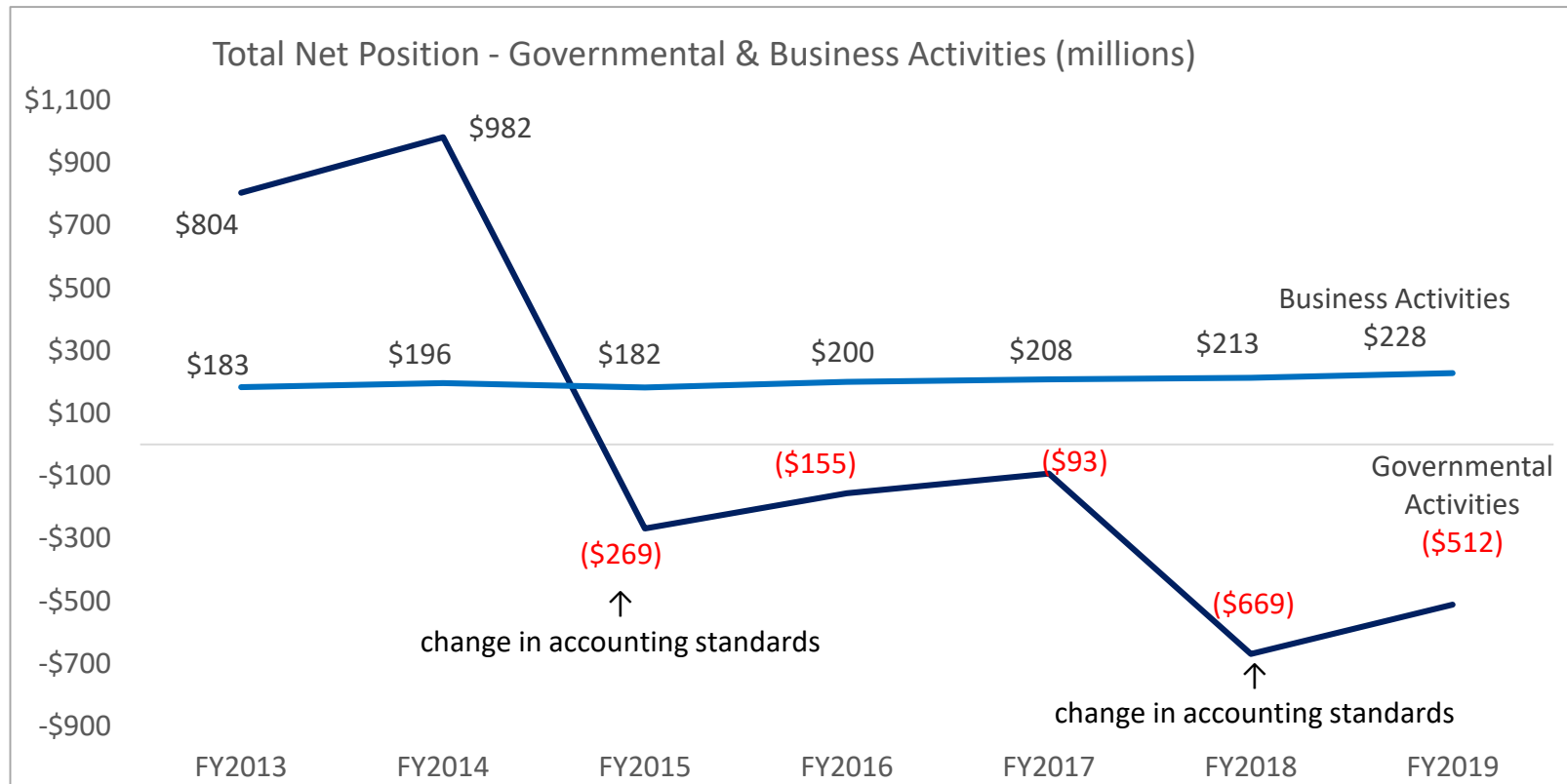
Audit Results – Pension and Other Post-Employment Benefits Liabilities

Benchmarking



- City's Net OPEB liability increased nearly 300 % from \$215 million in FY 2012-13 to \$841 million in FY 2018-19.
- Much of this increase is due to changes in reporting requirements required by GASB 75.
- Until FY 2017-18, the City funded OPEB on a “pay-as-you-go” basis; as of FY 2018-19, the City's funded ratio was 1.9%
- In FY 2017-18 and FY 2018-19 the City contributed \$10 million/year to the trust fund to OPEB
 - In January 2019, the City approved a OPEB Funding Plan that would work to close the funding gap by contributing an additional amount in addition to the “pay-as-you-go” amount.
- In FY 2018-19 Oakland's net OPEB liability per capital was \$1,913, which is also significantly higher than the benchmarked cities.

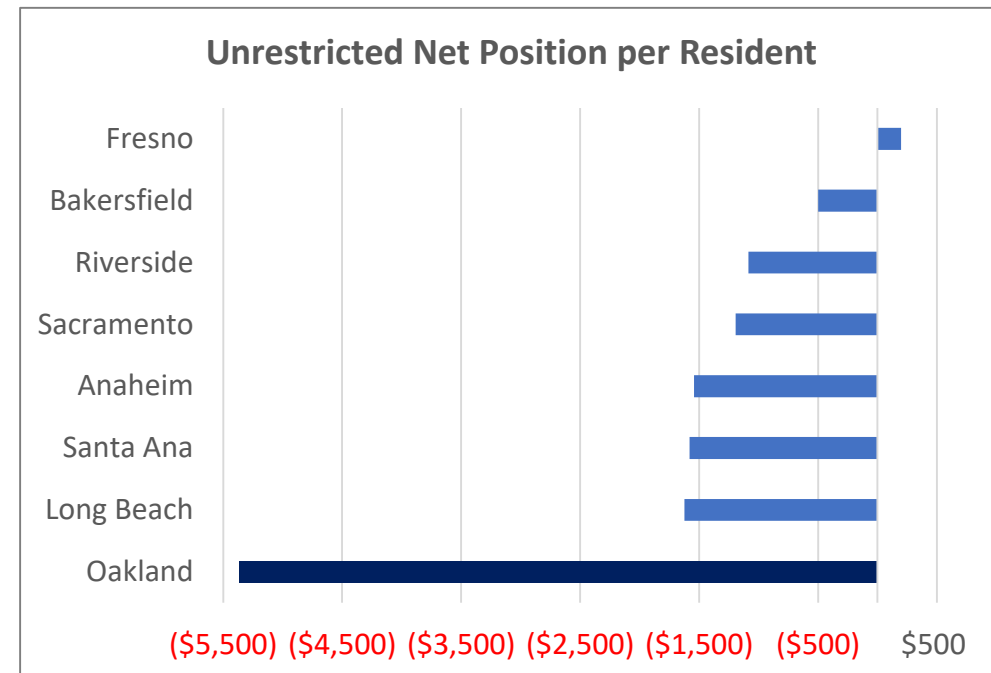
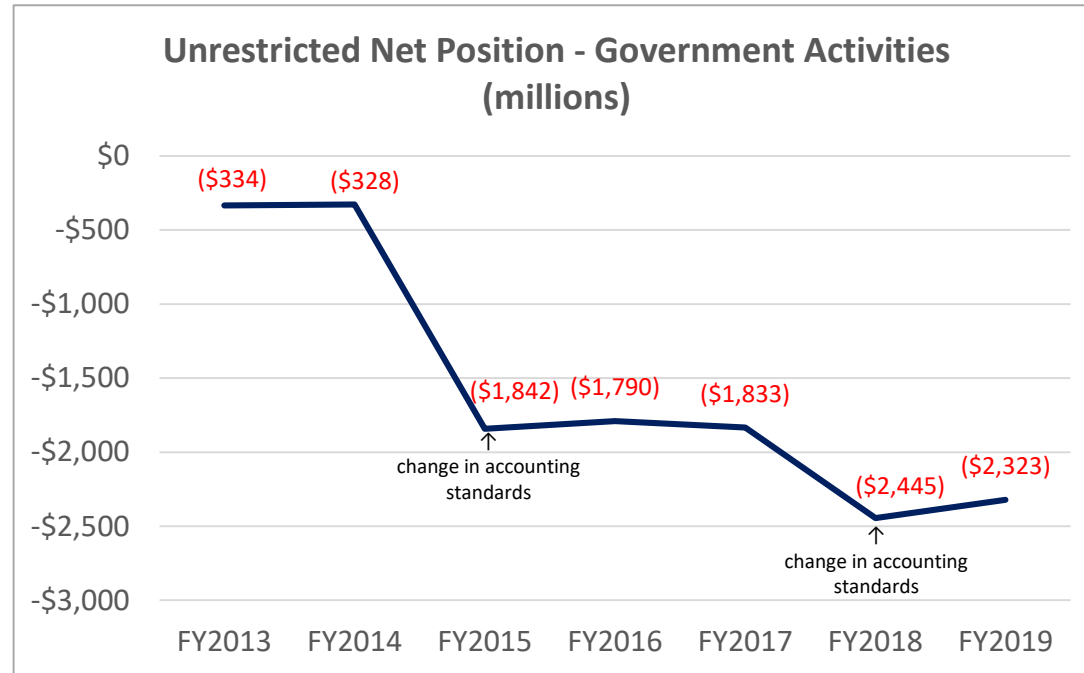
Audit Results – Financial and Operating Position



- The City's liabilities exceeded its assets in FY 2018-19 by over \$512 million
 - A change in accounting rules for recognizing pension liabilities led to the steep decline of net position in 2014-15. Similarly, in FY 2017-18, an accounting rule related to the recognition of other post-employment benefits (OPEB) led to another smaller decline in net position.

Audit Results – Financial and Operating Position

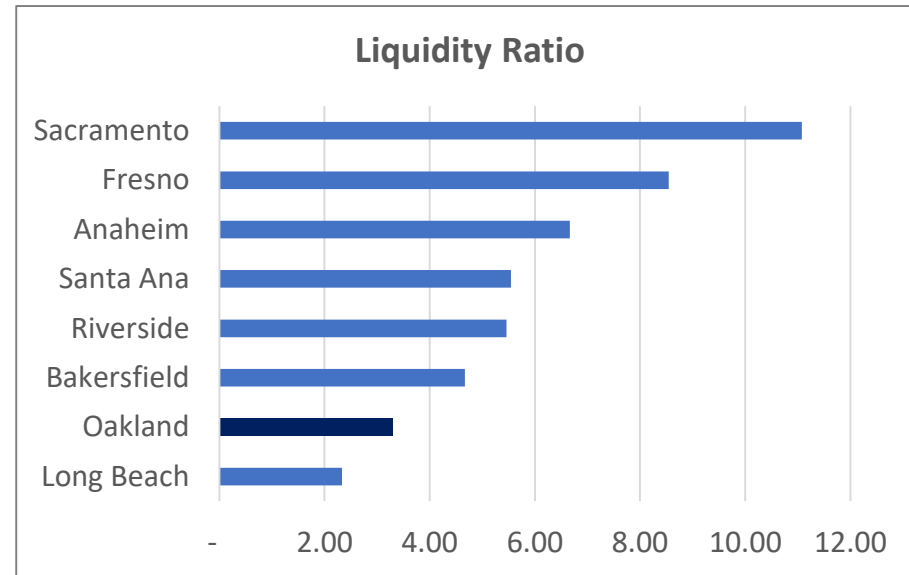
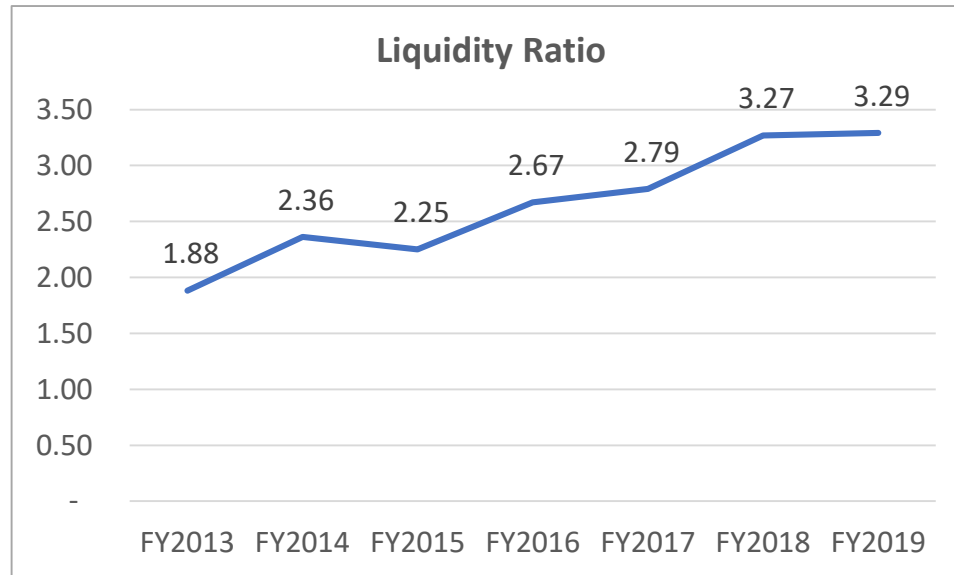
Benchmarking



- Unrestricted net position is a measure of the City's ability to maintain governmental services when faced with unexpected expenses.
- General trend over the 7 year period is negative and is on a steep decline
 - The City's unrestricted net position increased substantially in FY 2014-15 and FY 2017-18 due to new accounting recognition rules for pension and OPEB liabilities.
- This might suggest that the City is facing fiscal stress and is not sustainable in the long term.
- Oakland's unrestricted net position per capital is negative \$5,365, significantly worst than the benchmarked cities.

Audit Results – Financial and Operating Position

Benchmarking



- FY 2012-13 to FY 2018-19 Oakland's liquidity ratio related to governmental activities increased from 1.88 to 3.29.
- Oakland's liquidity ratio related to governmental activities is below most of the benchmarked cities.

Audit Results – Financial and Operating Position

Reserves

- City Reserve Policy – 7.5% for unassigned fund balance of the General Purpose Fund to help pay any unanticipated expenditures and pay for claims arising from the City's Insurance programs.
 - As of June 30, 2019 the balance of the fund was \$48.8 million
- Vital Services Stabilization Fund was created to plan for future economic uncertainties.
 - As of June 30, 2019 the balance of the fund was \$14.6 million
- Total reserves (\$63.4 million) are \$70.6 million less than GFOA's recommended reserves of two months of general fund operating expenditures.


Capital Assets

- City manages capital assets worth \$1.7 billion
- Capital assets varies by asset and bureau
- Failure to maintain assets pushes higher costs to future years, decreases efficiency, and decreases attractiveness of the community
- City does not produce an annual city-wide capital asset report. A comprehensive capital assets report would:
 - Quantify costs in one place
 - Evaluate condition, citywide asset replacement value, funding gap
 - Determine future monies needed to address City's future infrastructure needs

Audit Results – Demographic and Economic Indicators

Why are Demographic and Economic Indicators Important?

- Demographic and economic indicators provide information about the community needs and resources.
 - Population
 - Unemployment
 - Income per Resident
 - Property Values

A large, gnarled tree trunk in the foreground, with a city skyline and a body of water in the background.

Comments/Questions

Photo: Greg Linhares, City of Oakland

Contact Us

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Comments and questions
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