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PERFORMANCE AUDIT OF THE LIBRARY SERVICES RETENTION AND ENHANCEMENT ACT & THE 2018 OAKLAND PUBLIC LIBRARY PRESERVATION ACT FOR FISCAL YEARS 2017-18 AND 2018-19

CITY AUDITOR

Courtney Ruby, CPA, CFE

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FEBRUARY 11, 2021

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February 11, 2021

HONORABLE MAYOR
HONORABLE CITY COUNCIL
HONORABLE CITY ATTORNEY
HONORABLE LIBRARY ADVISORY COMMISSION
CITY ADMINISTRATOR
DIRECTOR TURBAK
RESIDENTS OF OAKLAND
OAKLAND, CALIFORNIA

RE: Performance Audit of the Library Services Retention and Enhancement Act (Measure Q) and the 2018 Oakland Public Library Preservation Act (Measure D) for Fiscal Years 2017-18 and 2018-19

Dear Mayor Schaaf, City Council President Bas, Members of the City Council, City Attorney Parker, Members of the Library Advisory Commission, City Administrator Reiskin, Director Turbak, and Oakland Residents:

The voters approved two separate measures providing supplemental funding to the Oakland Public Library. The measures are the Library Services Retention and Enhancement Act (Measure Q) and the 2018 Oakland Public Library Preservation Act (Measure D). Measure Q was first approved by voters in 1994 as Measure O, and then renewed and amended as Measure Q in 2004 and expires in 2024. Measure D was approved in June 2018 for a period of 20 years.

Measure Q provides guidelines for spending the tax revenue intended to enhance Library services through 12 objectives outlined within this report. Similarly, Measure D's objectives are intended to maintain, protect, and improve direct library services.

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) determine the reasons why the Library needed to place Measure D on the ballot. Finally, we also assessed whether the Library implemented the recommendations from the City Auditor's 2018 audit report.

We confirmed the Library spent Measure Q and D proceeds in accordance with their respective requirements, met the minimum General Fund appropriation requirement, and met the Measure Q Reserve Fund requirement. Additionally, the audit found the Library implemented the two recommendations from the 2018 audit of Measure Q.

Due to expressed concerns by the Library Commission (Commission) and members of the community, we expanded the audit scope to analyze the various reasons for the Library's declining financial position that created the need to place Measure D on the 2018 ballot. Our analysis confirmed the combined support of the annual Measure Q parcel tax and the General Fund over time was inadequate to provide the necessary financial support for the Library, leading to the depletion of available Measure Q funds. To ensure the Commission has sufficient information to provide adequate financial oversight, we recommend the Library provide the Commission with regular briefings on revenues, expenditures, fund balances, and financial projections. The Administration fully embraces the recommendation and their response is included at the end of the audit report.

Public trust is the foundation upon which the legitimacy of public institutions is built. The passage of ballot measures, the entrustment of Commissions to oversee operations, and the performance of audits assuring compliance, especially when audit recommendations are embraced by the auditee, secures that very trust from the public. To that end, this audit found the Library in compliance with both Measure Q and Measure D and secured the Administration's full commitment to enhance the Library Commission's ability to provide oversight of the Library. This is what we endeavor to accomplish with every audit we undertake.

Sincerely,



COURTNEY A. RUBY, CPA, CFE
City Auditor

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Executive Summary

OVERVIEW

The Library Services Retention and Enhancement Act (Measure Q) and Oakland Public Library Preservation Act (Measure D) require the City Auditor to annually audit the Oakland Public Library (Library) to determine if the Library has complied with the requirements of both measures that impose parcel taxes to raise revenues to fund library services.

BACKGROUND

Oakland voters approved two separate measures providing supplemental funding to the Library. The measures are the Library Services Retention and Enhancement Act (Measure Q) and the 2018 Oakland Public Library Preservation Act (Measure D). Measure Q was first approved by voters in 1994 as Measure O, and then renewed and amended as Measure Q in 2004 and expires in 2024. Measure D was approved in June 2018 for a period of 20 years. Both measures impose an annual parcel tax to raise revenue to maintain and enhance Oakland's libraries. Alameda County (County) assesses and collects the parcel taxes for both measures and remits the tax proceeds to the City.

WHY THIS AUDIT MATTERS

Measures Q and D require the City Auditor to perform regular audits affirming the City is adhering to the Measure's requirements which will ultimately maintain, protect and improve library services.

OBJECTIVES

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) determine the reasons why the Library needed to place Measure D on the ballot. Finally, we also assessed whether the Library implemented the recommendations from the City Auditor's 2018 report.

Executive Summary

SCOPE

The scope of the audit includes Measure Q proceeds from FY 2017-18 and FY 2018-19, and Measure D proceeds from FY 2018-19. The audit also reviewed the Library's financial information from FY 2006-07 through FY 2017-18 and followed up on recommendations from the City Auditor's 2018 report.

KEY FINDINGS

1. The Library spent Measure Q and D proceeds in accordance with their respective requirements.
2. The City met the minimum General Fund appropriation requirement.
3. The Library met the Measure Q Reserve Fund requirement.
4. The Measure Q parcel tax and the General Fund over time was inadequate to provide the necessary financial support for the Library.

RECOMMENDATION

Finding 4 Recommendation

To enhance the Library Commission's ability to monitor the Library's on-going financial condition, the Library should provide and brief the Library Commission, at least annually, on key financial information, including, but not limited to, the following:

- Year-end fund balance reports for Measures Q and D
- Changes in fund balances for Measures Q and D
- 5-year forecasts on estimated revenues, expenditures, and changes to fund balances
- Annual Measures Q and D revenues, as well as General Fund support
- Annual Measures Q and D expenditures
- Variance analysis to identify differences in planned versus actual expenditures
- Variance analysis to identify changes in revenue

FOLLOW-UP ON 2018 AUDIT RECOMMENDATIONS

The City Auditor's previous audit of Measure Q, issued in May 2018, included two recommendations. As part of the audit, we assessed whether the City and the Library addressed the recommendations. We concluded the City and the Library addressed both recommendations.

Introduction and Background

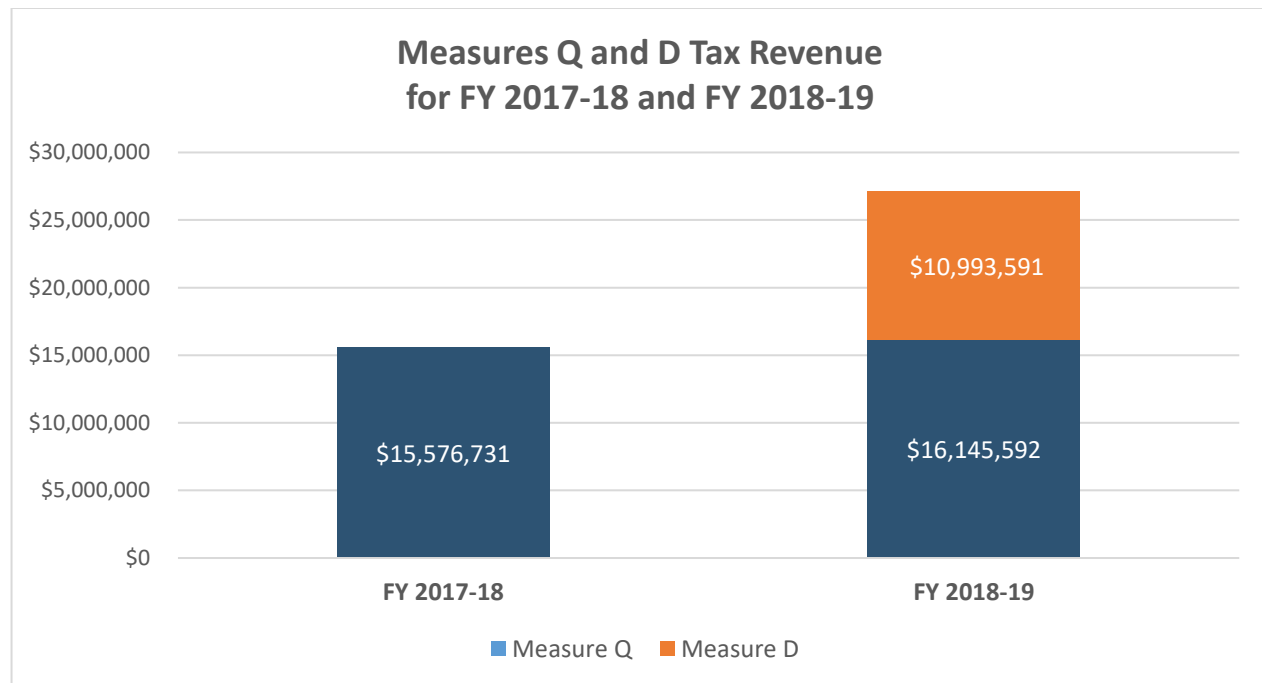
Introduction

Oakland Public Library (Library) provides a variety of services promoting literacy and reading, as well as meeting 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, and the African-American Museum and Library.

Oakland voters approved two separate measures providing supplemental funding to the Library. The measures are the Library Services Retention and Enhancement Act (Measure Q) and the 2018 Oakland Public Library Preservation Act (Measure D). Measure Q was first approved by voters in 1994 as Measure O, and then renewed and amended as Measure Q in 2004, and expires in 2024. Measure D was approved in June 2018 for a period of 20 years.

Both measures impose an annual parcel tax to raise revenue to maintain and enhance Oakland’s libraries. Alameda County (County) assesses and collects the parcel taxes for both measures and remits the tax proceeds to the City. Parcel tax rates are noted in the Appendix.

Exhibit 1



As Exhibit 1 above shows, the City received nearly \$15.6 million in Measure Q proceeds in FY 2017-18 and another \$16.1 million in FY 2018-19. The City also collected nearly \$11 million in Measure D proceeds in FY 2018-19, the first year the measure was in effect.

Introduction and Background

Measure Q provides guidelines for spending the tax revenue, intended to enhance Library services through its 12 objectives. Similarly, Measure D’s objectives are intended to maintain, protect and improve direct library services. Exhibit 2 below lists the objectives of Measures Q and D.

Exhibit 2
Objectives of Measures Q and D

Measure Q 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 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 after school 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 after school homework programs. 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.

Measures Q and D require a panel of citizens, the Library Advisory Commission (Commission), to provide oversight. The Measures also require the City Auditor to perform regular audits affirming the City is adhering to the Measures’ requirements.

Objectives, Scope, and Methodology

Objectives

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) determine the reasons why the Library needed to place Measure D on the ballot. Finally, we also assessed whether the Library implemented the recommendations from the City Auditor's 2018 audit report.

Scope

The scope of the audit includes Measure Q proceeds from FY 2017-18 and FY 2018-19, and Measure D proceeds from FY 2018-19. The audit also reviewed the Library's financial information from FY 2006-07 through FY 2017-18 and followed up on recommendations from the City Auditor's 2018 report.

Methodology

1. Reviewed Measures Q and D ballot language and relevant policies and procedures.
2. Followed up on previous recommendations.
3. Reviewed legal opinions by the City Attorney.
4. Analyzed Library revenue and expenditure reports and other financial reports to determine whether the Reserve Fund and General Fund appropriation requirements were met.
5. Reviewed a sample of Measures Q and D expenditures totaling approximately \$351,000 to determine whether these expenditures were in accordance with the measures. Additionally, the audit reviewed a \$1.3 million expenditure for Measure D election costs.
6. Interviewed Library staff and a Library Advisory Commissioner.
7. Reviewed the Library Advisory Commission's meeting agendas and minutes.
8. Performed a walk-through of the Main Library and performed site visits at selected libraries.
9. Reviewed the Library's programs, services, and achievements related to the Measures Q and D objectives.
10. Analyzed financial reports, including fund balance and Measure Q and General Fund revenue and expenditure reports from FY 2006-07 to FY 2017-18, to analyze the Library's financial condition.

Statement of Compliance

Statement of Compliance with Government Auditing Standards

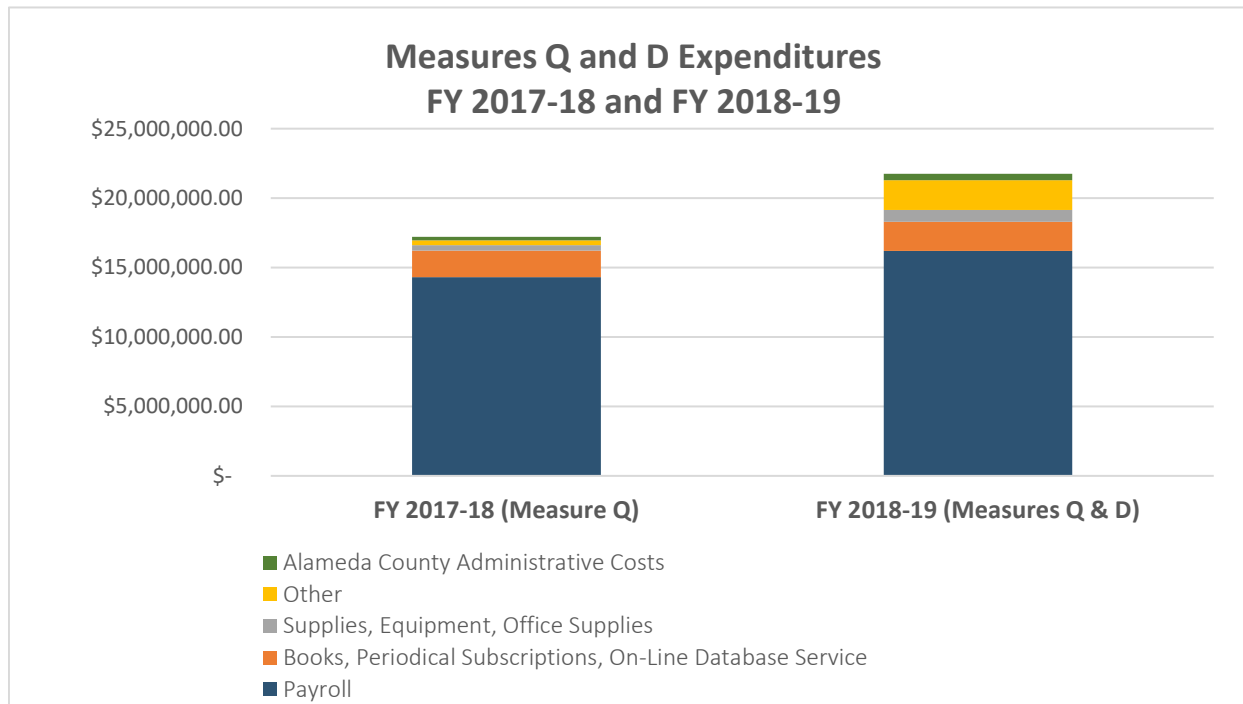
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. 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 Library spent Measure Q and D proceeds in accordance with their respective requirements

The Library spent \$17.2 million of Measure Q funds in FY 2017-18 and \$13.3 million in FY 2018-19. The Library spent another \$8.5 million of Measure D funds in FY 2018-19. Exhibit 3 below shows how the Library spent Measures Q and D monies in FY 2017-18 and FY 2018-19.

Exhibit 3



As Exhibit 3 above shows, the Library spent Measure Q and Measure D funds on salaries and benefits of Library staff, on-line database services, books and periodical services, supplies, equipment, office supplies, administrative costs associated with Alameda County collecting the parcel taxes, and other miscellaneous costs such as printing, conferences, and advertising.

Measure D funds were also used to pay \$1.3 million¹ in election costs for the June 2018 election. The election costs were particularly high because Measure D was the only City item on the ballot. The Measure allows the tax revenue collected to be used to reimburse the City for costs incurred by the election. Thus, Measure D funds absorbed all the City’s June 2018 election costs.

Conclusion

The Library’s expenditures for Measures Q and D were consistent with the objectives of the measures.

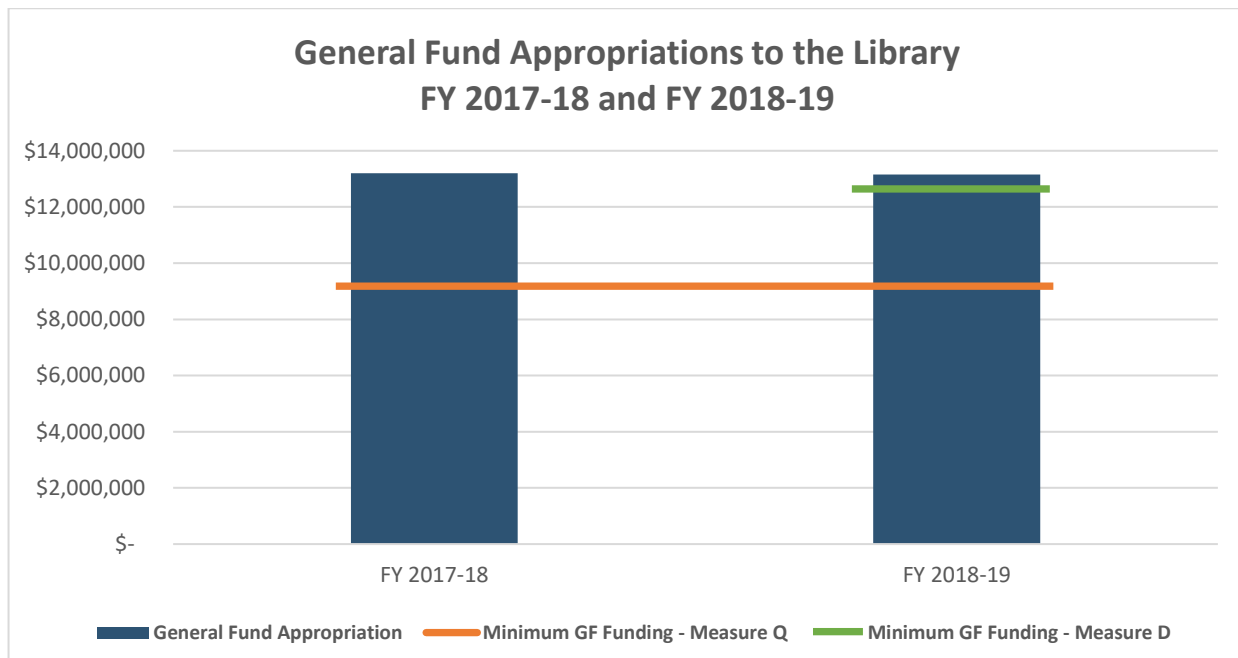
¹ These costs are included in Exhibit 3 for FY 2018-19 in the “Other” category.

Audit Results

Finding 2: The City met the minimum General Fund appropriation requirement

Measure Q requires the City to appropriate at least \$9,059,989 annually from the City’s General Fund to the Library. When Measure D passed in June 2018, it required the City to appropriate at least \$12,992,267 from the City’s General Fund to the Library, superseding the Measure Q minimum appropriation amount. Exhibit 4 below shows the amount of the General Fund appropriation for the Library for FY 2017-18 and FY 2018-19, as well as the minimum appropriation required by Measures Q and D.

Exhibit 4



As Exhibit 4 above shows, the City appropriated \$13,204,352 in FY 2017-18, exceeding the Measure Q General Fund appropriation requirement by \$4.1 million. In FY 2018-19, the City appropriated \$13,150,366, exceeding the Measure D minimum requirement of \$12,992,267 by \$158,000. As previously stated, the Measure D minimum appropriation requirement supersedes the Measure Q minimum requirement.

Conclusion

The City met the minimum General Fund appropriation requirement in both fiscal years.

Audit Results

Finding 3: The Library met the Measure Q Reserve Fund requirement

Measure Q requires the Library to maintain a reserve of five percent of the previous fiscal year's tax revenue. The Library is required to deposit the reserve monies into a separate fund and these monies can only be used for purposes set forth in the measure and the City Council must approve the use of any Reserve Fund monies. Measure D does not have a Reserve Fund requirement.

Exhibit 5 below shows the tax collections from the previous fiscal years and the required reserve amount.

Exhibit 5
Measure Q Reserve Fund Requirements for FY 2017-18 and FY 2018-19

	FY 2017-18	FY 2018-19
Tax Collections from Previous Fiscal Year	\$15,086,174	\$15,576,731
Required Reserve Fund	\$754,309	\$778,837
Actual Reserve Fund Amount	\$759,066	\$783,771

As Exhibit 5 above shows, the Library was required to reserve \$754,309 and deposited \$759,066, exceeding the requirement by \$4,757 in FY 2017-18. In FY 2018-19, the Library was required to reserve \$778,837 and deposited \$783,771, exceeding the requirement by \$4,934.

Conclusion

The amounts the Library deposited met Measure Q's five percent Reserve Fund requirement.

Audit Results

Finding 4: Measure Q parcel tax and the General Fund over time was inadequate to provide the necessary financial support for the Library

The Library Commission expressed a concern the Library was operating under an alleged budget deficit and requested this matter be included in the audit. The official June 2018 voter guide included a rebuttal to Measure D citing the Library had overspent its budget and was operating with a deficit. The purpose of the following information is to provide context to the Library's financial situation that led to the City placing Measure D on the ballot.

The City placed Measure D on the ballot in June 2018 as a parcel tax to provide funds for maintaining and enhancing services at the Library. In FY 2018-19, Measure D raised approximately \$11 million.

Our analysis confirmed the combined support of the annual Measure Q parcel tax and the General Fund over time was inadequate to provide the necessary financial support for the Library, leading to the depletion of available Measure Q funds. The depletion of the available Measure Q funds is attributed to several factors including:

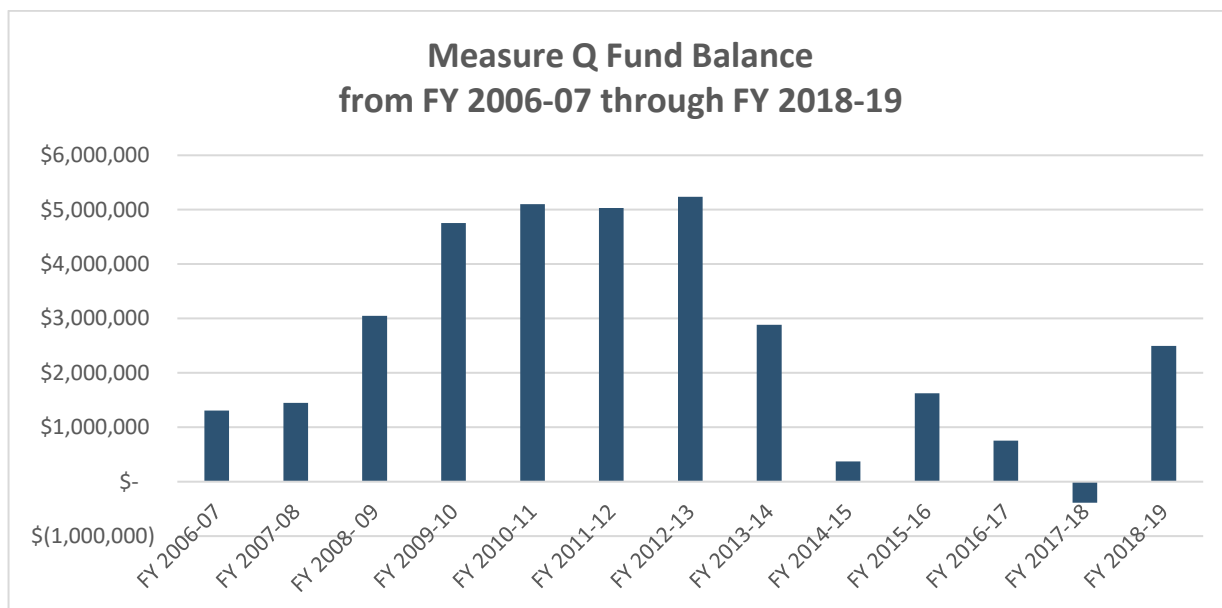
- In response to the 2008-09 economic downturn, the City reduced the General Fund contribution to the Library to the minimum amount of \$9,059,989, as Measure Q specifies. This required minimum General Fund support of \$9,059,989, is based on the City's FY 2000-01 General Fund support to the Library.
- Measure Q revenue did not keep pace with rising expenses due to inflation. According to the Bay Area Council Economic Institute, the cost of living in the Bay Area rose 78 percent between 2000 and 2015. Measure Q tax rates can be increased based on the San Francisco Bay Area's consumer price index but cannot exceed more than five percent annually. Yet, the tax rates for Measure Q only rose approximately 25 percent from 2004 to 2015.
- In FY 2013-14 the Library's personnel cost increased by 11.46 percent from the previous year. This was the only double digit increase in personnel costs from FY 2009-10 to FY 18-19, with most other years increasing by 5 percent or less. This significant increase is largely attributed to increasing retirement costs. On April 17, 2013, CalPERS adopted a new amortization and smoothing policy to recognize investment gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. This action resulted in the City's annual retirement contributions to CalPERS increasing by 19.5 percent in FY 2013-14.
- The City's allocation of Internal Service Fund (ISF) costs to the Library increased dramatically from \$1.9 million in FY 2009-10 to \$4.4 million in FY 2018-19, an increase of 132 percent in less than 10 years. The City allocates ISF costs to each City department to

Audit Results

recover indirect service costs, such as general facilities support costs. The Library’s General Fund support, which is limited to the minimum amount specified in Measure Q, pays for the Library’s ISF costs. Thus, the Library’s fixed General Fund support has paid for an increasingly larger burden of the ISF expenditures. For perspective, the ISF expenditures allocated to the Library in FY 2000-01, when the General Fund minimum was established, was \$869,398, and accounted for approximately 10 percent of the City’s General Fund support to the Library. In comparison, in FY 2018-19, the Library’s General Fund support paid for \$4.4 million in ISF expenditures and accounted for approximately 34 percent of the of the City’s General Fund support to the Library.

- Beginning in FY 2008-09, the City began using Measure Q monies to pay for a greater share of the Library’s overall costs. In FY 2013-14, the City transferred \$2.9 million in the Measure Q fund balance to balance the Library’s budget. By the end of the fiscal year, the Measure Q fund balance dropped from \$5.2 million to \$2.9 million in the next fiscal year. In FY 2017-18, just prior to the passage of Measure D, the Measure Q fund balance dropped to a deficit of \$386,000. Exhibit 6 below shows the Measure Q fund balance from FY 2006-07 to FY 2017-18.

Exhibit 6

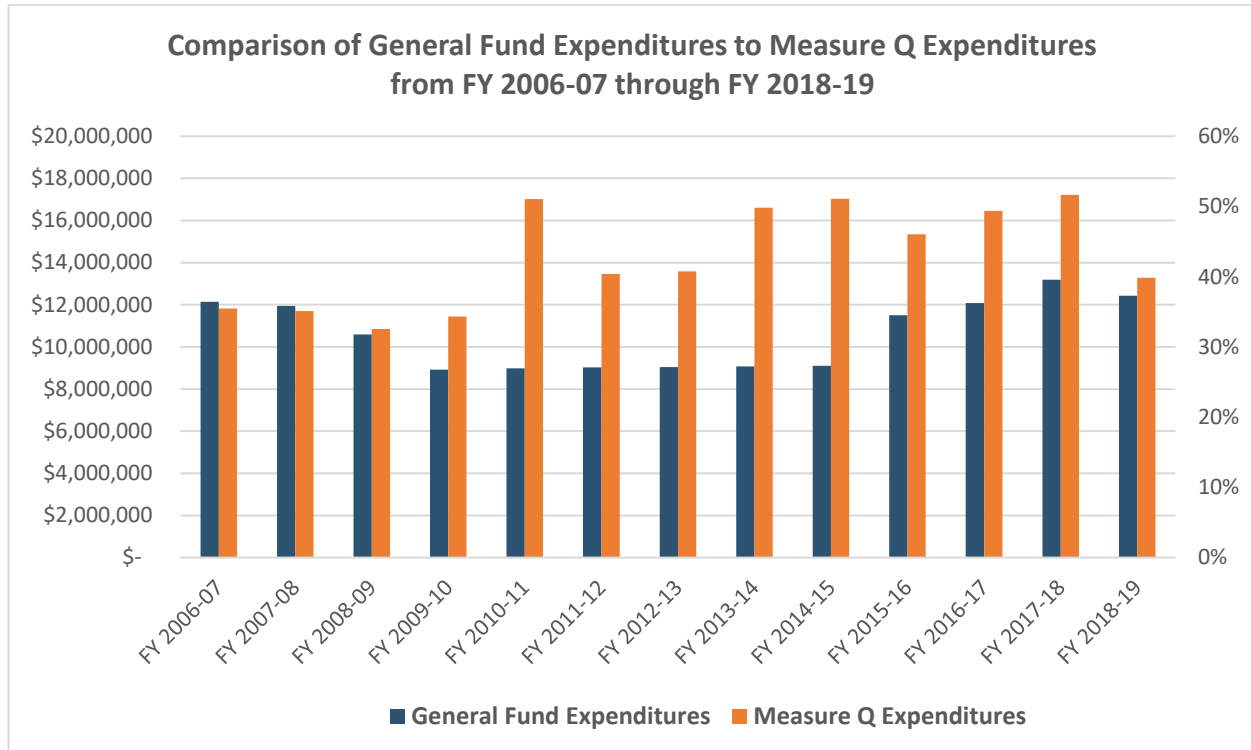


As Exhibit 6 above shows, the Measure Q fund balance grew consistently from \$1.3 million in FY 2006-07 to \$5.2 million FY 2012-13. In FY 2013-14, however, the Measure Q fund balance declined by \$2.4 million and eventually declined to a negative fund balance of \$386,000 in FY 2017-18.

Audit Results

As stated previously, the significant drop in the City’s General Fund contribution to the Library was one of the significant factors causing the drop in the Measure Q fund balance. Exhibit 7 below compares the General Fund support to the Measure Q support for the Library for the period FY 2006-07 through FY 2018-19.

Exhibit 7



As Exhibit 7 above shows, the City’s General Fund support was a higher percentage of total support for the Library in FY 2006-07 and FY 2007-08, compared to Measure Q, than any of the next 11 fiscal years. From FY 2009-10 through FY 2014-15, the City’s General Fund support was at or around the minimum of \$9,059,989 allowed under Measure Q.

Beginning in FY 2008-09 through FY 2017-18, the amount of Measure Q revenue exceeded the General Fund support for the Library. From FY 2008-09 through FY 2017-18, the Measure Q support for the Library averaged \$14.8 million annually, or 59 percent of combined General Fund and Measure Q expenditures. During the same time period, the General Fund support for the Library averaged \$10.3 million annually, or 41 percent of combined General Fund and Measure Q expenditures.

Conclusion

Our analysis confirmed the combined support of the annual Measure Q parcel tax and the General Fund over time was inadequate to provide the necessary financial support for the Library,

Audit Results

leading to the depletion of available Measure Q funds and the need to place Measure D on the ballot.

Recommendation

The Library Commission's oversight includes fiscal oversight and reviews of the use of the Measures Q and D funds. To enhance the Library Commission's ability to monitor the Library's on-going financial condition, the Library should provide and brief the Library Commission, at least annually, on key financial information, including but not limited to the following:

- Year-end fund balance reports for Measures Q and D
- Changes in fund balances for Measures Q and D
- 5-year forecasts on estimated revenues, expenditures, and changes to fund balances
- Annual Measures Q and D revenue, as well as General Fund support
- Annual Measures Q and D expenditures
- Variance analysis to identify differences in planned versus actual expenditures
- Variance analysis to identify changes in revenue

Follow-Up on 2018 Audit Report Recommendations

The previous audit of Measure Q, issued in May 2018, covered FY 2013-14 through FY 2016-17 and included two recommendations. The recommendations and the implementation status are described below.

The previous audit reported Measure Q monies were used to pay for Internal Service Fund (ISF) expenditures in FY 2013-14 and FY 2014-15. The City Attorney issued a legal opinion in 2008 on how the Measure Q funds could be used and concluded that funds cannot be used to pay for more than the actual cost of the service. The audit concluded that the expenditures may not have conformed to the requirements of Measure Q.

Accordingly, the audit recommended that the City develop a plan to restore funds if expenditures were determined to exceed actual costs. The administration's response stated that all ISF expenditures were for actual costs at the Library facilities. Further, the City opted to use the General Fund to pay for all Internal Service Fund expenditures to avoid any perceived issues. This audit confirmed that Measure Q funds were not used to pay for ISF for the two fiscal years audited. Thus, the City has fully addressed this recommendation.

The previous audit also recommended documenting 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. The City agreed to include additional language in the adopted budget to ensure the City meets the minimum General Fund appropriation requirements. This audit confirmed that this language was included in the City's most recent adopted budget. Thus, the City has fully addressed this recommendation.

Appendix: Measures Q and D Parcel Tax Rate by Parcel Type

	MEASURE Q		MEASURE D
Parcel Type	Parcel Rate for FY 2017-18	Parcel Rate for FY 2018-19	Parcel Rate for FY 2018-19
Single Family	\$101.63	\$104.90	\$75.00
Multiple Residential	\$69.42	\$71.66	\$51.24
Non-Residential Parcels	\$52.05	\$53.73	Various rates



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February 1, 2021

**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 Measures Q and D Library Services

Dear City Auditor Ruby:

The City Administrator's Office and the Finance Department appreciate the Audit of Measures Q and D Library Services Retention and Enhancement Act and the 2018 Oakland Public Library Preservation Act Fiscal Years 2017-18 and 2018-19 which finds that:

1. The Library spent Measures Q and D proceeds in accordance with their respective requirements.
2. The City met the minimum requirement for the General Fund appropriation requirement.
3. The Library met the Measure Q reserve fund requirement.
4. The auditor recommendations from the previous audit were met.

Attached is management's response to the recommendation for improved ease of oversight for the Library Advisory Commission. I want to thank you and your staff for the open communication during this audit. Management was kept up to date on all progress. This valuable service keeps the City running smoothly and efficiently.

Sincerely,

**Edward D. Reiskin
City Administrator**

cc: Margaret L. O'Brien, Finance Director

Attachment: City Administration's Recommendation Implementation Plan Matrix

Finding	City Auditor’s Recommendations	Management Action Plan	Responsible Party	Target Date to Complete
4	<p>To enhance the Library Commission’s ability to monitor the Library’s on-going financial condition, the Library should provide and brief the Library Commission, at least annually, on key financial information including but not limited to the following:</p> <ul style="list-style-type: none"> • Year-end fund balance reports for Measures Q and D • Changes in fund balances for Measures Q and D • 5-year forecasts on estimated revenues, expenditures, and changes to fund balances • Annual Measures Q and D revenues, as well as General Fund support • Annual Measures Q and D expenditures • Variance analysis to identify differences in planned versus actual expenditures • Variance analysis to identify changes in revenues 	<p>The Library will provide and brief the Library Commission, at least annually, on key financial information including but not limited to the following:</p> <ul style="list-style-type: none"> • Year-end fund balance reports for Measures Q and D • Changes in fund balances for Measures Q and D • 5-year forecasts on estimated revenues, expenditures, and changes to fund balances • Annual Measures Q and D revenues, as well as General Fund support • Annual Measures Q and D expenditures • Variance analysis to identify differences in planned versus actual expenditures • Variance analysis to identify changes in revenues 	Library Director and Library Fiscal Officer	At least annually on a date approved by the Library Commission