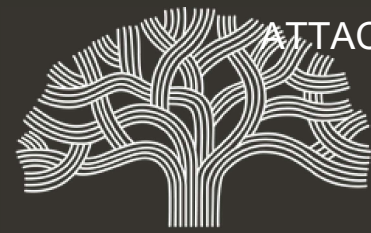


MEMORANDUM



CITY OF OAKLAND
Office of the City Auditor

ATTACHMENT B

DATE: June 13, 2024

TO: Oakland Residents, Mayor Thao, City Council President Bas, Members of the City Council, City Attorney Parker, City Administrator Johnson, and Library Commissioners

FROM: City Auditor Michael C. Houston, MPP, CIA

SUBJECT: **Audit of Library Parcel Taxes for Fiscal Year (FY) 2019-20 through FY 2022-23**

INTRODUCTION

Our office has completed an audit of library parcel taxes authorized by the Library Services Retention and Enhancement Act and the 2018 Oakland Public Library Preservation Act. We conducted this audit in accordance with the acts, which mandate audits of the tax revenues and disbursement in accordance with the objectives stated within each act (see Appendix).

BACKGROUND

The Oakland Public Library (Library) provides a variety of services promoting literacy and reading, as well as serving Oakland's (City) cultural, business, and recreational needs. The Library system includes the Main Library, 16 branches, a Second Start Adult Literacy Program, the Tool Lending Library, the African American Museum and Library, and a range of other services.

Oakland voters have approved multiple special parcel taxes to supplement the City's General Fund support of the Library. First, in 1994, Oakland voters approved the Library Services Retention and Enhancement Act to help fund the Library for 20 years. The City renewed and amended the Act as Measure Q, which voters passed in 2004, for another 20-year term. The City again renewed and amended the Act as Measure C, which voters passed in 2022. If not amended, Measure C will be in effect through 2052. Oakland voters approved another special parcel tax for the Library – Measure D, the 2018 Oakland Library Preservation Act – in June 2018. Measure D expires in 2038.

Measures D and C impose annual parcel taxes to supplement the General Fund support to the Library and raise revenue to maintain and enhance Oakland’s libraries. (Appendix A shows the objectives for funding raised under the measures.) Alameda County assesses and collects the parcel taxes and forwards the tax proceeds to the City. Exhibit 1 shows the parcel tax rates for Measures D and C in FY 2022-23.

Exhibit 1: Oakland Property Owners Paid Varied Parcel Tax Rates in FY 2022-23 to Support the Library

	Measure D	Measure C
Single-Family Home	\$88.76	\$114.50
Multiple Residential per unit	\$60.64	\$78.22
Non-Residential Parcels per Single Family Equivalent*	\$45.46	\$58.65

*Based on frontage and square footage

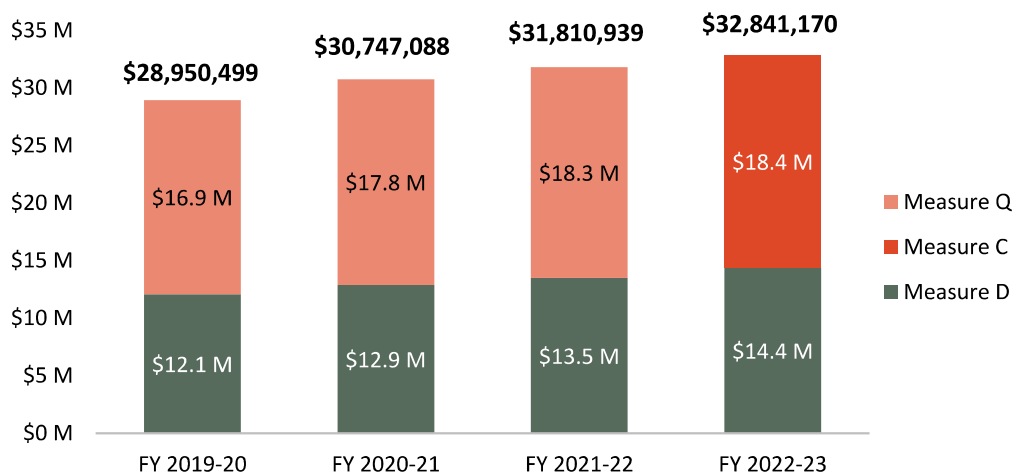
Source: Auditor analysis of Council Resolution 13701 C.M.S passed July 19, 2022

Owners of single-family, multi-residential, and non-residential properties pay the parcel taxes, with some exemptions for low-income and senior households and undeveloped parcels. Measures D and C also provide a tax reduction for affordable housing projects.

The measures require the City to appropriate a specific matching amount from the City’s General Fund to go to the Library to supplement the parcel taxes. The required minimum annual General Fund appropriation is based on the level of General Fund appropriation at the time the measure was passed. The required General Fund appropriation was \$13 million for FY 2019-20 through FY 2021-22 and \$14.5 million for FY 2022-23.

The City received between \$29 million and \$32.8 million in Measure Q, D, and C revenues between FY 2019-20 and FY 2022-23 (see Exhibit 2).

Exhibit 2: The Library Received \$124 Million from Measure Q, D, and C Revenues Between FY 2019-20 and FY 2022-23

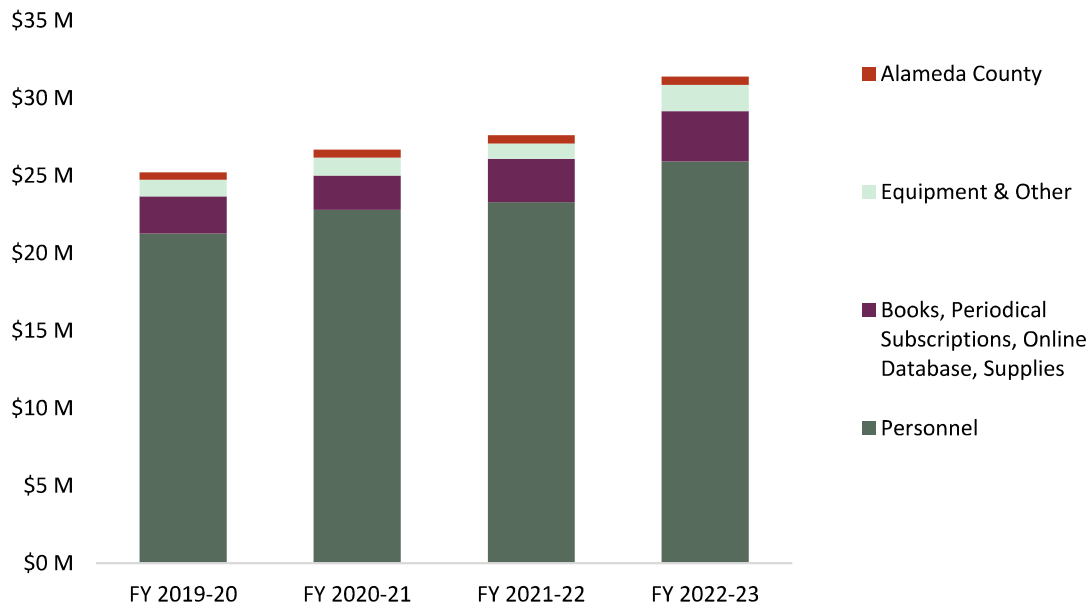


Source: Auditor analysis of data from Oracle, the City’s financial management database

Note: Measure Q phased out after FY 2021-22 and was replaced by Measure C, which voters passed in 2022.

The Library spent between \$25.2 million and \$31.4 million in Measure Q, D, and C funds between FY 2019-20 and FY 2022-2023. As shown in Exhibit 3, the funds were primarily spent on personnel costs, which increased 22 percent over the four fiscal years. Expenditures on books, periodical subscriptions, online databases, and supplies also increased by 35 percent over the same period, while equipment and other costs increased by 61 percent, and administrative costs to Alameda County for collecting the parcel tax increased by 12 percent.

Exhibit 3: The Library Spent \$111 Million in Measure Q, D, and C Funds from FY 2019-20 Through FY 2022-23



Source: Auditor analysis of Oracle, the City’s financial management database
 Note: Alameda County collects a 1.7% administrative fee for collecting the parcel tax

Measures C and D require the Library Commission to provide oversight of the measures by reviewing expenditure reports and providing reports to the City Council. The measures also require the City Auditor to conduct regular audits to check whether the City adheres to the measures’ requirements.

RESULTS

We found:

- The Library spent Measure Q, D, and C proceeds in accordance with their respective requirements.¹
- No significant issues with the Measure Q reserve fund requirement.² The Library is required to reserve 5 percent of the previous year’s revenue and deposit it into a separate reserve fund which may only be used with the City Council’s approval.
- The City implemented the previous audit recommendation intended to provide the Library Commission with additional financial reports to strengthen their oversight abilities.

¹ See the Methodology section at the end for our sampling methodology.

² The Library did not complete the reserve fund transfer in FY 2019-20. During the audit, the Library completed the transfer. Further, with the passage of Measure C, which replaced Measure Q’s reserve fund requirement, this requirement no longer exists.

However, the audit found the City did not meet Measure C requirements in two respects:

- The City fell short of Measure C’s General Fund appropriation and exemption requirements for FY 2022-23.
- The City mistakenly collected approximately \$112,000 in Measure C taxes from exempt property owners.

The City Did Not Meet Measure C’s General Fund Appropriation and Exemption Requirements in the First Year the Amended Parcel Tax Took Effect

Both Measure C and Measure Q require a minimum General Fund appropriation, such that the City must appropriate a given amount from the General Fund to the Library. The City fell short of meeting the General Fund appropriation amount by approximately \$62,000 in FY 2022-23 as shown in Exhibit 4. The appropriation amount is based on the level of General Fund support at the time the measure was passed. The passage of Measure C, which took effect in FY 2022-23, increased the required appropriation from the amount required under Measure Q to \$14,500,000.³

Exhibit 4: The City Fell Short of the Required General Fund Appropriation Requirement by \$62,000 in FY 2022-23, the First Year of Measure C

	FY 2019-20	FY 2020-21*	FY 2021-22	FY 2022-23
Required Appropriation Amount	\$12,992,267	\$12,992,267	\$12,992,267	\$14,500,000
Actual Appropriation Amount	\$13,000,000	\$11,614,839	\$14,111,757	\$14,437,594
Difference	\$7,733	\$ (1,377,428)	\$1,119,490	\$(62,406)

*Actual General Fund appropriation amounts were adjusted due to the City Council declaration of a fiscal emergency, in accordance with the measure requirements

Source: Auditor analysis of Oracle, the City’s financial management database

The City met and exceeded the General Fund appropriation amounts in FY 2019-20 and FY 2021-22. The City also met the requirement in FY 2020-21, however, the typical appropriation amount was adjusted after the City declared a fiscal emergency. The adjustment was made according to the requirements of the measure.

According to Measure C, if the City fails to meet the minimum required General Fund appropriation, the special tax may not be collected.⁴

³ Measure Q’s General Fund appropriation requirement of \$9,059,989 was superseded by Measure D’s requirement of \$12,992,267 when Measure D took effect on July 1, 2018. When two measures have different appropriation amounts, the higher of the two amounts applies.

⁴ Section 8 of the 2022 amendment of the Library Services Retention and Enhancement Act of 1994 (Measure C) states, “For each year this tax is in effect, the City Council may collect this tax only if the City’s General Purpose Fund appropriation for Library services is at least \$14,500,000.”

The City Mistakenly Collected Approximately \$112,000 in Measure C Taxes from Exempt Property Owners

The audit identified an issue related to exemptions, which the City has corrected. In July 2022, the City collected approximately \$112,000 in Measure C taxes from 300 property owners that should have been considered exempt. The Finance Department processed the exemptions listed under Measure Q instead of Measure C, which includes additional exemptions for senior households and a 50 percent reduction for affordable housing projects.

According to Finance, the error occurred because staff were unaware of the passage of Measure C and, as a result, had not updated their procedures to reflect the additional exemptions. Since then, Finance has updated its internal procedures to account for the additional exemptions. Additionally, as of March 2024, the Finance Department mailed out refund checks to eligible taxpayers.

While the Department has corrected this instance, the City should have a procedure for processing new parcel taxes to prevent similar errors with future ballot measures.

RECOMMENDATIONS

1. The City Administrator should validate the General Fund appropriation shortfall with the Finance Department and consult with the City Attorney's Office to determine the appropriate course of remediation.
2. To ensure timely and accurate processing of new parcel taxes, the City Administrator should create an administrative instruction to notify affected departments of approved ballot measures so staff can review and update procedures to reflect additional parcel tax exemptions, changes to the general fund appropriation, and other requirements before processing the new measure.

CITY ADMINISTRATION'S RESPONSE

We presented the audit's findings, conclusions, and recommendations to the City Administration, including staff from the Oakland Public Library and Finance Department. We offered the Administration an opportunity to submit a written response to the draft report, which they were unable to do by the agreed upon date. The Administration generally agreed with the report's findings and recommendations. We addressed their comments and clarified the draft as appropriate.

ACKNOWLEDGMENTS

I want to express our appreciation to the City Administration, Oakland Public Library, and Finance Department for their cooperation during this audit. I also want to acknowledge the staff who contributed to this audit, Senior Performance Auditor Jennifer Lim, Performance Audit Manager Stephanie Noble, and Assistant City Auditor Eduardo Luna.

STATEMENT OF COMPLIANCE WITH 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.

OBJECTIVE AND SCOPE

The objectives of the audit were to determine whether 1) the Library spent tax proceeds as intended by the respective measures, 2) the City met the minimum General Fund appropriation requirement, 3) the Library met the Reserve Fund requirement for Measure Q, and 4) the Library implemented the previous audit recommendation.

The scope of the audit included Measure Q proceeds from FY 2019-20 through FY 2021-22, Measure C proceeds for FY 2022-23, and Measure D proceeds from FY 2019-20 through FY 2022-23.

METHODOLOGY

The objective of this audit was to review the Library's use of special tax funds, as described above. To this end, we reviewed management controls relevant to the objective and:

- Reviewed the language of Measures Q, C, and D and relevant policies and procedures.
- Analyzed Library revenue and expenditure reports and other financial reports to determine whether the Reserve Fund and General Fund appropriation requirements were met.
- Reviewed a sample of Measure Q, C, and D expenditures totaling approximately \$39 million to determine whether these expenditures were made in accordance with the measures' objectives. The judgmental, risk-based sample represented 28 to 35 percent of total expenditures for each measure and fiscal year. The sample was selected based on dollar amounts, high-use account codes, and covered all divisions of the Library.
- Interviewed Library and Finance staff and a Library Commissioner to understand the departments' processes for complying with Measures Q, C, and D, solicit any concerns, and inquire about the implementation status of the previous audit recommendation.
- Reviewed the Library's programs and services related to the Measure Q and D objectives.
- Reviewed property exemption data to determine if the Finance department processed exemptions accurately in FY 2022-23, the first year Measure C took effect.
- Reviewed the Library Commission's meeting agendas and minutes to determine if it was meeting its oversight responsibilities under Measures Q, C, and D.
- Followed up on the previous audit recommendation to determine if it was implemented.
- Reviewed legal opinions previously provided by the City Attorney to understand allowable expenditures under Measure Q.

APPENDIX

Objectives of Measures C and D

Measure C provides guidelines for spending the tax revenue, and is intended to enhance Library services through its 12 objectives. Similarly, Measure D’s objectives are intended to maintain, protect, and improve direct library services.

Measure Q and C Objectives	Measure D Objectives
<ol style="list-style-type: none"> 1. Keep neighborhood libraries open a minimum of six days per week and increase weekend hours. 2. Retain the availability of library services at the Main Library seven days per week. 3. Enhance and expand library collections, including acquisition of new books and materials. 4. Continue to provide educational and cultural programs for youth in every library, including tutoring, literacy, and children’s programs. 5. Expand library-based programs in support of literacy, lifelong learning, and information technology. 6. Operate an African American museum and library program. 7. Increase joint educational activities with local schools, including library services. 8. Retain Children’s Librarians in every library facility. 9. Operate the joint school-public library in East Oakland. 10. Upgrade and enhance information technology in all libraries and improve access to computers and technology in the libraries. 11. Support homework programs and services to unhoused populations. 12. Support teen programs. 	<ol style="list-style-type: none"> 1. Increase public library availability and resources for Oakland’s students and residents. 2. Enhance direct library services providing regular open hours at City libraries, maintaining staffing at levels to retain and expand hours at libraries. 3. Upgrade and enhance existing library facilities expanding free access to computers, the internet, and technology. 4. Maintain and protect existing direct library services and provide future improvements for library operations and resources that directly serve library patrons. 5. Support the equitable disbursement of library services, programs, staffing facilities and resources in order to decrease disparities in life outcomes of marginalized communities and to facilitate equity of opportunity throughout Oakland.

Source: Measures Q, C, and D

Oakland's City Auditor is an elected official that 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.

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