

CITY OF OAKLAND

AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Professional Auditing Services
Fiscal Years 2025-2027

DATE: March 24, 2025

City Administrator Approval


Jestin Johnson (Apr 9, 2025 23:57 PDT)

Date: **Apr 9, 2025**

RECOMMENDATION

Staff Recommends That The City Council Adopt The Following Pieces Of Legislation

- 1) **A Resolution Awarding A Contract To Macias Gini & O'Connell, LLP To Provide Professional Auditing Services For Fiscal Years Ending June, 30 2025, June 30, 2026, And June 30, 2027 In An Amount Not To Exceed \$2,476,651 (Of Which \$2,395,051 Will Be Funded By The City Of Oakland And \$81,600 Will Be Funded By The Oakland Redevelopment Successor Agency), With A Two-Year Option To Extend The Contract For Fiscal Years Ending June 30, 2028 And June 30, 2029 For A Total Contract Amount Not To Exceed \$4,290,391, Contingent On Available Funding; And Waiving The Competitive Request For Proposals/Qualifications Requirements And The Local/Small Local Business Enterprise Requirements; And**
- 2) **A Resolution authorizing the Oakland Redevelopment Successor Agency Administrator To Award A Contract To Macias Gini & O'Connell, LLP To Provide Professional Auditing Services For Fiscal Years Ending June, 30 2025, June 30, 2026, And June 30, 2027 In An Amount Not To Exceed \$2,476,651 (Of Which \$2,395,051 Will Be Funded By The City Of Oakland And \$81,600 Will Be Funded By The Oakland Redevelopment Successor Agency), With A Two-Year Option To Extend The Contract For Fiscal Years Ending June 30, 2028 And June 30, 2029 For A Total Contract Amount Not To Exceed \$4,290,391, Contingent On Available Funding; And Waiving The Competitive Request For Proposals/Qualifications Requirements And The Local/Small Local Business Enterprise Requirements.**

EXECUTIVE SUMMARY

Staff requests that the City Council adopt the proposed City and Oakland Redevelopment Successor Agency (ORSA or Agency) resolutions authorizing the City Administrator and the Agency Administrator to award a professional services contract to Macias Gini & O'Connell, LLP (MGO) to provide audit services for the Fiscal Years ending June 30, 2025 through June 30, 2027, with a two-year option to extend the contract, at the City's discretion, for the Fiscal Years ending June 30, 2028 and June 30, 2029. The total amount of the contract is not to exceed

Finance & Management Committee
April 22, 2025

\$2,476,651 for the first three years, of which \$81,600 is to be funded by ORSA. Services provided under the contract will include the annual citywide audit, an audit of ORSA, several audits of voter-approved measures, and additional miscellaneous audits required by grantors.

BACKGROUND / LEGISLATIVE HISTORY

Section 809 of the City of Oakland Charter provides that the City Council shall engage an independent certified public accountant to examine and report to the Council on the City of Oakland's (City) annual financial statements. Copies of such audit reports shall be filed with the Council and shall be available for public inspection and review. Financial audits provide reasonable assurance to the City, its oversight agencies, taxpayers, and other stakeholders about whether the City's financial statements are presented fairly in all material respects and in accordance with Generally Accepted Accounting Principles, and whether the City has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements. The Agency follows the administrative rules of the City, including contracting rules.

Historically, the City and the Port have joined efforts in soliciting and selecting professional accounting and auditing services, as this creates reporting efficiency and cost savings for the City, the Port and the Agency. A joint Request for Proposals (RFP) with the Port of Oakland (Port) for as-needed professional auditing services was issued in December 2024. In January 2025, staff from the City and the Port evaluated the three proposals received and recommended the award of this contract to MGO based on its relevant experience, qualifications, organization, and approach. The Port's Board of Commissioners is expected to award the Port's separate contract for audit services to MGO following the Finance & Management Committee's consideration of the City's and the Agency's awards.

MGO has served as the City's external auditor for 21 years and has similarly lengthy tenures conducting annual audits for many of California's largest cities and counties. Notable public clients include the cities of Los Angeles, San Jose, San Francisco, and Sacramento, as well as the Counties of Alameda, Contra Costa, Los Angeles, Orange, Riverside, Sacramento, San Bernardino, and Santa Clara. MGO's expertise is demonstrated by its dominant market presence: In 2023, MGO audited 6 of the 10 largest cities in California and 8 of the 15 largest counties. The firm maintains a policy of partner rotation consistent with Assembly Bill 1345, and offers a robust technical review program, assuring that the City's finances are regularly examined with fresh eyes despite the firm's lengthy history of work for the City.

In addition to annual audits for the City and ORSA, the recommended contract with MGO also provides for mandated audits and reviews of the following programs:

- Federal Single Audit,
- Police and Fire Retirement System,
- Gann Appropriations Limitation,
- Transportation Grants, including Measure B-Local Transportation Fund, Measure BB-Transportation Expenditure Program, Measure F-Vehicle Registration Fee Funds, and Transportation Development Act Fund,
- Ballot Measures, including Measure AA 2018 Children's Initiative, Measure KK-Capital Improvement Bond Financing, Measure U Affordable Housing and Infrastructure Bond,

Measure C-Transit Occupancy Tax Surcharge, Measure Z/NN-Violence Prevention, Measure MM-Wildfire Protection, and

- Child Care and Development Programs.

ANALYSIS AND POLICY ALTERNATIVES

Services to be provided under this contract are mandated by the City Charter and required as a condition of funding by the State and federal governments. Accordingly, the City's policy alternatives are limited to the selection of the external auditor and the structure of the agreement with this firm.

Requests for Proposals were mailed to 35 financial firms and associations representing potential bidders and advertised in the local press and on the City's website. Approximately ten firms attended a pre-proposal conference held to address bidders' questions. The City received three proposals, which were scored independently by City and Port accounting managers. MGO's bid was ranked significantly higher than that of its competitors by both teams based on its strong qualifications, comprehensive audit plan, capable small local partner, and unmatched experience providing similar services for large local governments in California.

Pricing for the recommended bid from MGO was mid-range between the two other bids received. While it was 9% higher than the lowest bid for year 1, it was 2% below the highest bid for this same period. Due to incomplete pricing information from the high bidder, a similar analysis cannot be performed for the full contract period. Overall, the MGO proposal was deemed to offer the City the best value.

Policy alternatives for the structure of the agreement to be awarded under this solicitation include the terms of the agreement and its scope, particularly the inclusion of multiple smaller audits and reviews as part of the larger contract. The proposed initial term of three years balances the need for regular review of the City's professional services contracts with the efficiency and consistency of a multi-year agreement. The proposed contract also includes a two-year option at the City's discretion. Pricing increases are maintained at 3.5% per year during the option years. The proposed price of \$783,305 for the first year of this contract represents a 6% increase over prior year costs despite an increase in scope that adds four substantial audits to the new contract.

Consistent with past solicitations, the City has structured this agreement to include audits and reviews of specified grant programs and voter-approved measures. The inclusion of these smaller engagements within the larger contract is intended to support the coordination of the City's various audits and minimize duplicated effort, as the review of a single data source or program may inform multiple audits. In addition, this arrangement facilitates the inclusion of small businesses as subcontractors.

MGO's proposed L/SLBE participation was 20% and was initially deemed by staff to meet the subcontracting goal established for this solicitation through an availability analysis completed by the Department of Workforce & Employment Standards (DWES). Following the initial review, DWES determined that MGO's proposed subcontractor, Williams-Adley and Company-CA, LLP, was not registered as an L/SLBE at the time of proposal submission. DWES further concluded

that because MGO did not meet the established S/SLBE requirement, an award could not be made to MGO under the original solicitation.

Williams-Adley and Company-CA, LLP has served the City capably on numerous prior engagements and has been based in Oakland since its establishment in 1982. The firm has regularly submitted documents supporting its status as an Oakland small business to the City's iSupplier portal and is actively engaged in restoring its L/SLBE certification. In addition, Williams-Adley and Company-CA, LLP is registered as a Small, Local and Emerging Business (SLEB) with the County of Alameda at its Oakland address and is currently seeking to re-establish its certification as an L/SLBE. Although MGO's bid failed to meet the City's L/SLBE requirements, there is no question that its proposed subcontractor, Williams-Adley and Company-CA, LLP, is a longstanding Oakland small business with strong qualifications and extensive experience in the conduct of governmental audits.

The requested waiver of competitive selection and L/SLBE requirements is intended to overcome the administrative hurdle arising from the lapse in Williams-Adley and Company-CA, LLP's certification as an L/SLBE. Approval of these waivers will preserve the timeliness of the City and Port's audit processes while meeting the spirit of the City's and the Agency's competitive selection and L/SLBE goals.

The award of this contract for professional auditing services supports the citywide priority of **responsive, trustworthy government** through the completion of timely and detailed audits confirming the reliability of the City's and the Agency's financial systems.

FISCAL IMPACT

As indicated in **Table 1**, the proposed contract for as-needed professional auditing sources includes 16 distinct tasks supported by a variety of funding sources. Funding for these tasks is included in the Fiscal Year 2024-25 Midcycle Amended Budget and will be requested in the Fiscal Year 2025-27 Proposed Budget and future budgets. In most cases, audit services are supported by the same funding sources as the operating programs under review.

Table 1: Professional Auditing Services Tasks

Description and Funding Source	Fiscal Year Ending June 30:		
	2025	2026	2027
Annual Comprehensive Financial Report (ACFR) <i>Fund 1010: General Purpose Fund</i>	\$390,600	\$404,271	\$418,420
Single Audit Report <i>Fund 1010: General Purpose Fund</i>	123,770	128,102	132,586
Oakland Redevelopment Successor Agency (ORSA) <i>Fund: ORSA Funds</i>	26,270	27,189	28,141
Police and Fire Retirement System (PFRS) <i>Fund 7100: Police and Fire Retirement System Fund</i>	49,415	51,145	52,935
Gann Appropriations Limitation <i>Fund 1010: General Purpose Fund</i>	2,275	2,355	2,437
Measure BB – Transportation Expenditure Program <i>Fund 2218: State Gas Tax Fund</i>	6,215	6,433	6,658
Measure C - Transient Occupancy Tax (TOT) Surcharge <i>Fund 2419: Transient Occupancy Tax Fund</i>	6,215	6,433	6,658
Measure F – Vehicle Registration Fee <i>Fund 2215: Measure F Fund</i>	6,215	6,433	6,658
Measure Z – Violence Prevention and Public Safety Act <i>Fund 2252: Measure Z Fund</i>	29,655	--	--
Transportation Development Act <i>Fund 2218: State Gas Tax Fund</i>	6,215	6,433	6,658
Child Care and Development Programs <i>Fund 1010: General Purpose Fund</i>	45,895	47,501	49,164
Measure AA – Children’s Initiative <i>Fund 2261: Measure AA Oversight</i>	20,370	21,083	21,821
Measure KK Capital Improvement Bond Financing <i>Fund 5330: Measure KK Fund</i>	20,370	21,083	21,821
Measure U Affordable Housing and Infrastructure Bond <i>Fund 5340: Measure U Fund</i>	20,370	21,083	21,821
Measure MM – Wildfire Protection <i>Fund to be determined</i>	--	21,083	21,821
Measure NN – Violence Reduction & Emergency Response <i>Fund to be determined</i>	--	30,693	31,767
Additional audit on as-needed basis <i>Fund to be determined</i>	29,655	30,693	31,767
Contract Total	\$783,505	\$832,013	\$861,133

PUBLIC OUTREACH / INTEREST

The City's and Port's joint RFP for as-needed professional auditing services was mailed to all accounting and financial services firms registered in the City's vendor database, iSupplier. The RFP was posted on the City's web page and advertised in the Oakland Tribune, in accordance with OMC 2.04.051. A pre-proposal meeting was held on December 19, 2024, and was attended by more than ten prospective bidders. The City issued two addenda addressing bidder questions. Three proposals were received before the submission deadline.

COORDINATION

The Finance Department worked jointly with the Port of Oakland to develop the RFP specifications and the bid evaluation process. The Budget Office was also consulted in the preparation of this report.

PAST PERFORMANCE, EVALUATION AND FOLLOW-UP

MGO has served as the City's external auditor since 2003. MGO has historically subcontracted audit work to local, certified public accounting firms in the City of Oakland. MGO and its subcontractor have recently completed audits and reviews of most of the programs included in the current solicitation on time and within budget. They have continued to encourage improvements in the City's financial reporting while providing training and technical assistance in support of this goal. Overall, the City has been pleased with the quality and timeliness of the work submitted by MGO and its subcontractor.

SUSTAINABLE OPPORTUNITIES

Economic: There are no direct economic opportunities associated with this informational report.

Environmental: There are no direct environmental opportunities associated with this informational report.

Race & Equity: There are no direct race or equity opportunities associated with this informational report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt The Following Pieces Of Legislation

- 1) A Resolution Awarding A Contract To Macias Gini & O'Connell, LLP To Provide Professional Auditing Services For Fiscal Years Ending June, 30 2025, June 30, 2026, And June 30, 2027 In An Amount Not To Exceed \$2,476,651 (Of Which \$2,395,051 Will Be Funded By The City Of Oakland And \$81,600 Will Be Funded By The Oakland Redevelopment Successor Agency), With A Two-Year Option To Extend The Contract For Fiscal Years Ending June 30, 2028 And June 30, 2029 For A Total Contract Amount Not To Exceed \$4,290,391, Contingent On Available Funding; And Waiving The Competitive Request For Proposals/Qualifications Requirements And The Local/Small Local Business Enterprise Requirements; And
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For questions regarding this report, please contact Stephen Walsh, Controller, at (510) 238-4906.

Respectfully submitted,



Erin Roseman (Apr 8, 2025 15:19 PDT)

ERIN ROSEMAN
Finance Director
Finance Department

Prepared by:
Stephen Walsh, Controller
Controller's Bureau