

News from: **Office of the City Administrator**

## **FOR IMMEDIATE RELEASE**

October 1, 2013

### **City Administrator Requests Audit of Workers' Compensation Contract**

*Findings Confirm that Corrective Action Needed to Address Overspending as a Result of Decades-old Practices and Inadequate Oversight*

*Oakland, CA*—Oakland's City Administrator today received the final results of an audit she requested from City Auditor Courtney Ruby's office to look into the City's Workers' Compensation contract. When she arrived in Oakland two years ago, City Administrator Deanna J. Santana requested that the City Auditor's Office conduct an internal audit of the City's risk management program. Separately she also requested several investigations regarding certain aspects of this program.

"As I suspected, this Program has significant management issues spanning decades of practice which have not been properly administered over time," said Ms. Santana. "Gone unmonitored over the years, these practices have resulted in significant findings. We have already begun to focus on corrective action and improved management, but more work is needed. This is why I asked for this review, and I appreciate the thorough work of the City Auditor's Office."

Although much more work has been necessary than what was originally anticipated, shortly after receiving preliminary feedback during the audit, the Administration began working to correct identified problems and initiate appropriate investigations.

The scope of the audit goes back multiple years, prior to this Administration, and most of the deficiencies and findings identified have been long-standing practices within the City's Workers' Compensation Program, in some cases going back decades. Unfortunately the findings and deficiencies identified in this audit are similar to other deficiencies that existed prior to this Administration, which also sometimes spanned decades and multiple administrations. As a result of several of the City Auditor's prior audits and the Administration's management reform efforts over the past two years, the City has identified a number of areas where weak management controls--or the absence of management controls--that occurred in prior years have necessitated corrective action plans that have since been implemented.

"This Administration takes its fiduciary responsibilities very seriously, especially the safeguarding of City assets and resources," said Mayor Jean Quan. "We welcome fair and impartial performance audits conducted cooperatively to improve the efficiencies, effectiveness and transparency of City government which reflect professional and contemporary management practices. I am pleased that the City Administrator and her team continue to demonstrate their willingness to identify and address any deficiencies – in processes, internal controls or policies – in a transparent and public manner. When shortcomings are identified, this Administration has taken immediate steps to correct the problems, many of which have been decades in the making."

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City of  
**OAKLAND**  
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The Administration agrees with the majority of the recommendations presented by the Auditor and has already implemented a number of programmatic changes. For example, prior to receiving the City Auditor's final audit recommendations, the Administration has:

**News from:  
Office of the City  
Administrator  
  
City Administrator  
Requests Audit of  
Workers'  
Compensation  
Contract**

September 26, 2013

Page Two

- Implemented a project fund within the City's Accounts Payable system that will be used for miscellaneous Workers' Compensation expenditures not associated with a specific Workers' Compensation claim.
- Ensured that this project fund is subject to the City's internal Accounts Payable processing requirements.
- Required that any new service provided by the third-party administrator of the Workers' Compensation program that is not specifically related to claims will require a contract amendment and expenditure authorization.
- Required that future contracts with a third-party administrator will identify all expected contract costs subject to City Council approval.
- Required City department directors and top City administrators receive ethics training consistent with the training required of elected officials, including education about City and state gift laws, limits and reporting requirements. Results are posted on the City's website.

While the Administration agrees with the majority of findings and recommendations presented in the audit, the City Auditor's finding regarding public transparency and reporting of Workers' Compensation Program costs is inaccurate. In fact, the City does budget and report its Workers' Compensation Program cost to the City Council and the public in several ways: through the biennial budget and through the City's Comprehensive Annual Financial Report (CAFR). The City is self-insured for workers' compensation; payment of workers' compensation claims is provided through annual appropriations based on claim payment experience and supplemental appropriations. The Workers' Compensation Program is funded as part of the fringe benefits line item in the biennial budget (similar to paid leave, medical, retirement, vision and dental benefits). In addition, the total cost and liability of the Workers' Compensation program are included in the City's Comprehensive Annual Financial Report (CAFR).

These changes are the latest effort in our campaign for a more accountable, transparent city government. Other examples of changed management practices include the following:

- In 2011, the City of Oakland began working to transform its code enforcement operations through a complete and rigorous overhaul of the Building Services Division which focused on delivering the highest standards of care, service and accountability.
- As part of our ongoing efforts to achieve significant, lasting reforms of the Oakland Police Department, Mayor Quan and the City Administrator commissioned an independent investigation into OPD's response to the October 25 "Occupy Oakland" protest. As a result, crowd control policies were changed and officers and command staff were trained in contemporary crowd control methods which have reduced the use of force by police during large, unlawful protests.

- The Mayor's and City Administrator's Office have periodically briefed senior staff regarding ethics, rules regarding appropriate Council interactions and conflict of interest rules. Senior staff are expected to report violations of these rules to the Administration for further review and investigation.
- For the past three years, the Oakland City Auditor has conducted an Ethical Climate Survey, asking City employees: "Do you think Oakland fosters an ethical work environment?" The results of the City Auditor's second annual survey in 2011 showed that in just one year, the City had moved the dial towards greater accountability and improved governance. The survey found that "employees felt management has improved in creating an environment in which staff is comfortable raising ethical concerns, appreciating staff bringing forward bad news and appointing and rewarding people on the basis of performance and contribution."
- The past two budget development cycles included unprecedented levels of transparency and openness, which included opening the City's financial books to the City's employee unions to allow them to inspect financial data and ask questions. All budget documents and the City's raw financial data were posted on the City's web site and open data platform which allowed the community to crunch numbers and analyze/visualize the data in different ways.

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