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CITY OF OAKLAND



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May 24, 2018

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

**RE: Performance Audit – Library Services Retention and Enhancement Act
(Measure Q) for FY 2013-14 through FY 2016-17**

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

My Office conducted an audit of the Library Services Retention and Enhancement Act (Measure Q) for FY 2013-14 through FY 2016-17. The Measure requires the City Auditor to perform regular audits to confirm the City is adhering to the Measure's requirements.

The audit identified that the Oakland Public Library's Measure Q expenditures substantially met the Measure's requirements. Potential exceptions were noted in FY 2013-14 and FY 2014-15. The audit also identified opportunities for the City Administrator to strengthen related financial controls.

I want to express our appreciation to Library and Finance staff for their assistance and cooperation during this audit. All their valuable time and efforts spent on providing us information are greatly appreciated.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brenda D. Roberts".

Brenda D. Roberts, CPA, CFE, CIA
CITY AUDITOR

cc: Katano Kasaine, Director of Finance
Jamie Turbak, Interim Director of Library Services
Adam Benson, Agency Administrative Manager
Gene Tom, Chief Financial Officer of Library Services

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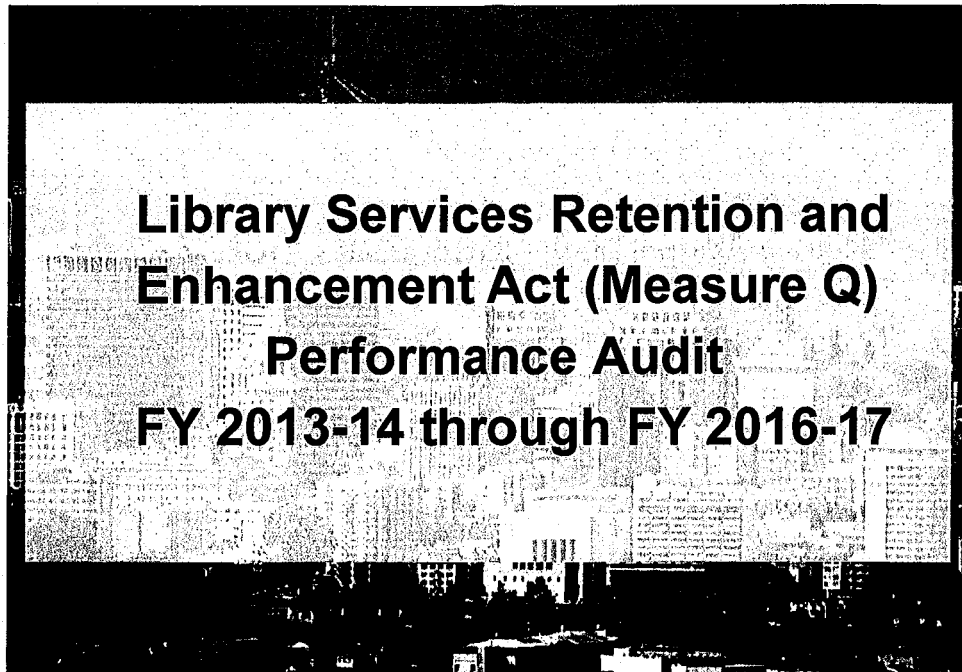
**City Auditor
Brenda Roberts
CPA, CIA, CFE**

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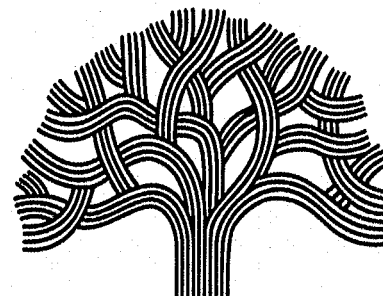
Audit Team:

**Alessia Dempsey, CIA
Performance Audit
Manager**

**Orsolya Kovessi
Senior Performance
Auditor**



**Library Services Retention and
Enhancement Act (Measure Q)
Performance Audit
FY 2013-14 through FY 2016-17**



CITY OF OAKLAND

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.

Office of the City Auditor phone: (510) 238-3378
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Copies of our audit reports are available at: www.oaklandauditor.com
Alternate formats available upon request.

Executive Summary

Performance Audit of the Library Services Retention and Enhancement Act (Measure Q) FY 2013-14 through FY 2016-17

OVERVIEW

The Library Services Retention and Enhancement Act (Measure Q) established an annual parcel tax to raise revenue to enhance Oakland's Library services; the measure was approved through 2024.

SCOPE AND OBJECTIVES

This audit reviewed fiscal years (FY) 2013-14 through FY 2016-17 with the objectives of (1) verifying the minimum appropriation from the City's General Fund to the Library; (2) confirming that the Reserve Fund requirements were met; (3) assessing the Library Commission's compliance with the ordinance that established it; and (4) determining whether proceeds were properly disbursed as prescribed by the Measure Q requirements.

OBSERVATIONS

Observation 1: Certain expenditures may not have conformed with Measure Q requirements in FY 2013-14 and FY 2014-15

Observation 2: The City has not adequately documented the financial controls in place that ensure the minimum Library Fund appropriation is met each year.

RECOMMENDATIONS

The Office of the City Auditor makes the following recommendations:

1. At the prompting of this audit, the City Administrator performed a review of the Internal Service Expenditures for FY 2013-14 and FY 2014-15. If any expenditures are determined to exceed actual costs, a plan should be developed to restore the funds in conformance with Measure Q's requirements.
2. The City Administrator should document the financial controls over establishing the minimum appropriation each year and verify it is accurately recorded in the City's Financial Reporting System to ensure that the requirements of Measure Q are always met.

WHY THIS AUDIT MATTERS

The audit identified opportunities to strengthen the control environment around Measure Q processes to ensure sustained support of Library services for Oakland residents.

Background

MEASURE Q 12 OBJECTIVES

1. To keep neighborhood libraries open a minimum of six days per week and increase weekend hours.
2. To retain availability of library services at the main Library seven days per week.
3. To enhance and expand library collections, including acquisition of new books and materials.
4. To continue to provide educational and cultural programs for youth in every library, including after school tutoring, literacy, and children's programs.
5. To expand library-based programs in support of literacy, lifelong learning, and information technology.
6. To operate an African-American museum and library program.
7. To increase joint educational activities with local schools including librarian services.
8. To retain children's librarians in every library facility.
9. To operate the new joint school-public library in East Oakland.
10. To upgrade and enhance information technology in all libraries and improve access to computers and technology in the libraries.
11. To support after-school homework programs.
12. To support teen programs.

Oakland Public Libraries (Library) are a critical part of Oakland's community. They promote literacy and reading, and provide cultural, business and recreational needs to our diverse communities. Oakland Public Libraries serve our communities through a Main Library, 16 branches, a Second Start Adult Literacy Program, the Tool Lending Library and the African-American Museum and Library (see Appendix A).

The Library Services Retention and Enhancement Act (Measure Q or Measure) is an annual parcel tax to raise revenue to enhance Oakland's libraries. It was first approved by voters in 1994 as Measure O and then renewed and amended as Measure Q in 2004 through June 30, 2024.

Measure Q provides guidelines for spending the Measure's tax revenue, intended to enhance Library services through its 12 objectives. These guidelines are followed by Library management under the supervision of the City Administrator.

In 2008, the Oakland City Attorney clarified that the term "objective" as related to the 12 objectives, is a statement of intention rather than a legal requirement. For example, funds can be used to increase or maintain the Library's open hours, but are not required to meet the objective of branch libraries staying open six days a week.

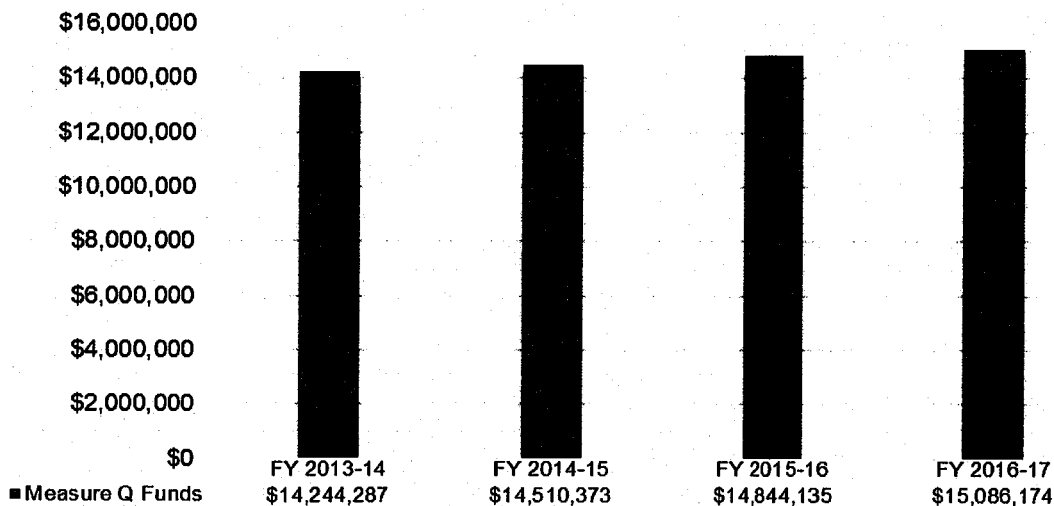
Alameda County (County) assesses and collects parcel taxes under Measure Q and remits the tax proceeds annually to the City for Library funding. To receive Measure Q taxes from the County, the Measure requires the City of Oakland (City) to appropriate annually at least \$9,059,989 from the City's General Fund to the Oakland Public Library.

Background

Measure Q annual proceeds are increasing slightly. The total revenue depends on the parcel taxes collected, yearly tax increases for cost of living adjustments¹ and exemptions granted to very low-income residents and other entities. These funds are used primarily for personnel services, operation and management, materials and other expenses.

Parcel taxes collected for FY 2013-14 through FY 2016-17 are captured below:

MEASURE Q TAX REVENUE FY 2013-14 through FY 2016-17



Source: Prepared by City Auditor Staff using financial reports in Oracle, the City's Financial Reporting System.

Measure Q requires a panel of citizens, Library Advisory Commission (Commission), to provide oversight, and the City Auditor to perform regular audits affirming the City is adhering to the Measure's requirements.

As such, this audit covers fiscal years² (FY) 2013-14 through FY 2016-17, and the audit objectives were to (1) verify the minimum appropriation from the City's General Fund to the Library; (2) confirm that the Reserve Fund requirements were met; (3) assess the Library Commission's compliance with the ordinance that established it;³ and (4) determine whether proceeds were properly disbursed as prescribed by the Measure Q requirements.

¹ The rate increases 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.

² The City's fiscal year is July 1st – June 30th.

³ Ordinance No. 11730

Audit Results

The audit found that the Library Advisory Commission operates in compliance with the ordinance.

The audit also identified (1) certain expenditures in two fiscal years may not have fully conformed with Measure Q requirements, and (2) financial control procedures around the management of the Measure should be better documented.

OBSERVATION 1: Certain expenditures may not have conformed with Measure Q requirements in FY 2013-14 and FY 2014-15

The Library spent most of Measure Q monies in accordance with the Measure's requirements, except in FY 2013-14 and FY 2014-15, when funds were used for services that could not be identified as direct or actual costs at the time of the audit.

Measure Q requires tax revenues to be used only on services directly related to the Library. The City Attorney issued a legal opinion in 2008 on how the Measure Q proceeds could be used and concluded that funds ***cannot be used to pay for more than the actual cost of the service.***

In FY 2013-14 and in FY 2014-15 the City allocated Internal Service Expenditures to Measure Q funds. These expenditures are indirect services costs, such as general facilities support costs. Because the City did not identify direct or actual costs in the Internal Service Expenditures, as was a practice in previous years, these costs were not validated as such for Measure Q in these years. Allocation of Internal Service Expenditures was discontinued in subsequent years (FY 2015-16 and FY 2016-17).

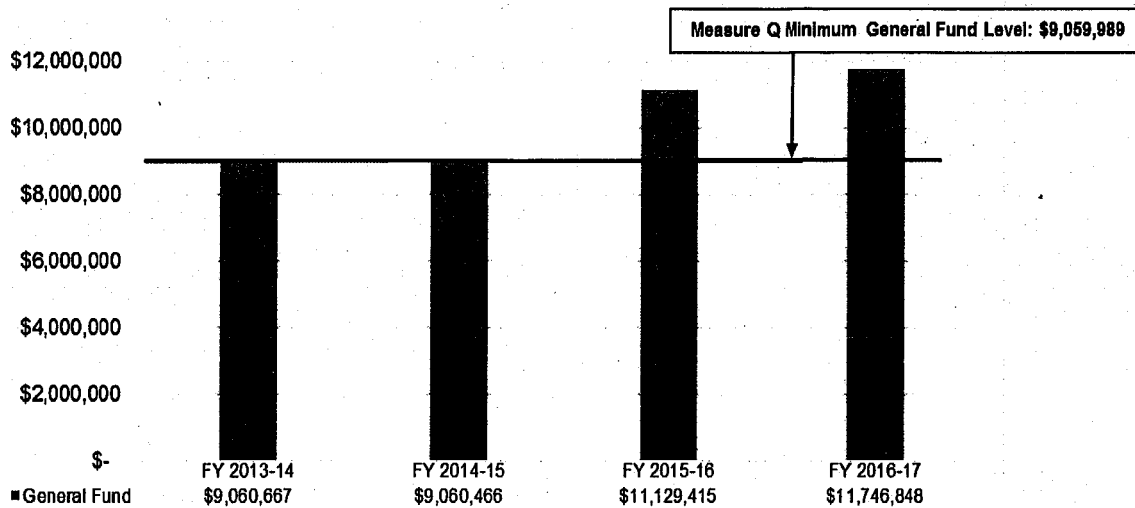
Recommendation: At the prompting of this audit, the City Administrator performed a review of the Internal Service Expenditures for FY 2013-14 and FY 2014-15. If any expenditures are determined to exceed actual costs, a plan should be developed to restore the funds in conformance with Measure Q's requirements.

Audit Results

OBSERVATION 2: The City has not adequately documented the financial controls in place that ensure the minimum Library Fund appropriation is met each year

Measure Q requires the City to appropriate at least \$9,059,989 from the City's General Fund to the Library Fund each year. The following table summarizes the total monies the City allocated to the Library in each fiscal year, as required by Measure Q.

GENERAL FUND APPROPRIATION TO THE LIBRARY FY 2013-14 through FY 2016-17



Source: Prepared by City Auditor Staff using financial reports in Oracle, the City's Financial Reporting System.

The audit confirmed the City appropriated at least the required amount for FY 2013-14 through FY 2016-17. However, it also found there were no documented controls in place to ensure the General Fund annual appropriation to the Library met the annual minimum amount required, and was accurately recorded in Oracle, the City's Financial Reporting System.

If the City does not contribute the minimum funding to the Library, the City may not receive the tax revenue from Measure Q.

Recommendation: The City Administrator should document the financial controls over establishing the minimum appropriation each year to the Library Fund and verify it is accurately recorded in the City's Financial Reporting System to ensure that the requirements of Measure Q are always met.

Audit Results

OTHER AREAS OF CONSIDERATION

- Measure Q requires the establishment of a Reserve Fund each year. A Reserve Fund is a separate fund set aside to meet any future costs or financial obligations, especially those arising unexpectedly. The Fund balance is calculated as 5% of the previous year's collected tax revenue, and disbursements from the Reserve Fund must be approved by City Council.

The City Administrator should develop a Reserve Fund procedure defining how the Fund is managed and retained, and clearly describes the criteria for Fund disbursements to prevent unauthorized use.

- Library management should update the Library's Purchasing Policy and Procedure manual to include current practices for the City's updated financial systems.

CONCLUSION

Oakland libraries are an important part of our community, providing valuable services to residents. The dedicated library staff and management commendably carry out their duties to keep our libraries open and serve Oakland's diverse communities.

The report recommends allocating costs in conformance with the Measure Q's requirements if required for the fiscal years noted and the City Administrator should improve the documentation of financial control procedures to ensure compliance with Measure Q requirements.

We acknowledge the City has recognized the need for improvement and has initiated plans to implement stronger financial controls.

Statement of Compliance, Scope and 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 Q proceeds and expenditures from FY 2013-14 through FY 2016-17.

Methodology

We performed the following procedures in conducting the audit:

- Reviewed ballot Measure Q and its requirements.
- Reviewed the results of prior Measure Q City Auditor's reports.
- Reviewed the Library's purchasing policies and procedures.
- Interviewed Library and Budget Office management and staff.
- Reviewed legal opinions with City Attorney.
- Reviewed financial reports to identify revenue and expenditure.
- Verified that the City was allocating the correct amount of funds to the Library, as required by the Measure, and confirmed that these amounts were recorded into the City's Financial Reporting System, Oracle each year.
- Tested to confirm the Library met the 5% Reserve Fund requirement each year.
- Reviewed Measure Q expenditures to determine compliance with the Measure's objectives.
- Assessed the internal controls over Measure Q spending.
- Reviewed the Library's programs, services and achievements related to the Measure Q objectives.
- Reviewed meeting records from Library Advisory Commission to determine that Library Commission requirements were met in accordance with the ordinance that established it.

Appendix A

Oakland Public Libraries by Council District

District 1

Golden Gate Branch
5606 San Pablo Avenue

Piedmont Avenue Branch
80 Echo Avenue

Rockridge Branch
5366 College Avenue

**Temescal Branch &
Tool Lending Library**
5205 Telegraph Avenue

District 2

**Oakland Main Library and
Second Start Adult & Literacy Program**
125 - 14th Street

Asian Branch
388 - 9th Street, Suite 190

Lakeview Branch
550 El Embarcadero

District 3

African American Museum and Library
659 - 14th Street

West Oakland Branch
1801 Adeline Street

District 4

Dimond Branch
3565 Fruitvale Avenue

Melrose Branch
4805 Foothill Blvd.

Montclair Branch
1687 Mountain Blvd.

District 5

César E. Chávez Branch
3301 E. 12th St., Ste. 271

District 6

Eastmont Branch
Eastmont Town Center Suite 211
7200 Bancroft Ave.

Martin Luther King, Jr. Branch
6833 International Blvd.

District 7

Brookfield Branch
9255 Edes Avenue

Elmhurst Branch
1427 - 88th Avenue

81st Ave. East Oakland Community Library
1021 - 81st Avenue

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May 24, 2018

The Honorable Brenda Roberts
Oakland City Auditor
1 Frank Ogawa Plaza, 4th Floor
Oakland, CA 94612

RE: City Administrator's Response to the Measure Q Performance Audit

Dear City Auditor Roberts:

The City Administration appreciates the work performed by your team on the Measure Q audit. We welcome this report as an important management tool for ensuring effective processes.

I have reviewed the Measure Q Audit Report Findings provided to us on May 23, 2018 and provide the following responses:

Finding 1: Expenditures may not have conformed to requirements of Measure Q in FY 2013-14 and FY 2014-15.

Recommendation: At the prompting of this audit, the City Administrator performed a review of the Internal Service Expenditures for FY 2013-14 and FY 2014-15. If any expenditures are determined to exceed actual costs, a plan should be developed to restore the funds in conformance with Measure Q's requirements.

Management Response: The City Administration disagrees with this finding. All expenditures in FY 2013-14 and FY 2014-15 conform to requirements of Measure Q. With respect to the Internal Service Fund (ISF) expenditures, staff has validated that all expenses were for actual costs for library facilities. The Facilities Internal Service Fund is established to cover the costs of providing service from one department to another, e.g., the Oakland Public Library. The Facilities Internal Service Fund includes services to the library facilities such as utility costs (electric, water, gas, etc.), staff costs (custodial services and their supervision), and minor maintenance and repairs (both personnel and capital).

For FY 2013-14, the City spent more in actual costs (\$1.49 million) at the library facilities than the amount charged (\$1.15 million) to Measure Q through the Internal Service Fund. Similarly, for FY 2014-15, the City spent more in actual costs (\$1.26 million) at the library facilities than the amount charged (\$1.21 million) to Measure Q through the Internal Service Fund.

Further, in FY 2016-17, the City Administration determined – based on the health of Measure Q (Fund 2241) – that the General Purpose Fund would absorb the full cost of ISF allocations for the Oakland Public Library department. While this decision was made to avoid reducing library services, it also resolved any perceived issues with ISF charges going forward.

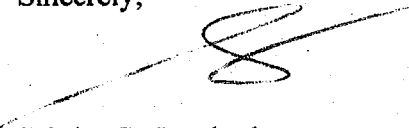
Finding 2: The City Does Not Have Documented Financial Controls to Ensure the Minimum Appropriation to The Library Fund Is Met Each Year

Recommendation: The City Administrator should document financial controls over establishing the minimum appropriation each year to confirm the appropriation is accurately recorded in the City's financial system and the requirements of Measure Q are always met.

Management Response: Measure Q requires a minimum of \$9.06 million in GPF appropriation each year. The Finance Department Budget Bureau and Oakland Public Library Department Fiscal Staff verify each budget cycle that the Measure Q minimum funding requirement has been met. The Auditor's analysis demonstrates that this process has been effective. The City Administration will add specific language to the published Adopted Budget document to reinforce the minimum General Purpose Fund requirements in accordance with Measure Q to improve this process.

We thank the City Auditor and her staff for their collaboration. Management was kept up-to-date on the audit as it progressed and presented with observations and recommendations for process and control improvements as they were identified.

Sincerely,



Sabrina B. Landreth
City Administrator

cc: Katano Kasaine, Director of Finance
Jamie Turbak, Interim Director of Library Services
Adam Benson, Agency Administrative Manager
Gene Tom, Chief Financial Officer of Library Services