



**News from
City of Oakland**

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City Administration Responds to Audit of CEDA Loans
Auditor's Claims are Blatantly False and Inconsistent with Annual Outside Audits

Oakland, CA — Oakland City Administration responded to a recent audit of Community and Economic Development Agency loan receivables conducted by the City Auditor.

“We take our responsibility to maintain accurate financial records extremely seriously, and as such we welcome performance audits that are conducted in a fair and impartial manner,” said City Administrator Dan Lindheim. “However, we are troubled that the Auditor has raised doubts about the integrity of Oakland’s financial system that are not based in fact and are inconsistent with the findings of her peers in the government auditing profession.”

The Auditor’s claim that the City “lost track” of \$14 million in loan receivables is blatantly false. Of this \$14 million, \$13.8 million refers to the loan restructuring following the bankruptcy of the Hyatt Hotel (now Marriott City Center). These loans were accurately and transparently recorded in Oracle as both a loan receivable (asset) and deferred revenue (liability), which nets to zero, and therefore had no bearing on the City’s financial status or position. The City’s outside financial auditor agrees with the accounting practice used to track these transactions. For context, this \$14 million constitutes approximately 4.5 percent of the City’s \$312 million loan portfolio, not 35 percent as incorrectly stated by the Auditor.

“The loan program reviewed by the Auditor is audited annually by outside financial auditors, who have consistently supported our accounting practices and confirmed the presence of adequate internal controls to ensure transparent and accurate accounting,” Lindheim continued.

In a written response to the audit findings, the City Administrator specified that:

- The audit found **no substantial performance deficiencies** and absolutely no cases of fraud, illegal acts or noncompliance issues.
- A majority of the findings and recommendations relate directly to a few loans that date back to the 1980s and early 1990s. Despite implications to the contrary, these historic loans’ financials are accurately accounted for in the Oracle financial system.

- Whatever the practices of 25 or 30 years ago, there is no correlation between these historic loans and current loan program practices, policies and performance. Unfortunately, this audit tries to make that illogical leap—which results in an audit that is misleading and inappropriate.
- The Auditor’s claim that the City failed to properly record loans that had been authorized to be converted to grants more than 20 years ago is not relevant to current financial management practices. Appropriate procedures and internal controls are currently in place to convert current loans to grants in a timely manner upon approval by Council. Two loans identified in the audit dating back to 1986 have been adjusted in Oracle. The third loan identified, dating back to 1988, will be forwarded to Council before the end of the calendar year.
- Staff identified adequate documentation to address 98 percent of the development loan balances discussed in the Auditor’s report. The remaining loans that require clean-up or close-out documentation (approximately \$190,000) will be brought to Council for action before the end of the calendar year.
- The Auditor’s claim that the city operates a flawed system to record homebuyer loans is false and unsubstantiated. The Housing and Community Development Division of CEDA recently received recognition for best practices from HUD on its Affordable Housing Development (HOME Partnership) loan program, which recognized the completeness of files maintained for all the housing development projects and the monitoring of the programs. All of HCD’s loan programs employ the same policies and procedures for this nationally recognized program.
- According to GAGAS standards, “auditors should obtain an understanding of the program to be audited to help assess, among other matters, the significance of possible audit objectives and the feasibility of achieving them.” The Auditor’s report clearly shows a lack of understanding of the City’s financial system and the reporting of its assets.

“During a time of financial difficulty, it is critical that our financial systems and asset reporting practices meet the highest standards. It is vital both to good decision-making and a matter of public trust,” Lindheim said.

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