

CITY OF OAKLAND

Audit Report

LOCAL GOVERNMENT EMPLOYEE RELATIONS PROGRAM

Chapter 901, Statutes of 2000

July 1, 2012, through June 30, 2014



BETTY T. YEE
California State Controller

March 2016



BETTY T. YEE
California State Controller

March 10, 2016

The Honorable Libby Schaaf
Mayor, City of Oakland
1 Frank H. Ogawa Plaza, 3rd Floor
Oakland, CA 94612

Dear Mayor Schaaf:

The State Controller's Office audited the costs claimed by the City of Oakland for the legislatively mandated Local Government Employee Relations Program (Chapter 901, Statutes of 2000) for the period of July 1, 2012, through June 30, 2014.

The city claimed \$639,300 for the mandated program. Our audit found that \$572,523 is allowable (\$573,127 less a \$604 penalty for filing a late claim) and \$66,777 is unallowable. The costs are unallowable primarily because the city claimed costs that were incurred in a prior fiscal year. The State made no payments to the city. The State will pay allowable costs claimed that exceed the amount paid, totaling \$572,523, contingent upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief Mandated Cost Audit Bureau, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Sabrina Landreth, City Administrator
City of Oakland
Kirsten LaCasse, Interim Controller
City of Oakland
Ryan Richardson, Deputy City Attorney V
City of Oakland
Brenda Roberts, CPA, CFE, CIA, Oakland City Auditor
City of Oakland
Lilian Falkin, SB 90 Coordinator, Finance Department
City of Oakland
Evelyn Suess, Principal Program Budget Analyst
Mandates Unit, Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Scope, Objectives, and Methodology	2
Conclusion	3
Views of Responsible Officials.....	3
Restricted Use	3
Schedule—Summary of Program Costs	4
Finding and Recommendation	5
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Oakland for the legislatively mandated Local Government Employee Relations Program (Chapter 901, Statutes of 2000) for the period of July 1, 2012, through June 30, 2014.

The city claimed \$639,300 for the mandated program. Our audit found that \$572,523 is allowable (\$573,127 less a \$604 penalty for filing a late claim) and \$66,777 is unallowable. The costs are unallowable primarily because the city claimed costs that were outside the audit period. The State made no payments to the city. The State will pay allowable costs claimed that exceed the amount paid, totaling \$572,523, contingent upon available appropriations.

Background

Government Code sections 3502.5 and 3508.5, amended by Chapter 901, Statutes of 2000 created an additional method for creating an agency shop arrangement and expanded the jurisdiction of the Public Employment Relations Board (PERB) to include dispute resolution and enforcement of statutory duties and rights of public employers and employees subject to the Meyers-Milias-Brown Act.

On December 4, 2006, the Commission on State Mandates (Commission) determined that Chapter 901, Statutes of 2000 imposes a partially reimbursable State mandate within the meaning of Article XII B, section 6 of the California Constitution and Government Code section 17514.

Specifically, the Commission approved the test claim for the increased costs of performing the following activities:

1. Deduct from employee's wages the payment of dues or service fees required pursuant to an agency shop arrangement that was established under subdivision (b) of Government Code 3502.5, and transmit such fees to the employee organization.
2. Receive from the employee any proof of in lieu fee payments made to charitable organizations required pursuant to an agency shop arrangement that was established under subdivision (b) of Government Code section 3502.5.
3. Follow PERB procedures in responding to charges and appeals filed with PERB, by an entity other than the local public agency employer, concerning an unfair labor practice, a unit determination, representation by an employee organization, recognition of an employee organization, or election. Mandated activities are:
 - a. procedures for filing documents or extensions for filing documents with PERB;
 - b. proof of service;
 - c. responding to subpoenas and investigative subpoenas;
 - d. conducting depositions;

- e. participate in hearings and responding as required by PERB agent, PERB Administrative Law Judge, or the five-member PERB;
- f. filing and responding to written motions in the course of the hearing.

The program's parameters and guidelines establish the State mandate and define the reimbursement criteria. In compliance with Government Code, section 17558, the State Controller issues claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

Scope, Objectives, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Local Government Employee Relations Program for the period of July 1, 2012, through June 30, 2014.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objectives, we performed the following procedures:

- Reviewed annual claims filed with SCO to identify any mathematical errors and performed analytical procedures to determine any unusual or unexpected variances from year-to-year.
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained.
- Inquired whether the city realized any offsetting savings or reimbursements from the statutes which created the mandated program.
- Judgmentally selected a sample of costs claimed and traced the costs to actual cost documentation supporting when the costs were incurred and then assessed the validity of such costs and their relationship to the mandated program. We did not project the sample results to the population.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. 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.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the city's financial statements.

Conclusion

Our audit found an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Schedule (Summary of Program Costs) and in the Finding and Recommendation section of this report.

For the audit period, the City of Oakland claimed \$639,300 for costs of the Local Government Employee Relations Program. Our audit found that \$572,523 is allowable (\$573,127 less a \$604 penalty for filing a late claim) and \$66,777 is unallowable.

For the fiscal year (FY) 2012-13 claim, the State made no payments to the city. Our audit found that \$366,009 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$366,009, contingent upon available appropriations.

For the FY 2013-14 claim, the State made no payments to the city. Our audit found that \$206,514 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$206,514, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on February 2, 2016. Kirsten LaCasse, Interim Controller, responded by letter dated February 16, 2016 (Attachment), agreeing with the audit results. This final audit report includes the city's response.

Restricted Use

This report is solely for the information and use of the City of Oakland, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

March 10, 2016

Schedule—
Summary of Program Costs
July 1, 2012, through June 30, 2014

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries	\$ 2,993	\$ 2,993	\$ -
Benefits	891	891	-
Contract services	427,999	361,826	(66,173)
Total direct costs	431,883	365,710	(66,173)
Indirect costs	299	299	-
Total program costs	<u>\$ 432,182</u>	366,009	<u>\$ (66,173)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 366,009</u>	
 <u>July 1, 2013, through June 30, 2014</u>			
Direct costs:			
Salaries	\$ 258	\$ 258	\$ -
Benefits	93	93	-
Contract services	206,741	206,741	-
Total direct costs	207,092	207,092	-
Indirect costs	26	26	-
Total direct and indirect costs	207,118	207,118	-
Less late filing penalty ²	-	(604)	(604)
Total program costs	<u>\$ 207,118</u>	206,514	<u>\$ (604)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 206,514</u>	
 <u>Summary: July 1, 2012, through June 30, 2014</u>			
Direct costs:			
Salaries	\$ 3,251	\$ 3,251	\$ -
Benefits	984	984	-
Contract services	634,740	568,567	(66,173)
Total direct costs	638,975	572,802	(66,173)
Indirect costs	325	325	-
Total direct and indirect costs	639,300	573,127	(66,173)
Less late filing penalty ²	-	(604)	(604)
Total program costs	<u>\$ 639,300</u>	572,523	<u>\$ (66,777)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 572,523</u>	

¹ See the Finding and Recommendation section.

² The city's amended claim for FY 2013-14 was an annual reimbursement claim filed after the filing deadline and subject to the late filing penalty specified in Government Code section 17568, equal to 10% of additional allowable costs claimed, not to exceed \$10,000.

Finding and Recommendation

**FINDING—
Misstated contract
services costs**

The city claimed \$634,740 in contract services costs during the audit period. We found that \$568,567 is allowable and \$66,173 is unallowable. The city misstated contract services costs incurred for performing mandated Public Employment Relations Board (PERB) matters, specifically, PERB Unfair Practice Charges. The city claimed contract services costs for FY 2012-13, totaling \$79,820, that are outside the audit period and underclaimed costs, totaling \$13,647, for FY 2012-13 that the city included in its originally filed claim for FY 2013-14.

The following table summarizes the misstated contract services costs by fiscal year:

Audit Adjustment	Fiscal Year	
	2012-13	2013-14
Costs that occurred outside the audit period	\$ (79,820)	\$ -
Underclaimed costs	13,647	-
Total audit adjustment	\$ (66,173)	\$ -

The program’s parameters and guidelines (Section III – Period of Reimbursement) state:

Actual costs for one fiscal year shall be included in each claim.

The parameters and guidelines (Section IV – Reimbursable Activities) state:

To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices and receipts.

The city claimed \$79,820 in contract services costs that were outside the audit period because the costs were based on payment dates rather than the dates on which the reimbursable activities were performed. We reviewed the attorney invoices provided by the city that supported its claim and found that the contract services costs in question were performed in FY 2011-12.

The city also claimed costs totaling \$13,647 that were in its originally filed claim for FY 2013-14 that belonged in its claim for FY 2012-13. The attorney invoices supporting this amount were for reimbursable activities performed in FY 2012-13, but the city paid the invoices during FY 2013-14. The city subsequently filed an amended claim for FY 2013-14 on January 14, 2016 to remove these costs from its claim for that year and to recognize unclaimed contract services costs totaling \$19,686 for FY 2013-14 that were incurred and supported for PERB matters.

Recommendation

We recommend that the city ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

City's Response

The city agrees with the finding.

**Attachment—
City's Response to
Draft Audit Report**

CITY OF OAKLAND



150 FRANK H. OGAWA PLAZA • 6TH FLOOR • OAKLAND, CALIFORNIA 94612

Financial & Management Agency
Kirsten LaCasse, Interim Controller

(510) 238-6776
FAX (510) 238-3915

February 16, 2016

Jim L. Spano
Chief of Mandated Cost Audits Bureau
State Controller's Office, Division of Audits
P.O. Box 942850, Sacramento, CA 94250-0001

Dear Mr. Spano,

The City of Oakland has received the State Controller's Office (SCO) draft audit finding for the State mandated cost program of Local Government Employee Relations Program (the Program) for the period of July 1, 2012 through June 30, 2014.

We concur with the audit finding and will continue our efforts to ensure the accuracy of future costs claimed for the Program.

We would like to take this opportunity to express our appreciation to the professionalism of your audit staff in connection with the audit. Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Kirsten LaCasse".

Kirsten LaCasse, Interim Controller

Cc: Ryan G. Richardson, Deputy City Attorney

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>