CITY OF OAKLAND

AGENDA REPORT

TO: Elizabeth Lake
Interim City Administrator

FROM: Monica Elise Davis
Deputy City Administrator

SUBJECT: Professional Services Agreement With Weaver And Tidwell, LLP For Forensic Audit Services – SUPPLEMENTAL

DATE: June 15, 2026

City Administrator Approval
Betsy Lake (Jul 16, 2026 17:13:16 PDT)

Date: Jul 16, 2026

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing The City Administrator To Enter Into A Professional Services Agreement With Weaver And Tidwell, LLP For Forensic Audit Services For A One-Year Term With The Option To Extend For An Additional One Year Without Returning To Council, For A Total Contract Amount Not To Exceed $490,000.

REASON FOR SUPPLEMENTAL

At the July 14, 2026 Finance & Management Committee meeting, the Committee directed staff to include a supplemental report providing additional information regarding:

1) the proposed subcontractor and its compliance with the City's Local/Small Local Business Enterprise requirements,
2) description of similar projects undertaken by the proposed contractor and subcontractor for other agencies, including the findings, recommendations, and outcomes, and
3) process improvements the City expects to receive or identify through the proposed contract.

Proposed Subcontractor and Local/Small Local Business Enterprise Compliance

Under the proposed contract for Forensic Audit Services, Weaver and Tidwell, LLP will act as the Prime Contractor and Walsh Financial, PC (previously Active Assets Corporation dba Walsh Financial Consulting) will serve as Subcontractor. Walsh Financial PC is certified as a Very Small Local Business Enterprise with the City of Oakland for the performance of insurance-related activities, certified public accountant services, and administrative management and general management consulting services. Prior to the issuance of the formal Request for Proposals (RFP) for forensic audit services, the Department of Workplace and Employment Standards (DWES) conducted an Availability Analysis based on the proposed scope of work for the forensic audit services contract. Upon DWES's review of all currently certified ready, willing and able firms to perform the project's major tasks, the Local/Small Local Business Enterprise

(L/SLBE) requirement for the contract was set at 20 percent. Following the closure of the forensic audit services RFP, DWES reviewed each of the four proposals received by the City, and determined that two of the vendors, Protiviti Government Services, Inc. and Weaver and Tidwell, LLP, were responsive to the City's L/SLBE requirements and therefore eligible to move forward for consideration. Upon staff's selection of Weaver and Tidwell, LLP to be recommended for contract award, DWES conducted a Pre-Award Review of Weaver and Tidwell, LLP's proposal and issued a determination that the vendor meets the City's Equal Benefits Ordinance, Living Wage requirements, and L/SLBE program requirements by stipulating that 40 percent of the work under the proposed contract will be performed by Walsh Financial, PC as Subcontractor.

Description of Past Projects and Associated Findings, Recommendations and Outcomes

The following section details similar projects undertaken by Weaver and Tidwell, LLP for other agencies and provides a summary of the findings, recommendations, and outcomes associated with each project.

<u>County of Orange – Forensic Audit of County Contracts, Phase I</u>

Project Description

Forensic audit of all County contracts established between January 2019 and August 2024, including all contracts within the County Executive Office, Heath Care Agency, Orange County Community Resources and the Social Services Agency. The scope of work also included the review of contracts for the fund accounts listed below:

- American Rescue Plan Act (ARPA)
- Coronavirus Aid, Relief, and Economic Security Act (CARES)
- Mental Health Services Act (MHSA)
- General Fund

The scope of work for Phase I of the forensic audit included the review of 145 contracts totaling approximately $486.2 million, which were identified by the Orange County Internal Audit Department (IAD) as the "top priority contracts."

Project Objectives

Conduct detailed review/analysis of each contract and assign a risk rating based on investigation of vendors, review of procurement process and competitive bidding, review of payment records, review of emails and other communications, and evaluation of compliance with local, state and federal laws. Prepare a written report summarizing the observations, findings and recommendations for Phase I of the forensic audit.

Procedures and Methodology

- Conduct background research about the vendor
- Review procurement documents such as contracts, amendments, purchase orders, quotes, proposals, requisition forms, invoices, and other contract documents
- Review program records
- Analyze payment records associated with invoices submitted by the vendor

- Review email communications between the County and the vendor
- Interview with vendor staff and individuals involved in procuring and administering the contract.

Findings

- District 1 tone undermined County's procurement controls
  - Past leadership for District 1, specifically the former supervisor and his chief of staff, were very involved in procurement decisions and established a culture where decisions related to District 1 contracts were not to be questioned, with procurement staff concerned that they would be contacted by the supervisor or his chief of staff if their requests were not approved. Specific decisions that appeared to have been impacted by former District 1 leadership included lump sum advanced payments for service contracts, directives to pay vendors and contractors for invoices with open issues under review, and the selection of vendors and grant recipients, which are discussed in more detail throughout this Report
- Emergency purchasing authority and sole sourcing allowed contract awards without competitive bidding or Board approval
  - Emergency purchasing authority implemented in April 2020 due to the COVID-19 pandemic, as well as sole source procurements allowed contracts to be approved without competitive bidding or Board approval. Oversight of emergency purchases was limited as departments were only required to prepare an emergency justification memo, which resulted in blanket authorizations for broad categories of purchases directly or indirectly related to the County's response to COVID-19, with limited visibility of purchase amounts and vendors selected.
- Former District 1 supervisor steered contracts to specific businesses
  - The forensic audit identified a pattern of contracts and grants being steered to certain businesses by the former District 1 supervisor, often facilitated by his chief of staff. Contracts appeared to have been steered towards businesses that employed an immediate family member of the former supervisor, businesses that contributed to his political campaigns shortly after being awarded a contract, businesses that provided a media platform for the former supervisor, as well as businesses involved in various aspects of the Tet and Moon Festivals put on each year for District 1 "constituents."
- Limited County oversight of revenues and expenditures for District 1 festivals
  - While the County funded the Tet and Moon Festivals, the forensic audit determined that sponsorship revenues were paid to third parties in lieu of being paid to the County, which raised concerns given that these were County-funded events. While email communications appeared to indicate that the former District 1 supervisor and his chief of staff were aware that sponsorship revenues were being paid to third parties, it did not appear that County procurement staff was aware that sponsorship revenues for the Tet and Moon Festivals were being paid to businesses.
  - Observed limited oversight of County expenditures associated with the District 1 festivals, with advanced payments to at least one business to provide

entertainment for the festivals based on round dollar amounts with limited supporting documentation.

- Pass-thru grants obfuscated County's visibility of disbursements to subrecipients
    - The former District 1 supervisor directed pass-thru grant recipients of the District 1 Arts Relief Program to award grants to certain businesses, with pass-thru grant recipients involved in the selection of grant subrecipients for only 33% of the grant funds. By steering grant funds to certain subrecipients as a pass-thru, on its surface the grants did not appear to be awarded by the County which obfuscated the visibility of certain grant subrecipients.
- Former District 1 supervisor exerted influence over payment authorization decisions
    - Identified several instances during Phase 1 of the forensic audit where the former District 1 supervisor appeared to use his position as a Board Supervisor to exert influence over payment authorizations to contractors. Most notably, in October 2021, the former District 1 supervisor appeared to authorize the Health Care Agency's Director to issue a payment in excess of $800,000 to 360 Clinic for uncollectible claims invoiced to the County in relation to COVID-19 testing services. At that time, the County was performing a review of the uncollectible claims reports and supporting documentation after certain concerns had been raised regarding 360 Clinic's billing practices.

Recommendations

- Adopt standardized invoicing requirements in County's Contract Policy Manual, including defining the requirements for an acceptable invoice to promote consistency, transparency, and compliance across all contracts.
- Update Code of Ethics to ensure Board members do not influence procurement decisions; ensure guidelines are clearly and sufficiently stated to prevent Board members from directing and/or influencing procurement decisions by County procurement staff.
- Standardize monitoring requirements for federal contracts to verify the eligibility of contract recipients and monitor the use of funds, including independent verification, as well as stronger documentation and recordkeeping requirements.
- Extend due diligence procedures to subcontractors and subawards and consider adopting these requirements in the Contract Policy Manual.
- Implement enhanced annual training focused on best practices for purchasing, procurement and internal controls, as well as the prevention and detection of fraud, waste and abuse.
- Evaluate effectiveness of fraud reporting hotline to ensure employees are sufficiently aware of how to report fraud, waste and abuse; there are clear protocols for information required from the whistleblower, as well as processes for review and investigation of allegations; and that employees have the ability to report information without fear of retaliation.

County of San Mateo – Audit of Navigation Center Construction Services and Billings

Project Description

The County of San Mateo engaged XL Construction Corporation to provide design-build services for a Navigation Center project to construct permanent supportive housing for formerly homeless residents. The audit reviewed costs submitted by XL Construction Corporation for the period of March 5, 2025 through March 13, 2026, relating to construction services and billing submitted by XL Construction.

Project Objectives

The objective of this audit was to ensure completeness and accuracy of construction billings and to determine whether the Contractor and its subcontractors comply with the terms and conditions with the San Mateo County Navigation Center Design-Build Agreement Project Number PDP05 (the Agreement) between the County of San Mateo and XL Construction Corporation.

The audit's procedures were designed to ensure relevant risks were covered and verify the following:

- Cost Reconciliation and Compliance:
    - Costs for payment applications and charges to project are in compliance with contract
    - Costs are compliant with HomeKey grant funds requirements
    - Change orders are coded to the correct general conditions, general requirements, cost of work, contingency, or allowance line items
    - Subcontractor buyout or buyout savings appropriately adjust the schedule of values for subcontractor buyout savings or deficit
    - Changes in scope(s) identify impact to project schedule and project costs
    - Change orders and authorizations for the use of contingencies and allowance include detailed cost breakdowns, approved equipment and labor rates, appropriate/compliant fees and markup calculations, and review and approval of changes and/or use of funds by County personnel
    - "Final or Adjusted Guaranteed Maximum Price" agrees to the General Contractor's final billings and to the General Contractor's final accounting
    - Costs billed in payment applications are allowable and categorized correctly
    - General conditions/General requirements:
        - Costs are valid and supported by appropriate documentation
        - Only approved General Contractor (GC) personnel's time is billed
        - GC pay rates are billed at the approved, contracted rates
        - GC personnel payroll costs are supported by certified payrolls
        - GC laborer personnel are compliant with prevailing wages (Davis Bacon Act)
        - Overtime, if any, is billed in accordance with the contract provisions
        - Insurance and bonds are billed at actual cost
        - Rentals and small tool costs are billed at market rates
    - Subcontractor and GC self-performed work costs:
        - Costs are valid and supported by documentation
        - Costs are classified in the pay application correctly

        - Change orders from subcontractors are billed and passed on to owner according to terms and conditions of the contract, with appropriate mark-ups
    - Credits to expenses in the GC's job cost ledger are passed on to the owner
    - Any project delay change orders are supported by appropriate documentation
    - Construction Manager fees are calculated accurately
    - Required insurance coverage and bonds were obtained by the contractor
    - Pay applications are submitted in accordance with the terms and conditions of the contract

Procedures and Methodology

The audit's procedures included interviewing key personnel within the Project Development Unit, project manager, and design builder that have responsibilities over billings contract changes to gain an understanding of the current processes in place. The vendor examined existing documentation and validated the completeness, accuracy, and compliance of construction billings with the terms and conditions of the construction contract.

Findings and Recommendations

- Cost Reconciliation and Compliance
    - <u>Finding #1</u>: Insufficient documentation for travel cost
        - While supporting documentation to support the cost of transactions was available, other relevant supporting data to evidence compliance with section 20.d, "Reimbursable Travel Expenses", of the contract were not included within the transaction support provided by XL Construction. Complete documentation, including the purpose of travel, distance traveled, and origin-to-destination details, should have been retained to demonstrate compliance with contract requirements.
    - <u>Recommendation</u>: Project Development Unit personnel reviewing expenditures submitted by contractors should ensure that complete and detailed documentation is provided for all reimbursable travel expenses, including:
        - Purpose of the travel
        - Verification that the travel was non-local
        - Documentation evidencing origin and destination
        - Additionally, personnel responsible for reviewing payment applications should reject invoices until the appropriate documentation has been received to ensure compliance with section 20.d "Reimbursable Travel Expenses".
    - <u>Finding #2</u>: Change order compilation and review
        - Although the County has controls in place to review change orders for merit, cost reasonableness, and completeness, the audit identified instances where change orders lacked adequate supporting documentation for labor, materials, and equipment costs. Additionally, the audit identified change order requests from a subcontractor (Bradley Concrete) that exceeded the 15% markup and overhead on extra work. limit established in Section 9.9B Overhead and Profit Markup of the contract. These issues impact the County's ability to substantiate the

accuracy and allowability of change order costs, thereby elevating the risk of overpayment and noncompliance with contractual pricing requirements.

- Recommendation: the Project Development Unit should strengthen its review procedures to ensure that subcontractor cost submissions contain sufficient detail to allow for independent recalculation of labor, material, equipment, and markup charges. This includes requiring subcontractors to provide itemized breakdowns, rate substantiation, and documentation supporting quantities, hours, and applied markups. Additionally, the County should require that final change order packages include all supporting documentation necessary to demonstrate the accuracy and allowability of the proposed costs. Providing complete backup will enable upper management to perform an effective review and maintain appropriate oversight of change order pricing.

Potential Process Improvements Expected by the City through the Proposed Contract

Under the proposed PSA with Weaver and Tidwell, LLP, the vendor will perform an independent assessment of financial statements as well as performance, recovery, and contract audits in conformity with generally accepted accounting principles, financial information, adherence to financial compliance requirements and internal controls, or organization or program performance to identify areas for improvement. The scope of the audit shall include forensic audit services associated with all phases of capital projects and human services, executed July 1, 2022 through June 30, 2025. This will include identifying areas of process improvement opportunities and transaction mapping from original project inception through transaction completion cycle. The audit shall include, but not be limited to development of contracts, disbursement of funds, and any other relevant contract and fiscal activities. Upon completion of review and assessment, a report of findings will be delivered to City leadership.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt A Resolution Authorizing The City Administrator To Enter Into A Professional Services Agreement With Weaver And Tidwell, LLP For Forensic Audit Services For A One-Year Term, With The Option To Extend For An Additional One Year Without Returning To Council, For A Total Contract Amount Not To Exceed $490,000.

For questions regarding this report, please contact Rose Rubel, Assistant to the City Administrator, at (510) 238-6587.

Respectfully submitted,

Monica Davis (Jul 16, 2026 16:02:09 PDT)

MONICA ELISE DAVIS
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