



Office of the City Auditor

CONSENT CALENDAR
July 25, 2017

To: Honorable Mayor and Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Audit Report – Parks Tax: Good Practices in Place Fiscal Year 2016 Expenditures Review

RECOMMENDATION

Request that the City Manager report back by January 30, 2018, and every six months thereafter, regarding the status of recommendations until reported fully implemented.

FISCAL IMPACTS OF RECOMMENDATION

The Parks Tax is a vital funding stream for the continued operations of the Parks, Recreation, and Waterfront Department to improve and maintain parks, playgrounds, and open space. In fiscal year 2016, the City collected \$11.7 million in revenue from the Parks Tax. Always a risk to special tax revenue is the loss of taxpayer confidence, which has the potential to prevent the City from getting enough voter support to increase the tax or pass new tax measures.

CURRENT SITUATION AND ITS EFFECTS

Parks, Recreation, and Waterfront (PRW) used the Parks Tax in accordance with its intended purpose: to maintain City parks, trees, and landscape. While management and staff have adopted good practices to ensure that it uses the Parks Tax in accordance with the tax's intended purpose, PRW has not developed written guidance explaining its procedures. PRW can take action to prevent the misuse of funds and protect taxpayer money by documenting departmental practices and requesting documentation from other departments that receive and expend Parks Tax funds.

BACKGROUND

The Parks Tax is a special revenue tax that has been around for twenty years. Berkeley voters first adopted the tax with the passage of Measure A in 1997. The purpose of the tax is to fund the acquisition and maintenance of improvements to City parks, trees, and landscaping.

In 2014, Berkeley voters replaced Measure A with the passage of Measure F, increasing the Parks Tax rate to \$0.1466, per square foot. Measure F also allows Council to adjust the tax rate according to the Consumer Price Index in the SF Bay Area or Per Capita Income Growth in the State of California. This measure increased Parks Tax revenue nearly 17% its first year and brought in \$11.7 million in fiscal year 2016.

ENVIRONMENTAL SUSTAINABILITY

Our office manages and stores audit workpapers and other documents electronically to significantly reduce our use of paper and ink. Although many of the audits we issue do include information about specific environmental impacts, this particular report has no identifiable environmental effects or opportunities associated with it.

RATIONALE FOR RECOMMENDATION

Implementing our recommendations will assist PRW in strengthening its internal controls over its expenditure review and approval process. This will put the City in a better position to safeguard taxpayer's money and ensure that the City continues to use the Parks Tax as intended.

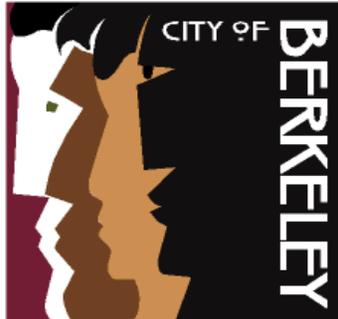
CONTACT PERSON

Ann-Marie Hogan, City Auditor, City Auditor's Office, 510-981-6750

Attachments:

1: Audit Report – Parks Tax: Good Practices in Place Fiscal Year 2016 Expenditures Review

City of Berkeley Office of the City Auditor



Parks Tax: Good Practices in Place Fiscal Year 2016 Expenditures Review

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Presented to Council July 25, 2017

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City Of Berkeley - Office Of the City Auditor

Parks Tax: Good Practices in Place
Fiscal Year 2016 Expenditures Review
 July 25, 2017

Purpose of the Audit

Our audit answers the question: How is the City using the Parks Tax Fund?

Executive Summary

PRW supporting taxpayer intent

Parks, Recreation, and Waterfront (PRW) used the Parks Tax in accordance with its intended purpose: to maintain City parks, trees, and landscape. PRW did inadvertently spend an immaterial amount on items not associated with Parks Tax use criteria. The purchase represented only 0.004% of PRW's \$2.9 million in non-personnel expenditures in fiscal year 2016. PRW acknowledged the minor error and explained that staff were unclear on how to handle the purchase. Staff are generally competent in their understanding of the Parks Tax use, but this particular purchase was unusual for them.

PRW's practices ensure proper use of Parks Tax

PRW has good practices in place to ensure that it uses the Parks Tax in accordance with the tax's intended purpose. These include a clear division of staff duties, restricted access to the City's financial system, and review of requisitions and invoices by knowledgeable personnel to ensure the appropriate funding source. While management and staff have adopted good practices, PRW has not developed written guidance explaining its procedures.

Support showing Public Arts and First Source use of Parks Tax would improve transparency

The City uses the Parks Tax to fund the Public Art and First Source programs. These are mandated transfers outside of PRW's control, and PRW management does not have clear understanding of how those transfers are used. There is no practice in place for requesting that the program administrators demonstrate appropriate use of the Parks Tax Fund.

Recommendations

PRW can decrease the risk of inadvertent misuse and increase transparency by:

- Developing written guidance describing its practices for ensuring it uses the Parks Tax in accordance with the Berkeley Municipal Code, including how to handle atypical transactions.
- Requesting a legal opinion on whether Parks Tax transfers to the First Source and Public Arts Funds are appropriate.
- Obtaining documentation from the Public Art and First Source Fund administrators demonstrating how they use transfers from the Parks Tax to benefit parks.

We provided our recommendations to the Parks, Recreation, and Waterfront Department prior to publishing this report to allow management to begin implementing changes as soon as possible.

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AUDIT OBJECTIVE

Is PRW spending the Parks Tax as taxpayers intended?

Our audit asks the question: How is the City using the Parks Tax Fund? We specifically wanted to understand whether the Parks, Recreation, and Waterfront Department is using the Parks Tax on non-personnel costs in the way that taxpayers intended. We did not examine personnel costs. We explain our rationale for excluding those in our examination in the Scope and Methodology section of this report.

BACKGROUND

Parks Tax helps maintain the City's parks system

The Parks, Recreation, and Waterfront (PRW) Department maintains 52 parks; 33,000 trees; 124 street medians; 263 street irrigation systems; 29 restrooms and outbuildings; 5 community centers; 2 pools; 3 camps; 15 sports fields; 49 sports courts; 63 play areas; and 36 picnic areas. The Parks, Trees, and Landscaping Maintenance Tax (Parks Tax) funds a large percentage of those services and projects associated with improving the City's expansive parks system, playgrounds, and open space.

PRW uses the Park Tax to help maintain Berkeley's Historic Rose Garden, home to 250 varieties of roses

Berkeley's Historic Rose Garden



Parks Tax funds the maintenance of parks, city trees, and landscaping

The Parks Tax is a special revenue tax that has been around for twenty years. Berkeley voters first adopted the tax with the passage of Measure A in 1997. PRW uses a special revenue fund to account for the receipt and use of the money. Governments establish special revenue funds to account for revenue that is restricted or designated for

specific purposes. The purpose of the tax is to fund the acquisition and maintenance of improvements to City parks, trees, and landscaping. The Parks Tax is a parcel tax. The City assesses the rate based on the square footage of taxable improvements on a property.

Taxpayers supported an increase in the Parks Tax rate in 2014

In 2014, Berkeley voters replaced Measure A with the passage of Measure F, increasing the Parks Tax rate to \$0.1466, per square foot. Measure F also allows Council to adjust the tax rate according to the Consumer Price Index in the SF Bay Area or Per Capita Income Growth in the State of California. This measure increased Parks Tax revenue nearly 17% its first year and brought in \$11.7 million in fiscal year 2016.

Estimated \$112 million unfunded facilities and infrastructure need in parks

Even though the Parks Tax revenue has grown in the past couple of years, it has not been able to keep pace with the department's needs. The City estimates that there is a minimum of \$112 million in unfunded facilities and infrastructure needs in Parks, Recreation, and Waterfront. We did not design or intend for our audit to address the large unfunded needs of PRW; however, implementing our recommendations will help secure the large revenue stream from the Parks Tax that PRW relies on to maintain Berkeley parks.

FINDING AND RECOMMENDATIONS

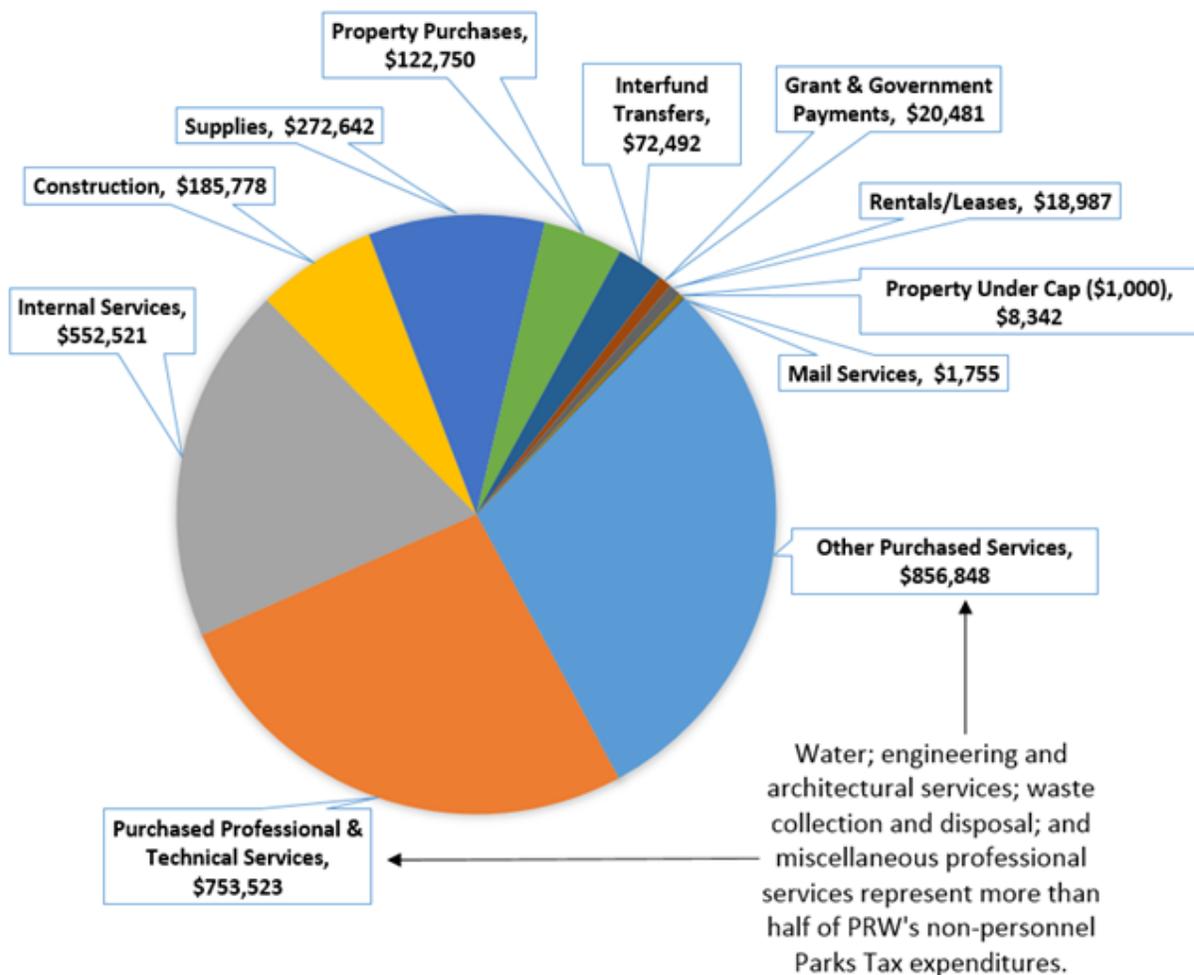
Finding 1: PRW can ensure it continues to spend tax dollars as intended by documenting its current practices in written guidance

Parks, Recreation, and Waterfront (PRW) used the Parks Tax Fund for non-personnel costs in accordance with tax's intended purpose with only one minor exception of \$109: just 0.004% of fiscal year 2016 non-personnel expenditures. PRW's purchasing practices and experienced staff ensure that the department spends the Parks Tax fund as allowed by the measure; however, there are no written policies and procedures. By documenting its practices, PRW can increase transparency in its use of the Parks Tax for non-personnel costs and continue to spend the money as taxpayers intended.

Berkeley Municipal Code (BMC) 7.10 defines the appropriate use of the Parks Tax Fund. The City is to use the Parks Tax for the cost of acquisition and maintenance of improvements in Berkeley. The BMC specifically defines the purpose to include incidental expenses, landscaping, maintenance, and servicing of parks, including the acquisition of land for new parks.

In fiscal year 2016, PRW used the Parks Tax to improve, landscape, maintain, and service parks and open space; and on incidental expenses related to those services. Of \$10.3 million that PRW expended from the Parks Tax Fund in fiscal year 2016, the department spent \$2.9 million on non-personnel goods and services. "Other Purchased Services" and "Purchased Professional and Technical Services" were the biggest expense categories. Combined, they made up 56% of the total non-personnel expenditures, which include payments for refuse; water; engineering and architectural services; and miscellaneous professional services, for example, plumbing services and elevator maintenance at PRW parks and facilities.

PRW's Parks Tax Fund Fiscal Year 2016 Non-Personnel Costs by Expenditure Type



Source: City of Berkeley Financial System

PRW's use of Parks Tax dollars aligned with the BMC with only a minor exception

The majority of expenses reviewed aligned with the Berkeley Municipal Code's (BMC) language defining the appropriate and intended use of the Parks Tax Fund. One transaction did not fit within the criteria of the Parks Tax set by the BMC: PRW spent \$109 on Christmas trees for the homeless shelter the department supports during the holidays. This was an inadvertent misuse of the fund, which could have been prevented with written guidance. The amount is immaterial, equaling less than 0.004% of PRW's \$2.9 million in non-personnel expenditures in fiscal year 2016. PRW was not able to reallocate the money to the Parks Tax Fund because the fiscal year is closed. PRW staff have established that such purchases must be paid through the General Fund in the future.

PRW's clear separation of duties and restricted financial system access minimize fraud risk

PRW practices ensure that the department is using the Parks Tax appropriately. These practices also minimize fraud risk. For example, there is a clear separation of duties in the processing of expenditures. Supervisors are responsible for approving requests; designated staff determine the funding source and approve requisitions; and separate staff enter the information into the City's financial system and process the invoices. PRW staff have restricted access to the financial system that aligns with the division of responsibilities. For example, those in charge of requisitioning funds do not have access to approve requisitions in the system and vice versa. There are, however, no written departmental procedures describing PRW's practices for ensuring it expends Parks Tax funds in accordance with the Berkeley Municipal Code. This includes PRW's practices for reviewing and approving requisitions using the Parks Tax Fund.

Documenting practices will strengthen PRW's ability to achieve its goal and maintain taxpayer confidence

Relying on staff's knowledge and experience was sufficient for PRW in fiscal year 2016. However, undocumented procedures creates a weakness in the department's ability to ensure it continues to use the Parks Tax as taxpayers intended. Written procedures provide staff with an understanding of what is required of them to implement policy, i.e., use the Parks Tax as required by the BMC. Written procedures also help eliminate misunderstandings by identifying job responsibilities. PRW's lack of written procedures increases the risk that it will inadvertently misuse the Park Tax Fund, particularly, if the department experiences staff turnover. Misuse, if significant, could lead to a loss of taxpayer confidence, which could prevent PRW from being able to get voter approval to increase the tax or pass other parks related taxes.

PRW verifies use of Parks Tax Fund as part of its requisition process	<p>Invoices lack sufficient detail to allow for someone unfamiliar with the department's operations to determine the correct funding source for the expense. In many cases, invoices display only vendor product identification numbers or abbreviations for the goods and service. This is a common vendor practice. PRW's primary procedure for ensuring an invoice should be paid with the Park Tax Fund is its requisition process:</p> <ul style="list-style-type: none"> ▪ Supervisors assess reasonableness of purchasing need ▪ Office Specialists work with supervisors to identify the appropriate funding source, e.g., Parks Tax Fund, for the purchasing requisition ▪ Management verifies the funding source and approves the requisition before the purchase
Written procedures needed to describe PRW's requisition and invoice review process	<p>Invoice review to ensure a purchase agrees with the requisition is PRW's next level of assurance that goods and services should be paid with the Parks Tax Fund. It is at this stage that staff can follow up on out-of-the ordinary invoices to verify the funding source, for example, the purchase of the Christmas Trees that led to the inadvertent misuse of the Parks Tax Fund. This review process is also crucial for vendors associated with multiple funding streams, for example, Verizon and AT&T. To avoid misuse, it is important that staff understand cost allocations for those types of vendors and review their invoices carefully for the appropriate funding source when processing the payment. PRW staff have practices, such as spreadsheets tracking Verizon charges, to ensure they pay vendor invoices associated with multiple funding streams from the right account. In some cases, however, PRW has no control; for example, the AT&T bill, which Finance manages. While PRW staff have an understanding of how that bill is associated with the Parks Tax Fund, they were not clear on why it recently increased because they do not handle the invoices.</p> <p>As with its other practices, PRW does not have written guidance describing how staff use the requisition and invoice review processes to verify the appropriate funding source. This makes the Parks Tax fund vulnerable to expenditure for purposes other than intended. Having proper written guidance will help PRW avoid unintentional misuse of the Parks Tax Fund and provide staff with clarity on their role in ensuring proper use.</p>

PRW receives little information about some transfers mandated by City Council

PRW management requires a stronger understanding of some interfund transfers from the Parks Tax Fund. The annual budget appropriations, voted on by the City Council, authorizes the transfer of funds from the Parks Tax to the Public Arts and First Source Funds. By resolution, City Council established policies to fund these programs.¹ The amount is minimal: First Source receives one percent of the project budget for eligible capital projects, and Public Art receives one and a half percent. In fiscal year 2016, City council approved transfers of \$11,625 and \$17,437 to First Source and Public Art programs, respectively. Transfers to both programs are intended for use on Parks Tax related services:

- First Source: Counteracts unemployment by promoting the hiring of qualified Berkeley residents for construction projects, including those for parks improvements.
- Public Art: Promotes the cultivation and creation of visual art in public places, including City parks.

PRW could improve transparency by receiving documentation that supports First Source and Public Art's use the Parks Tax Fund

The City Attorney's preliminary assessment of the transfers is that the use of the Parks Tax is appropriate. However, PRW does not receive information on how the programs use the Parks Tax. This creates limited understanding of how the programs use the funds to benefit City parks. Expenditure reports tying the Parks Tax funding to First Source and Public Art programs would provide better transparency to PRW management and taxpayers.

Our audit scope did not include an examination of First Source and Public Art's records. Given the intended use of the transfers, the use of the Parks Tax Fund is appropriate. However, there is a risk that the programs will not use the Parks Tax money for parks related projects. Therefore, it is prudent that PRW verify that these programs are using the money for the benefit of improving the City's park system.

PRW management also does not control standard interfund transfers, such as those to pay Public Works for refuse collection. Those are handled by Finance. While the charges are reasonable, PRW would benefit from receiving documentation from Finance supporting the charges to better understand its costs.

¹ First Source Resolution 61,074 N.S. and Public Art Resolution 60,048 N.S.: Available on Records Online: <http://bit.ly/2qkIII6>

Recommendations

- | | |
|---|---|
| Develop written guidance | <p>1.1 Develop written guidance describing PRW's practices for:</p> <ul style="list-style-type: none"> ▫ Reviewing and approving requisitions using the Parks Tax to ensure they are for purchases allowable by the measure ▫ Reviewing invoices to further substantiate that the department is using the funds appropriately ▫ Establishing interfund transfers, including those for the Public Arts and First Source Funds and other city services, for example, waste collection and disposal ▫ Following up with Finance, or other departments, to gain an understanding of cost changes for invoices handled outside PRW, for example, the increase to AT&T services |
| Request a legal opinion on appropriateness of Parks Tax transfers | <p>1.2 Request an opinion from the City Attorney on whether the transfer of Parks Tax revenue to the First Source and Public Arts Funds is allowable, per the governing legislation. Maintain that documentation to allow for transparency in the use of the Parks Tax revenue for those programs.</p> |
| Obtain support for Public Art and First Source programs' use of Parks Tax | <p>1.3 Obtain documentation from the Public Art and First Source Fund administrators on a recurring basis, e.g., every five years, demonstrating, in dollars and services, how they used transfers from the Parks Tax to benefit parks (e.g., art placed in City parks and Berkeley residents hired for parks capital projects). Use that documentation as a means to provide transparency in the use of the Parks Tax transfers to the Public Arts and First Source funds for parks related projects.</p> |
| Obtain interfund transfers support | <p>1.4 Request that Finance, or other departments as may be necessary, provide support for the standard interfund transfers, such as those to pay Public Works for waste collection and disposal.</p> |

City Manager's Response

The City Manager agreed with the finding and recommendations. The full response is at Appendix B.

FISCAL IMPACT

Parks Tax vital funding stream

The Parks Tax is a vital funding stream for the continued operations of the Parks, Recreation, and Waterfront Department to improve and maintain parks, playgrounds, and open space. In fiscal year 2016, the City collected \$11.7 million in revenue from the Parks Tax. Always a risk to special tax revenue is the loss of taxpayer confidence, which has the potential to prevent the City from getting enough voter support to increase the tax or pass new tax measures. We found no significant misuse of the Parks Tax funds: PRW used the Parks Tax Fund in the manner intended by taxpayers with only one small expenditure of \$109. This was an unintentional error.

CONCLUSION

PRW practices help ensure proper use of Parks Tax

Parks, Recreation, and Waterfront practices ensure it uses the Parks Tax as taxpayers intended and in accordance with the Berkeley Municipal Code. However, the department does not have written guidance describing those practices. Without written procedures, management and staff lack the information necessary to ensure that they continue to expend the Parks Tax appropriately. Moreover, the lack of procedures could create a barrier to transparency and does not prepare City officials for public inquiry: Written procedures provide insight on how PRW ensures it uses taxpayer money as intended, and how the department monitors its use of the Parks Tax.

Written procedures will help PRW ensure Parks Tax used to maintain Berkeley's expansive parks system

Misuse, or perceived misuse, of the Parks Tax Fund, if significant, could lead to a loss of taxpayer confidence and support of the Parks Tax. To ensure appropriate use of the Parks Tax and continued public support, PRW management should work to develop formal written procedures describing its practices for ensuring Parks Tax fund expenditures align with BMC criteria. Doing so will allow the City to continue to maintain the expansive park system for people to enjoy.

**We appreciate and
thank staff and
management for
taking time to assist
with our audit**

We would like to thank PRW management and staff for their cooperation and assistance during this audit. We appreciate the time they took from their busy schedules to meet with us and discuss their processes and share their insight. We hope that this audit will provide the Parks, Recreation, and Waterfront Department with tools for protecting taxpayer money and supporting voter goals.

APPENDIX A:

Scope and Methodology

We audited Parks, Recreation, and Waterfront's non-personnel expenditures of the Parks Tax Fund during fiscal year 2016 (July 1, 2015 – June 30, 2016). Specifically, we examined accounts payable and adjusting journal transactions. We assessed the appropriateness of the transactions we examined by comparing them to the Berkeley Municipal Code defining the use of Parks Tax revenue. We communicated with PRW management and staff to gain an understanding of the department's practices for processing, approving, and monitoring its expenditures of the Parks Tax Fund. We performed a risk assessment of internal controls to identify potential weaknesses, including fraud risks, in relation to Parks Tax, non-personnel expenditures. We reviewed:

- City of Berkeley Fiscal Years 2016 and 2017 Biennial Budget and Capital Improvement Program
- PRW fiscal year 2016 status reports to City Council related to capital improvement needs and the use of the Parks Tax Fund
- Measure A and Measure F ballot language and results
- Berkeley Municipal Code Chapter 7.10, specifically, sections 7.10.010 and 7.10.040
- Scope and services of 34 City expenditure contracts using the Parks Tax in fiscal year 2016
- City Resolutions 61,074-N.S. and 60,048-N.S. establishing funding for the First Source Fund and Public Art Fund, respectively

Data Population and Sample Selection

We extracted expenditure data from the City's financial system, FUNDS. We used pivot tables to examine the overall data and identify high-risk, high-transaction amounts, and high-volume expenditure types. We separated those from our total data population. We also separated accounts payable transactions from adjusting journal transactions. This recreated multiple subsets of expenditure data. We judgmentally excluded transactions of \$10 or less from our data subsets to allow us to examine transactions with the most material impact related to our audit objective. We used a sample size calculator² and input a confidence level of 95 percent and a confidence interval of 10 percent to determine a sample size for each subset. We used the Excel random function to randomly select the transactions to review. In all, we examined 165 transactions totaling over \$674,000.

Omission of Personnel Costs from Examination

By City mandate, our office is charged with the oversight of the Payroll Audit Division. Due to the auditing standards we follow, this creates an independence barrier to our ability to audit some payroll operations. We are generally able to put safeguards in place when our audits touch upon payroll activities. However, given our audit objective, we determined that an examination of Parks Tax

² MaCorr Research Solutions: <http://www.macorr.com>

personnel costs would require us to rely too heavily on payroll module data and payroll activities that involve Payroll Audit personnel. The City is currently in the process of replacing the payroll module with a system that we believe will help provide a clearer delineation of Payroll Audit and departmental payroll activities. This should help alleviate the independence concerns enough for us to put safeguards in place so that we may independently examine Parks Tax personnel costs in the future.

Data Reliability

We assessed the reliability of FUND\$ data by tracing to source documents; interviewing Parks, Recreation, and Waterfront personnel; and gaining an understanding of Finance's regular FUND\$ access review process. We determined that the data were sufficiently reliable for the purposes of this report.

Standards Compliance Statement

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 objective.

APPENDIX B

Audit Finding, Recommendations, and Management Response Summary

Audit Title - Parks Tax: Good Practices in Place Fiscal Year 2016 Expenditures Review				
Finding and Recommendations	Lead Dept.	Agree, Partially Agree, or Do Not Agree	Expected or Actual Implementation Date	Status of Audit Recommendations, Corrective Action Plan, and Progress Summary
Finding 1: PRW can ensure it continues to spend tax dollars as intended by documenting its current practices in written guidance.				
1.1 Develop written guidance describing PRW’s practices for: <ul style="list-style-type: none"> ▫ Reviewing and approving requisitions using the Parks Tax to ensure they are for purchases allowable by the measure ▫ Reviewing invoices to further substantiate that the department is using the funds appropriately ▫ Establishing interfund transfers, including those for the Public Arts and First Source Funds and other city services, for example, waste collection and disposal ▫ Following up with Finance, or other departments, to gain an understanding of cost changes for invoices handled outside PRW, for example, the increase to AT&T services 	PRW	Agree	12/31/17	In progress. PRW staff are developing written procedures to document our current practices.

Audit Title - Parks Tax: Good Practices in Place Fiscal Year 2016 Expenditures Review					
Finding and Recommendations	Lead Dept.	Agree, Partially Agree, or Do Not Agree	Expected or Actual Implementation Date	Status of Audit Recommendations, Corrective Action Plan, and Progress Summary	
<p>1.2 Request an opinion from the City Attorney on whether the transfer of Parks Tax revenue to the First Source and Public Arts Funds is allowable, per the governing legislation. Maintain that documentation to allow for transparency in the use of the Parks Tax revenue for those programs.</p>	PRW	Agree	12/31/17	In progress. PRW has requested an opinion from the City Attorney.	
<p>1.3 Obtain documentation from the Public Art and First Source Fund administrators on a recurring basis, e.g., every five years, demonstrating, in dollars and services, how they used transfers from the Parks Tax to benefit parks (e.g., art placed in City parks and Berkeley residents hired for parks capital projects). Use that documentation as a means to provide transparency in the use of the Parks Tax transfers to the Public Arts and First Source funds for parks related projects.</p>	PRW	Agree	12/31/17	In progress. PRW is working with the Office of Economic Development and Health, Housing and Community Services Departments to obtain documentation on Public Art and First Source expenditures, and to establish a process for doing this in the future.	

Audit Title - Parks Tax: Good Practices in Place Fiscal Year 2016 Expenditures Review					
Finding and Recommendations	Lead Dept.	Agree, Partially Agree, or Do Not Agree	Expected or Actual Implementation Date	Status of Audit Recommendations, Corrective Action Plan, and Progress Summary	
1.4 Request that Finance, or other departments as may be necessary, provide support for the standard interfund transfers, such as those to pay Public Works for waste collection and disposal.	PRW	Agree	6/21/17	Complete. PRW has requested this information. PRW is now working with multiple City departments to provide supporting documentation on an ongoing basis.	

